

URSA Bank

Interim Consolidated Condensed  
Financial Statements  
for the Three-Month Period  
Ended 31 March 2009

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URSA Bank  
Interim Consolidated Condensed Statement of Comprehensive Income  
for the period ended 31 March 2009

|  | Notes | March 31<br>2009<br>RUB'000 | March 31<br>2008<br>RUB'000 |
|--|-------|-----------------------------|-----------------------------|
| Interest income  | 4     | 6 483 066                   | 6 676 754                   |
| Interest expense   | 4     | (3 924 998)                 | (2 994 297)                 |
| <b>Net interest income</b>   |       | <b>2 558 068</b>            | <b>3 682 457</b>            |
| Fee and commission income  |       | 394 077                     | 562 319                     |
| Fee and commission expense   |       | (113 104)                   | (102 456)                   |
| <b>Net fee and commission income</b>                                     |       | <b>280 973</b>              | <b>459 863</b>              |
| Net gain on operations with securities                                   |       | 2 133 680                   | 54 362                      |
| Net (loss)/gain from operations with foreign currency and derivatives    |       | (869 452)                   | 630 192                     |
| Other operating income   |       | 581 673                     | 183 961                     |
| Gain from sale of loans  |       | -                           | 44 884                      |
|  |       | <b>4 684 942</b>            | <b>5 055 719</b>            |
| Impairment losses  |       | (3 866 357)                 | (940 866)                   |
| Operating expenses   |       | (860 240)                   | (856 945)                   |
| Staff costs  |       | (769 428)                   | (991 506)                   |
| <b>Income before taxes</b>   |       | <b>(811 083)</b>            | <b>2 266 402</b>            |
| Income tax expense   |       | 172 508                     | (658 404)                   |
| <b>After-tax income for the period before other comprehensive income</b> |       | <b>(638 575)</b>            | <b>1 607 998</b>            |
| <b>Other comprehensive income</b>  |       |                             |                             |
| Net unrealized gain on cash flow hedge derivatives                       |       | 907 345                     | -                           |
| Net unrealized gain on financial instruments available-for-sale          |       | 85 962                      | -                           |
| Income tax for other comprehensive income                                |       | (198 661)                   | -                           |
| <b>Other comprehensive income for the period net of tax</b>              |       | <b>794 646</b>              | <b>-</b>                    |
| <b>Total comprehensive income for the period</b>                         |       | <b>156 071</b>              | <b>1 607 998</b>            |

\_\_\_\_\_/signed/

K. V. Brel  
General Director

Seal: /URSA Bank, Open Joint Stock Company, URSA Bank, Novosibirsk, No.4/

\_\_\_\_\_/signed /

V. N. Khokhlov  
First Deputy General Director

*URSA Bank*  
*Interim Consolidated Condensed Statement of Financial Position*  
*as at 31 March 2009*

|   | <b>Notes</b> | <b>31 March<br/>2009<br/>RUB'000</b> | <b>31 December<br/>2008<br/>RUB'000</b> |
|---|--------------|--------------------------------------|---|
| <b>Assets</b>   |              |                                      |   |
| Cash and cash equivalents   |              | 48 827 992                           | 49 952 217                              |
| Mandatory cash balances with the Central Bank of the Russian Federation |              | 270 502                              | 158 034                                 |
| Placements with banks and other financial institutions                  |              | 1 825 919                            | 2 650 525                               |
| Financial instruments at fair value through profit or loss              |              |                                      |   |
| - Unpledged   |              | 6 036 275                            | 2 060 856                               |
| - Pledged under sale and repurchase agreements                          |              | -                                    | 1 348 624                               |
| Loans to customers  | 5            | 120 754 872                          | 131 686 304                             |
| Financial instruments available-for-sale                                |              | 4 521 559                            | 2 155 095                               |
| Financial instruments held-to-maturity                                  |              |                                      |   |
| - Unpledged   |              | 4 616 500                            | 3 183 796                               |
| - Pledged under sale and repurchase agreements                          |              | 1 684 165                            | 3 103 018                               |
| Assets for sale   |              | 1 339 582                            | -                                       |
| Property and equipment  |              | 4 932 040                            | 4 865 294                               |
| Other assets  |              | 968 275                              | 879 047                                 |
| Goodwill  | 6            | 6 494 241                            | 6 494 241                               |
| Deferred tax asset  |              | 445 981                              | 362 237                                 |
| <b>Total assets</b>   |              | <b>202 717 903</b>                   | <b>208 899 288</b>                      |
| <b>Liabilities</b>  |              |                                      |   |
| Financial instruments at fair value through profit or loss              |              | 170 858                              | 1 086 209                               |
| Deposits and balances from banks and other financial institutions       | 7            | 47 749 260                           | 37 394 177                              |
| Amounts payable under repurchase agreements                             |              | 1 323 926                            | 3 806 916                               |
| Current accounts and deposits from customers                            |              | 62 822 796                           | 67 448 987                              |
| Debt securities in issue  | 8            | 54 296 962                           | 64 233 905                              |
| Subordinated debt   | 9            | 7 315 388                            | 6 209 672                               |
| Other liabilities   |              | 840 101                              | 676 881                                 |
| <b>Total liabilities</b>  |              | <b>174 519 291</b>                   | <b>180 856 747</b>                      |
| <b>Shareholders' equity</b>   |              |                                      |   |
| Share capital   |              | 1 629 083                            | 1 629 083                               |
| Share premium   |              | 21 439 785                           | 21 439 785                              |
| Hedge reserve   |              | (324 812)                            | (1 050 688)                             |
| Revaluation reserve for financial instruments available-for-sale        |              | (607 132)                            | (675 902)                               |
| Retained earnings   |              | 6 061 688                            | 6 700 263                               |
| <b>Total shareholders' equity</b>                                       |              | <b>28 198 612</b>                    | <b>28 042 541</b>                       |
| <b>Total liabilities and shareholders' equity</b>                       |              | <b>202 717 903</b>                   | <b>208 899 288</b>                      |

The notes set out on pages 9 to 65 form an integral part of these condensed interim consolidated financial statements.

*URSA Bank*  
*Condensed Interim Consolidated Statement of Cash Flows*  
*for the period ended 31 March 2009*

|  | <b>31 March<br/>2009</b> | <b>31 March<br/>2008</b> |
|--|--------------------------|--------------------------|
| <b>Notes</b>   | <b>RUB'000</b>           | <b>RUB'000</b>           |
| <b>Cash flows from operating activities</b>  |                          |                          |
| Interest received  | 6 121 481                | 6 677 607                |
| Interest paid  | (3 202 708)              | (2 327 743)              |
| Net realised gain/(loss) from financial instruments at fair value through profit or loss       | 2 838 462                | (37 729)                 |
| Net realized loss from foreign exchange  | (2 982 479)              | 505 183                  |
| Fees and commissions received  | 394 077                  | 562 319                  |
| Fees and commissions paid  | (113 104)                | (102 456)                |
| Other operating income received  | 581 673                  | 183 961                  |
| Staff costs paid   | (701 006)                | (991 506)                |
| General administrative expenses paid   | (722 613)                | (755 820)                |
| Gain from portfolio sale   | -                        | 44 884                   |
| Income tax paid  | 32 490                   | (414 105)                |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b> | <b>2 246 273</b>         | <b>3 344 595</b>         |
| <b>Changes in operating assets and liabilities</b>   |                          |                          |
| Net (increase) in mandatory cash balances with the Central Bank of the Russian Federation      | (112 468)                | (663 137)                |
| Net decrease in placements with banks and other financial institutions                         | 1 030 550                | 7 535 219                |
| Net (increase)/decrease in financial instruments at fair value through profit or loss          | (588 844)                | 160 895                  |
| Net decrease/(increase) in loans to customers  | 7 951 504                | (9 179 919)              |
| Net (increase)/decrease in financial instruments available-for-sale                            | (2 285 146)              | 109 986                  |
| Net decrease in financial instruments held-to-maturity   | 34 740                   | -                        |
| Net increase in other assets   | (153 502)                | (355 243)                |
| Net increase in deposits and balances from banks and other financial institutions              | 8 867 829                | 2 749 475                |
| Amounts payable under repurchase agreements  | (2 481 974)              | -                        |
| Net (decrease)/increase in current accounts and deposits from customers                        | (5 033 278)              | 2 976 737                |
| Net (decrease)/increase in promissory notes and deposit certificates                           | (2 101 416)              | 241 452                  |
| Net (decrease)/increase in other liabilities   | (29 306)                 | 114 166                  |
| <b>Net cash from/(used in) operating activities</b>  | <b>7 344 962</b>         | <b>7 034 226</b>         |
| <b>Cash flows from investing activities</b>  |                          |                          |
| Purchases of property and equipment  | (1 569 072)              | (340 625)                |
| Proceeds from disposal of property and equipment   | 25 117                   | 8 089                    |
| Proceeds from disposal of investment in unconsolidated subsidiary                              | -                        | 70 084                   |
| <b>Net cash used in investing activities</b>   | <b>(1 543 955)</b>       | <b>(262 452)</b>         |
| <b>Cash flows from financing activities</b>  |                          |                          |
| Dividends paid   | (4)                      | (75)                     |
| Debt securities repayment  | (9 516 630)              | -                        |
| <b>Net cash from financing activities</b>  | <b>(9 516 634)</b>       | <b>(75)</b>              |
| Effect of exchange rate changes on cash and cash equivalents                                   | 2 591 402                | 556 341                  |
| Net increase/(decrease) in cash and cash equivalents   | (1 124 225)              | 7 328 040                |
| Cash and cash equivalents at the beginning of the year   | 49 952 217               | 5 770 143                |
| <b>Cash and cash equivalents at the end of the year</b>  | <b>48 827 992</b>        | <b>13 098 183</b>        |

The notes set out on pages 9 to 65 form an integral part of these condensed interim consolidated financial statements.

|  | Share capital    | Share premium     | Hedge reserve      | Revaluation reserve<br>for available-for-<br>sale assets | Retained earnings | Total<br>Shareholders'<br>Equity |
|--|------------------|-------------------|--------------------|--|-------------------|----------------------------------|
|  | RUB'000          | RUB'000           | RUB'000            | RUB'000  | RUB'000           | RUB'000                          |
| <b>Balance at 1 January 2008</b>                 | <b>1 629 083</b> | <b>21 439 785</b> | -                  | -  | <b>5 643 765</b>  | <b>28 712 633</b>                |
| Total aggregate income for the accounting period | -                | -                 | (1 050 688)        | (675 902)  | 1 593 687         | (132 903)                        |
| Dividends declared on preference shares          | -                | -                 | -                  | -  | (537 189)         | (537 189)                        |
| <b>Balance at 31 December 2008</b>               | <b>1 629 083</b> | <b>21 439 785</b> | <b>(1 050 688)</b> | <b>(675 902)</b>   | <b>6 700 263</b>  | <b>28 042 541</b>                |
| Total aggregate income for the accounting period | -                | -                 | 725 876            | 68 770   | (638 575)         | 156 071                          |
| <b>Balance at 31 March 2009</b>                  | <b>1 629 083</b> | <b>21 439 785</b> | <b>(324 812)</b>   | <b>(607 132)</b>   | <b>6 061 688</b>  | <b>28 198 612</b>                |

## 1 Principal activities

These interim consolidated financial statements include the financial statements of Open Joint-Stock Company URSA Bank (the “Bank”) and its subsidiaries (the “Group”).

URSA Bank was created as a result of the combination of Joint Stock Company Sibacadembank (“Sibacadembank”) and Joint Stock Company Uralvneshtorgbank (“UVTB”). On 22 of December, 2006, the Bank was granted its general banking license No. 323.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”).

The Group’s principal business activity is commercial and retail banking operations within the Russian Federation. The Group is headquartered in Novosibirsk and has a network of branches in the Ural and Siberian Federal Districts. The Group has 19 regional headquarters and 222 branches, 4 representative offices and 7 201 employees as of 31 March 2009 (2008: 8 114 employees).

The Bank’s registered office is: 18 Lenina Street, Novosibirsk, 630004, Russian Federation.

The main subsidiaries of the Group are as follows:

| Name                       | Country of Incorporation | Main Activity | % Owned as at 31 March 2009 | % Owned as at 31 December 2008 |
|----------------------------|--------------------------|---------------|-----------------------------|--------------------------------|
| Stroyfinance DV            | Russian Federation       | Construction  | 100,0%                      | 100,0%                         |
| LLC Sibakademfinance       | Russian Federation       | Investment    | -                           | -                              |
| URSA Finance Plc           | Ireland                  | Investment    | -                           | -                              |
| URSA Mortgage Finance S.A. | Luxemburg                | Investment    | -                           | -                              |

The financial statements of Stroyfinance DV have not been consolidated into those of the Group, as the effect on the Group’s consolidated financial statements would not be material.

URSA Finance Plc, URSA Mortgage Finance S.A. and LLC Sibakademfinance are special purpose entities established to facilitate the issue of loan participation notes by the Group and to facilitate the securitization of assets and redemption of bonds. The entities are not owned by the Group, control arises through the predetermination of the entities’ activities.

On 3 December 2008 the shareholders of URSA Bank and MDM Bank announced their intent to combine their equity stakes. A detailed integration plan will be developed simultaneously with the legal merger of the two banks. The integration of the two banks is expected to be complete within 12-18 months. Prior to the legal merger, both banks will continue to function independently. Completion of the legal merger procedures remains subject to obtaining the necessary approvals and consents, including those from the Central Bank of the Russian Federation and the Federal Antimonopoly Service.

### Russian Business Environment

The Russian Federation has been experiencing political and economic change, which has affected, and may continue to affect, sufficiently the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying interim consolidated condensed financial statements reflect the Group management’s assessment of the possible impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from the management’s assessment.

## 2 Basis of preparation

### *Statement of compliance*

The accompanying interim consolidated condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### *Basis of measurement*

The interim consolidated condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments available-for-sale are stated at fair value.

### *Functional and presentation currency*

The national currency of the Russian Federation is the Russian Rouble (“RUB”). Management has determined the Group’s functional currency to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. The RUB is also the presentation currency for the purposes of these interim consolidated financial statements.

All financial information presented in RUB has been rounded to the nearest thousand.

### *Use of estimates and judgments*

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these interim consolidated condensed financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following Notes:

- Loan impairment estimates and judgments - Note 5
- Goodwill – Note 6

## 3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of these interim consolidated condensed financial statements. The accounting policies have been consistently applied by the Group over a period of years.

### **Basis of consolidation**

#### *Subsidiaries*

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the companies so as to obtain benefits from their activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

#### *Special purpose entities*

The Group has established a number of special purpose entities for securities trading and issuing. The Group does not have any direct or indirect shareholdings in these entities. However, the special purpose entities are established under terms that impose strict limits on the decision-making powers of their management over the operations of the special purpose entities. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

#### *Acquisitions and disposals of minority interests*

A difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognized as goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Group’s interest in the subsidiary including attributable goodwill, is recognized in the consolidated income statement.



### **Associates**

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

### **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the interim consolidated condensed financial statements. Unrealized gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains resulting from transactions with associates are eliminated against the Group's investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the consolidated income statement.

### **Minority interest**

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests, which are not owned, directly or indirectly, through subsidiaries, by the parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent company. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated income statement.

### **Foreign currency transactions**

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

### **Inflation accounting**

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The carrying amounts of the Group's assets, liabilities and equity items as at 1 January 2003 form basis for their subsequent presentation in the consolidated financial accounting.

### **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 placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

### **Financial instruments**

#### **Classification**

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as 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;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity financial instruments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

*Available-for-sale financial instruments* are those financial instruments that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial instruments at fair value through profit or loss.

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

### **Recognition**

Financial assets and liabilities are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are reflected in the consolidated financial statements at the settlement date.

### **Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are 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 which are measured at amortized cost using the effective interest rate method;
- held-to-maturity financial instruments which are measured at amortized cost using the effective interest rate method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated 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 amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated income statement. 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 asset or liability.

#### ***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

#### ***Gains and losses on subsequent measurement***

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;
- a gain or loss on an available-for-sale financial instrument is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Interest income in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest rate method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

#### ***Derecognition***

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

The Group also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

#### ***Repurchase and reverse repurchase agreements***

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in the item "Amounts payable under repo transactions". The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as "Amounts receivable under reverse repo transactions". The difference between the purchase and resale prices represents interest income and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate 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.

#### ***Securitisation***

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in the consolidated financial statements and the transferred assets are recognised in the Group's consolidated balance sheet.

When the Group has transferred financial assets to another entity, but has retained substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the Group's consolidated balance sheet.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the Group's consolidated balance sheet.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

#### ***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 recognized 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 (except for the derivatives considered to be hedges) are recognized immediately in the consolidated income statement.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted in the consolidated financial statements 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 recognized in the consolidated income statement. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

#### ***Hedge accounting***

The Group enters into derivative financial instruments to hedge its foreign currency and interest rate exposures.

The Group uses cross-currency swaps and forwards to hedge the foreign currency risk arising from its issuance of debt securities in foreign currency and procurement of loans in foreign currency.

Derivatives which qualify for hedge accounting are recognized initially at fair value with attributable transaction costs recognized in profit and loss when incurred. Subsequent to initial recognition, hedging derivatives are measured at fair value and changes therein are accounted for as described below:

#### ***Cash flow hedges***

Changes in the fair value of the derivative hedging instruments, designated as cash flow hedging, are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

The cumulative gain or loss recognized in equity is transferred to profit or loss in the same period that the hedge item affects profit or loss.

#### ***Qualification for hedge accounting***

A hedging relationship qualifies for hedge accounting if all of the following conditions are met:

- a) At the inception of the hedge there is formal designation and documentation of the hedging transaction and the entity's risk management objectives and strategy for undertaking the hedge. Such documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect its financial effect.
- d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- e) The hedge is assessed on an ongoing basis and based on the actual data is determined to have been highly effective throughout the financial reporting periods for which it was designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

#### ***Offsetting***

The Group's financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **Property and equipment**

##### ***Owned assets***

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

##### ***Leased assets***

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated in the consolidated financial statements at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

##### ***Depreciation***

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows.

|           |              |
|-----------|--------------|
| Buildings | 50 years     |
| Equipment | 3 to 5 years |

##### **Intangible assets**

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and impairment losses in the consolidated financial statements.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows.

|          |              |
|----------|--------------|
| Software | 3 to 5 years |
|----------|--------------|

## **Impairment**

### ***Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans, other receivables and unquoted available-for-sale debt securities (“loans and receivables”). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include 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.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable 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 little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

### ***Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and can not be reversed.

### ***Non financial assets***

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their 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 cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Provisions**

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of 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.

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

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

### **Share capital**

#### ***Preference share capital***

Preference share capital that is non-redeemable is classified as equity.

#### ***Repurchase of share capital***

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

#### ***Dividends***

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

### **Taxation**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **Income and expense recognition**

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognized in the consolidated income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognized in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognized when the corresponding service has been provided.

Dividend income is recognized in the consolidated income statement on the date that the dividend is declared.

#### **Segment reporting**

A segment is a distinguishable component of the Group that is engaged in providing related services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business segments. The business segments are determined based on the Group's management and internal reporting structure.

#### **New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 March 2009, and have not been applied in preparing these interim consolidated condensed financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analyzed the likely impact of these new standards on its financial statements.

- Amended IAS 27 "Consolidated and Separate Financial Statements" (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments become mandatory for the Group's 2010 consolidated financial statements.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment becomes mandatory for the Group's 2010 consolidated financial statements.
- Revised IFRS 3 "Business Combinations" (2008) and amended IAS 27 (2008) "Consolidated and Separate Financial Statements", which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognized as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognize the effects of transactions with non-controlling interest directly in equity.



#### 4 Interest income and expense

|   | <b>31 March<br/>2009<br/>RUB'000</b> | <b>31 March<br/>2008<br/>RUB'000</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Interest income</b>  |                                      |                                      |
| Loans to customers  | 6 197 548                            | 6 322 963                            |
| Debt securities   | 248 198                              | 260 527                              |
| Placements with banks and other financial institutions            | 37 320                               | 93 264                               |
|   | <b>6 483 066</b>                     | <b>6 676 754</b>                     |
| <b>Interest expense</b>   |                                      |                                      |
| Debt securities in issue  | (1 222 690)                          | (1 353 727)                          |
| Current accounts and deposits from customers                      | (1 606 118)                          | (1 172 589)                          |
| Deposits and balances from banks and other financial institutions | (883 992)                            | (316 795)                            |
| Subordinated debt   | (212 198)                            | (151 186)                            |
|   | <b>(3 924 998)</b>                   | <b>(2 994 297)</b>                   |
| <b>Net interest income</b>  | <b>2 558 068</b>                     | <b>3 682 457</b>                     |

## 5 Loans to customers

|   | <b>31 March<br/>2009<br/>RUB'000</b> | <b>31 December<br/>2008<br/>RUB'000</b> |
|---|--------------------------------------|---|
| <b>Loans to legal entities</b>                            |                                      |   |
| Commercial loans  | 26 143 191                           | 28 703 336                              |
| Loans to small and medium size companies                  | 4 594 831                            | 5 335 626                               |
| Project financing   | 20 408 821                           | 18 297 215                              |
| Leasing   | 7 750 411                            | 7 751 490                               |
| <b>Total loans to legal entities</b>                      | <b>58 897 254</b>                    | <b>60 087 667</b>                       |
| <b>Loans to individuals originated by the Group</b>       |                                      |   |
| Consumer finance loans                                    | 34 354 975                           | 36 953 391                              |
| Mortgage finance loans                                    | 16 841 995                           | 17 438 867                              |
| Auto finance loans  | 7 123 221                            | 7 558 659                               |
| Other   | 6 716 323                            | 7 525 777                               |
| <b>Total loans to individuals originated by the Group</b> | <b>65 036 514</b>                    | <b>69 476 694</b>                       |
| <b>Loans to individuals purchased by the Group</b>        |                                      |   |
| Consumer finance loans                                    | 8 523 728                            | 10 073 427                              |
| Mortgage finance loans                                    | 1 258 229                            | 1 191 542                               |
| Auto finance loans  | 115                                  | 117                                     |
| <b>Total loans to individuals purchased by the Group</b>  | <b>9 782 072</b>                     | <b>11 265 086</b>                       |
| <b>Gross loans to customers</b>                           | <b>133 715 840</b>                   | <b>140 829 447</b>                      |
| Less: provision for loan impairment                       | (12 960 968)                         | (9 143 143)                             |
| <b>Net loans to customers</b>                             | <b>120 754 872</b>                   | <b>131 686 304</b>                      |

Movements in the loan impairment allowance as of 31 March 2009 are as follows:

|  | <b>31 March<br/>2009<br/>RUB'000</b> | <b>31 March<br/>2008<br/>RUB'000</b> |
|--|--------------------------------------|--------------------------------------|
| <b>Provision for loan impairment as at the beginning of the period</b> | <b>9 143 143</b>                     | <b>5 987 400</b>                     |
| Provision for loan impairment for the reporting period                 | 3 818 160                            | 920 899                              |
| Reversal of provision on sold loans                                    | -                                    | (1 610 204)                          |
| Loans written off during the year as uncollectible                     | (335)                                | (515)                                |
| <b>Provision for loan impairment as at the end of the period</b>       | <b>12 960 968</b>                    | <b>5 297 580</b>                     |

As at 31 March 2009, interest accrued on impaired loans amount to RUB 529,624 thousand (31 December 2008: RUB 276,745 thousand).

**Credit quality of loans to legal entities portfolio**

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 March 2009.

|   | <b>Gross loans</b>       | <b>Impairment</b>         | <b>Net loans</b>         | <b>Impairment to</b> |
|---|--------------------------|---------------------------|--------------------------|----------------------|
|   | <b>RUB'000</b>           | <b>RUB'000</b>            | <b>RUB'000</b>           | <b>gross loans</b>   |
|   |                          |                           |                          | <b>%</b>             |
| <b>Commercial loans</b>   |                          |                           |                          |                      |
| Loans for which no specific impairment has been identified:       |                          |                           |                          |                      |
| - Standard loans  | 16 285 837               | (271 177)                 | 16 014 660               | 1,67%                |
| - Watch list loans  | 4 221 794                | (70 082)                  | 4 151 712                | 1,66%                |
| Total loans for which no specific impairment has been identified: | <u>20 507 631</u>        | <u>(341 259)</u>          | <u>20 166 372</u>        | <u>1,66%</u>         |
| Impaired loans:   |                          |                           |                          |                      |
| - Impaired not overdue loans                                      | 2 019 806                | (494 538)                 | 1 525 268                | 24,48%               |
| - Overdue loans less than 30 days                                 | 590 896                  | (102 285)                 | 488 611                  | 17,31%               |
| - Overdue loans for the period 30-60 days                         | 252 390                  | (62 240)                  | 190 150                  | 24,66%               |
| - Overdue loans for the period 61-90 days                         | 759 777                  | (177 366)                 | 582 411                  | 23,34%               |
| - Overdue loans for the period 91-180 days                        | 976 711                  | (623 257)                 | 353 454                  | 63,81%               |
| - Overdue loans for the period 181-360 days                       | 417 965                  | (216 705)                 | 201 260                  | 51,85%               |
| - Overdue loans for the period more than 360 days                 | 618 015                  | (388 872)                 | 229 143                  | 62,92%               |
| Total impaired loans  | <u>5 635 560</u>         | <u>(2 065 263)</u>        | <u>3 570 297</u>         | <u>36,65%</u>        |
| <b>Total commercial loans</b>                                     | <u><b>26 143 191</b></u> | <u><b>(2 406 522)</b></u> | <u><b>23 736 669</b></u> | <u><b>9,21%</b></u>  |

|   | <b>Gross loans</b>       | <b>Impairment</b>       | <b>Net loans</b>         | <b>Impairment to</b> |
|---|--------------------------|-------------------------|--------------------------|----------------------|
|   | <b>RUB'000</b>           | <b>RUB'000</b>          | <b>RUB'000</b>           | <b>gross loans</b>   |
|   |                          |                         |                          | <b>%</b>             |
| <b>Loans to small and medium size companies</b>                   |                          |                         |                          |                      |
| Loans for which no specific impairment has been identified:       |                          |                         |                          |                      |
| - Standard loans  | 3 362 966                | (52 651)                | 3 310 315                | 1,57%                |
| - Watch list loans  | 234 664                  | (3 896)                 | 230 768                  | 1,66%                |
| Total loans for which no specific impairment has been identified: | <u>3 597 630</u>         | <u>(56 547)</u>         | <u>3 541 083</u>         | <u>1,57%</u>         |
| Impaired loans:   |                          |                         |                          |                      |
| - Impaired not overdue loans                                      | 10 134                   | (4 659)                 | 5 475                    | 45,97%               |
| - Overdue loans less than 30 days                                 | 257 313                  | (34 742)                | 222 571                  | 13,50%               |
| - Overdue loans for the period 30-60 days                         | 165 473                  | (27 987)                | 137 486                  | 16,91%               |
| - Overdue loans for the period 61-90 days                         | 100 530                  | (3 120)                 | 97 410                   | 3,10%                |
| - Overdue loans for the period 91-180 days                        | 225 664                  | (159 409)               | 66 255                   | 70,64%               |
| - Overdue loans for the period 181-360 days                       | 70 478                   | (57 404)                | 13 074                   | 81,45%               |
| - Overdue loans for the period more than 360 days                 | 167 609                  | (129 308)               | 38 301                   | 77,15%               |
| Total impaired loans  | <u>997 201</u>           | <u>(416 629)</u>        | <u>580 572</u>           | <u>41,78%</u>        |
| <b>Total loans to small and medium size companies</b>             | <b><u>4 594 831</u></b>  | <b><u>(473 176)</u></b> | <b><u>4 121 655</u></b>  | <b><u>10,30%</u></b> |
| <b>Project financing</b>  |                          |                         |                          |                      |
| Loans for which no specific impairment has been identified:       |                          |                         |                          |                      |
| - Standard loans  | 13 048 495               | (216 606)               | 12 831 889               | 1,66%                |
| - Watch list loans  | 4 645 268                | (77 111)                | 4 568 157                | 1,66%                |
| Total loans for which no specific impairment has been identified: | <u>17 693 763</u>        | <u>(293 717)</u>        | <u>17 400 046</u>        | <u>1,66%</u>         |
| Impaired loans:   |                          |                         |                          |                      |
| - Impaired not overdue loans                                      | 2 336 275                | (48 029)                | 2 288 246                | 2,06%                |
| - Overdue loans less than 30 days                                 | 16 404                   | (272)                   | 16 132                   | 1,66%                |
| - Overdue loans for the period 61-90 days                         | 194 119                  | (15 951)                | 178 168                  | 8,22%                |
| - Overdue loans for the period 91-180 days                        | 9 693                    | (7 895)                 | 1 798                    | 81,45%               |
| - Overdue loans for the period 181-360 days                       | 50 298                   | (6 706)                 | 43 592                   | 13,33%               |
| - Overdue loans for the period more than 360 days                 | 108 269                  | (16 779)                | 91 490                   | 15,50%               |
| Total impaired loans  | <u>2 715 058</u>         | <u>(95 632)</u>         | <u>2 619 426</u>         | <u>3,52%</u>         |
| <b>Total project financing</b>                                    | <b><u>20 408 821</u></b> | <b><u>(389 349)</u></b> | <b><u>20 019 472</u></b> | <b><u>1,91%</u></b>  |

|  | <b>Gross loans</b><br><b>RUB'000</b> | <b>Impairment</b><br><b>RUB'000</b> | <b>Net loans</b><br><b>RUB'000</b> | <b>Impairment to</b><br><b>gross loans</b><br><b>%</b> |
|--|--------------------------------------|-------------------------------------|------------------------------------|--|
| <b>Leasing</b>   |                                      |                                     |                                    |  |
| Loans for which no specific impairment has been identified:      |                                      |                                     |                                    |  |
| - Standard loans   | 5 343 046                            | (88 695)                            | 5 254 351                          | 1,66%  |
| - Watch list loans   | 312 938                              | (5 194)                             | 307 744                            | 1,66%  |
| Total loans for which no specific impairment has been identified | <u>5 655 984</u>                     | <u>(93 889)</u>                     | <u>5 562 095</u>                   | <u>1,66%</u>   |
| Impaired loans:  |                                      |                                     |                                    |  |
| - Impaired not overdue loans                                     | 1 921 000                            | (509 490)                           | 1 411 510                          | 26,52%   |
| - Overdue loans less than 30 days                                | 47 637                               | (15 003)                            | 32 634                             | 31,50%   |
| - Overdue loans for the period 61-90 days                        | 29 252                               | (29 252)                            | -                                  | 100,00%  |
| - Overdue loans for the period 91-180 days                       | 50 969                               | (50 969)                            | -                                  | 100,00%  |
| - Overdue loans for the period 181-360 days                      | 45 569                               | (45 569)                            | -                                  | 100,00%  |
| Total impaired loans   | <u>2 094 427</u>                     | <u>(650 283)</u>                    | <u>1 444 144</u>                   | <u>31,05%</u>  |
| <b>Total leasing</b>   | <b><u>7 750 411</u></b>              | <b><u>(744 172)</u></b>             | <b><u>7 006 239</u></b>            | <b><u>9,60%</u></b>                                    |
| <b>Total loans to legal entities</b>                             | <b><u>58 897 254</u></b>             | <b><u>(4 013 219)</u></b>           | <b><u>54 884 035</u></b>           | <b><u>6,81%</u></b>                                    |

The following table provides information on the credit quality of the loans to legal entities portfolio of the Group as at 31 December 2008.

|   | <b>Gross loans</b><br><b>RUB'000</b> | <b>Impairment</b><br><b>RUB'000</b> | <b>Net loans</b><br><b>RUB'000</b> | <b>Impairment to</b><br><b>gross loans</b><br><b>%</b> |
|---|--------------------------------------|-------------------------------------|------------------------------------|--|
| <b>Commercial loans</b>   |                                      |                                     |                                    |  |
| Loans for which no specific impairment has been identified:       |                                      |                                     |                                    |  |
| - Standard loans  | 23 107 747                           | (450 730)                           | 22 657 017                         | 1,95%  |
| - Watch list loans  | 1 744 534                            | (34 018)                            | 1 710 516                          | 1,95%  |
| Total loans for which no specific impairment has been identified: | <u>24 852 281</u>                    | <u>(484 748)</u>                    | <u>24 367 533</u>                  | <u>1,95%</u>   |
| Impaired loans:   |                                      |                                     |                                    |  |
| - Impaired not overdue loans                                      | 515 081                              | (171 764)                           | 343 317                            | 33,35%   |
| - Overdue loans less than 30 days                                 | 2 030 102                            | (346 773)                           | 1 683 329                          | 17,08%   |
| - Overdue loans for the period 30-60 days                         | 102 182                              | (30 503)                            | 71 679                             | 29,85%   |
| - Overdue loans for the period 61-90 days                         | 170 946                              | (104 458)                           | 66 488                             | 61,11%   |
| - Overdue loans for the period 91-180 days                        | 83 162                               | (23 529)                            | 59 633                             | 28,29%   |
| - Overdue loans for the period 181-360 days                       | 550 989                              | (241 220)                           | 309 769                            | 43,78%   |
| - Overdue loans for the period more than 360 days                 | 398 593                              | (335 238)                           | 63 355                             | 84,11%   |
| Total impaired loans  | <u>3 851 055</u>                     | <u>(1 253 485)</u>                  | <u>2 597 570</u>                   | <u>32,55%</u>  |
| <b>Total commercial loans</b>                                     | <b><u>28 703 336</u></b>             | <b><u>(1 738 233)</u></b>           | <b><u>26 965 103</u></b>           | <b><u>6,06%</u></b>                                    |

|   | <b>Gross loans</b><br><b>RUB'000</b> | <b>Impairment</b><br><b>RUB'000</b> | <b>Net loans</b><br><b>RUB'000</b> | <b>Impairment to</b><br><b>gross loans</b><br><b>%</b> |
|---|--------------------------------------|-------------------------------------|------------------------------------|--|
| <b>Loans to small and medium size companies</b>                   |                                      |                                     |                                    |  |
| Loans for which no specific impairment has been identified:       |                                      |                                     |                                    |  |
| - Standard loans  | 4 720 121                            | (90 617)                            | 4 629 504                          | 1,92%  |
| - Watch list loans  | 607                                  | (12)                                | 595                                | 1,95%  |
| Total loans for which no specific impairment has been identified: | <u>4 720 728</u>                     | <u>(90 629)</u>                     | <u>4 630 099</u>                   | <u>1,92%</u>   |
| Impaired loans:   |                                      |                                     |                                    |  |
| - Overdue loans less than 30 days                                 | 247 756                              | (9 974)                             | 237 782                            | 4,03%  |
| - Overdue loans for the period 30-60 days                         | 65 946                               | (1 286)                             | 64 660                             | 1,95%  |
| - Overdue loans for the period 61-90 days                         | 47 526                               | (927)                               | 46 599                             | 1,95%  |
| - Overdue loans for the period 91-180 days                        | 47 177                               | (29 431)                            | 17 746                             | 62,38%   |
| - Overdue loans for the period 181-360 days                       | 88 364                               | (73 342)                            | 15 022                             | 83,00%   |
| - Overdue loans for the period more than 360 days                 | 118 129                              | (89 375)                            | 28 754                             | 75,66%   |
| Total impaired loans  | <u>614 898</u>                       | <u>(204 335)</u>                    | <u>410 563</u>                     | <u>33,23%</u>  |
| <b>Total loans to small and medium size companies</b>             | <b><u>5 335 626</u></b>              | <b><u>(294 964)</u></b>             | <b><u>5 040 662</u></b>            | <b><u>5,53%</u></b>                                    |
| <b>Project financing</b>  |                                      |                                     |                                    |  |
| Loans for which no specific impairment has been identified:       |                                      |                                     |                                    |  |
| - Standard loans  | 12 699 409                           | (247 639)                           | 12 451 770                         | 1,95%  |
| - Watch list loans  | 5 297 701                            | (103 305)                           | 5 194 396                          | 1,95%  |
| Total loans for which no specific impairment has been identified  | <u>17 997 110</u>                    | <u>(350 944)</u>                    | <u>17 646 166</u>                  | <u>1,95%</u>   |
| Impaired loans:   |                                      |                                     |                                    |  |
| - Overdue loans less than 30 days                                 | 144 594                              | (11 782)                            | 132 812                            | 8,15%  |
| - Overdue loans for the period 61-90 days                         | 8 938                                | (174)                               | 8 764                              | 1,95%  |
| - Overdue loans for the period 181-360 days                       | 143 043                              | (22 112)                            | 120 931                            | 15,46%   |
| - Overdue loans for the period more than 360 days                 | 3 530                                | (2 930)                             | 600                                | 83,00%   |
| Total impaired loans  | <u>300 105</u>                       | <u>(36 998)</u>                     | <u>263 107</u>                     | <u>12,33%</u>  |
| <b>Total project financing</b>                                    | <b><u>18 297 215</u></b>             | <b><u>(387 942)</u></b>             | <b><u>17 909 273</u></b>           | <b><u>2,12%</u></b>                                    |

|  | <b>Gross loans</b> | <b>Impairment</b>  | <b>Net loans</b>  | <b>Impairment to</b> |
|--|--------------------|--------------------|-------------------|----------------------|
|  | <b>RUB'000</b>     | <b>RUB'000</b>     | <b>RUB'000</b>    | <b>gross loans</b>   |
|  |                    |                    |                   | <b>%</b>             |
| <b>Leasing</b>   |                    |                    |                   |                      |
| Loans for which no specific impairment has been identified:      |                    |                    |                   |                      |
| - Standard loans   | 6 392 121          | (124 563)          | 6 267 558         | 1,95%                |
| - Watch list loans   | 622 628            | (12 141)           | 610 487           | 1,95%                |
| Total loans for which no specific impairment has been identified | 7 014 749          | (136 704)          | 6 878 045         | 1,95%                |
| Impaired loans:  |                    |                    |                   |                      |
| - Impaired not overdue loans                                     | 537 327            | (207 879)          | 329 448           | 38,69%               |
| - Overdue loans less than 30 days                                | 153 759            | (3 182)            | 150 577           | 2,07%                |
| - Overdue loans for the period 91-180 days                       | 45 655             | (45 655)           | -                 | 100%                 |
| Total impaired loans   | 736 741            | (256 716)          | 480 025           | 34,84%               |
| <b>Total leasing</b>   | <b>7 751 490</b>   | <b>(393 420)</b>   | <b>7 358 070</b>  | <b>5,08%</b>         |
| <b>Total loans to legal entities</b>                             | <b>60 087 667</b>  | <b>(2 814 559)</b> | <b>57 273 108</b> | <b>4,68%</b>         |

The Group has estimated loan impairment for loans to legal entities based on an analysis of the expected future cash flows for impaired loans. The principal collateral taken into account in the estimation of future cash flows comprises real estate. Valuations for real estate have been discounted by 30 percent to reflect current market conditions.

For portfolios of loans to legal entities for which no indications of impairment have been identified, in determining the portfolio impairment allowance at 31 March 2009, the Group has adjusted historic loss rates to factor in the deterioration of the loan portfolio, as evidenced by rate of increase in the level of impaired and overdue loans, arising from current market conditions.

The portfolio allowance reflects management's estimate of the expected future losses in the portfolio as at 31 March 2009. Deterioration in the Russian economy may give rise to further deterioration in asset quality.

During 1Q 2009 the Group renegotiated loans to legal entities that would otherwise be past due or impaired of RUB 856,780 thousand (31 December 2008: RUB 3,735,480 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

#### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to legal entities as of 31 March 2009 are as follows.

|  | <b>Commercial</b> | <b>Loans to small</b> | <b>Project</b>   | <b>Leasing</b> | <b>Total</b>     |
|--|-------------------|-----------------------|------------------|----------------|------------------|
|  | <b>loans</b>      | <b>and medium</b>     | <b>financing</b> |                |                  |
|  | <b>RUB'000</b>    | <b>size companies</b> | <b>RUB'000</b>   | <b>RUB'000</b> | <b>RUB'000</b>   |
| <b>Loan impairment allowance as at 1 January</b>               | 1 738 233         | 294 964               | 387 942          | 393 420        | 2 814 559        |
| Loans written off during the reporting period as uncollectible | (335)             | -                     | -                | -              | (335)            |
| Loan impairment allowance                                      | 668 624           | 178 212               | 1 407            | 350 752        | 1 198 995        |
| <b>Loan impairment allowance as at 31 March</b>                | <b>2 406 522</b>  | <b>473 176</b>        | <b>389 349</b>   | <b>744 172</b> | <b>4 013 219</b> |

Movements in the loan impairment allowance by classes of loans to legal entities as of 31 March 2008 are as follows.

|  | Commercial<br>loans | Loans to small<br>and medium<br>size companies | Project<br>financing | Leasing       | Total          |
|--|---------------------|--|----------------------|---------------|----------------|
| <b>Loan impairment allowance as at 1 January</b>               | 483 868             | 99 818   | 53 240               | 24 231        | <b>661 157</b> |
| Loan impairment allowance expenses during the reporting period | (13 754)            | 49 979   | 1 562                | (1 486)       | <b>36 301</b>  |
| <b>Loan impairment allowance as at 31 March</b>                | <b>470 114</b>      | <b>149 797</b>                                 | <b>54 802</b>        | <b>22 745</b> | <b>697 458</b> |

*Credit quality of loans to individuals*

The following table provides information on the credit quality of the retail loan portfolios as at 31 March 2009.

|                                    | Gross loans<br>RUB'000 | Impairment<br>allowance<br>RUB'000 | Net loans<br>RUB'000 | Impairment to<br>gross loans<br>% |
|------------------------------------|------------------------|------------------------------------|----------------------|-----------------------------------|
| <b>Loans issued to individuals</b> |                        |                                    |                      |                                   |
| <b>Consumer loans</b>              |                        |                                    |                      |                                   |
| - Not past due                     | 24 496 890             | (337 062)                          | 24 159 828           | 1,38%                             |
| - Overdue less than 30 days        | 2 293 825              | (393 868)                          | 1 899 957            | 17,17%                            |
| - Overdue 30-60 days               | 920 522                | (365 710)                          | 554 812              | 39,73%                            |
| - Overdue 61-90 days               | 862 831                | (419 494)                          | 443 337              | 48,62%                            |
| - Overdue 91-180 days              | 2 210 521              | (1 384 976)                        | 825 545              | 62,65%                            |
| - Overdue 181-360 days             | 1 966 679              | (1 402 753)                        | 563 926              | 71,33%                            |
| - Overdue more than 360 days       | 1 603 707              | (1 302 213)                        | 301 494              | 81,20%                            |
| <b>Total consumer loans</b>        | <b>34 354 975</b>      | <b>(5 606 076)</b>                 | <b>28 748 899</b>    | <b>16,32%</b>                     |
| <b>Mortgage loans</b>              |                        |                                    |                      |                                   |
| - Not past due                     | 14 045 986             | (18 398)                           | 14 027 588           | 0,13%                             |
| - Overdue less than 30 days        | 896 461                | (24 467)                           | 871 994              | 2,73%                             |
| - Overdue 30-60 days               | 312 665                | (24 241)                           | 288 424              | 7,75%                             |
| - Overdue 61-90 days               | 241 518                | (30 645)                           | 210 873              | 12,69%                            |
| - Overdue 91-180 days              | 502 006                | (81 511)                           | 420 495              | 16,24%                            |
| - Overdue 181-360 days             | 257 558                | (53 786)                           | 203 772              | 20,88%                            |
| - Overdue more than 360 days       | 585 801                | (125 517)                          | 460 284              | 21,43%                            |
| <b>Total mortgage loans</b>        | <b>16 841 995</b>      | <b>(358 565)</b>                   | <b>16 483 430</b>    | <b>2,13%</b>                      |
| <b>Auto loans</b>                  |                        |                                    |                      |                                   |
| - Not past due                     | 4 588 684              | (42 486)                           | 4 546 198            | 0,93%                             |
| - Overdue less than 30 days        | 480 475                | (82 093)                           | 398 382              | 17,09%                            |
| - Overdue 30-60 days               | 164 705                | (64 574)                           | 100 131              | 39,21%                            |
| - Overdue 61-90 days               | 135 381                | (66 720)                           | 68 661               | 49,28%                            |
| - Overdue 91-180 days              | 366 892                | (230 379)                          | 136 513              | 62,79%                            |
| - Overdue 181-360 days             | 381 170                | (258 456)                          | 122 714              | 67,81%                            |
| - Overdue more than 360 days       | 1 005 914              | (677 675)                          | 328 239              | 67,37%                            |
| <b>Total auto loans</b>            | <b>7 123 221</b>       | <b>(1 422 383)</b>                 | <b>5 700 838</b>     | <b>19,97%</b>                     |
| <b>Other loans to individuals</b>  |                        |                                    |                      |                                   |
| - Not past due                     | 4 802 542              | (79 838)                           | 4 722 704            | 1,66%                             |
| - Overdue less than 30 days        | 358 866                | (141 996)                          | 216 870              | 39,57%                            |



|   | Gross loans<br>RUB'000 | Impairment<br>allowance<br>RUB'000 | Net loans<br>RUB'000 | Impairment to<br>gross loans<br>% |
|---|------------------------|------------------------------------|----------------------|-----------------------------------|
| - Overdue 30-60 days                      | 192 987                | (134 782)                          | 58 205               | 69,84%                            |
| - Overdue 61-90 days                      | 230 676                | (173 510)                          | 57 166               | 75,22%                            |
| - Overdue 91-180 days                     | 567 665                | (449 488)                          | 118 177              | 79,18%                            |
| - Overdue 181-360 days                    | 346 617                | (287 722)                          | 58 895               | 83,01%                            |
| - Overdue more than 360 days              | 216 970                | (192 627)                          | 24 343               | 88,78%                            |
| <b>Total other loans to individuals</b>   | <b>6 716 323</b>       | <b>(1 459 963)</b>                 | <b>5 256 360</b>     | <b>21,74%</b>                     |
| <b>Total retail loans</b>                 | <b>65 036 514</b>      | <b>(8 846 987)</b>                 | <b>56 189 527</b>    | <b>13,60%</b>                     |
| <b>Loans purchased by the Group</b>       |                        |                                    |                      |                                   |
| <b>Consumer loans</b>                     |                        |                                    |                      |                                   |
| - Not past due                            | 8 477 739              | (3 156)                            | 8 474 583            | 0,04%                             |
| - Overdue less than 30 days               | 18 343                 | (3 090)                            | 15 253               | 16,85%                            |
| - Overdue 30-60 days                      | 3 019                  | (1 272)                            | 1 747                | 42,13%                            |
| - Overdue 61-90 days                      | 563                    | (299)                              | 264                  | 53,11%                            |
| - Overdue 91-180 days                     | 17 679                 | (11 120)                           | 6 559                | 62,90%                            |
| - Overdue more than 360 days              | 6 385                  | (6 185)                            | 200                  | 96,87%                            |
| <b>Total consumer loans</b>               | <b>8 523 728</b>       | <b>(25 122)</b>                    | <b>8 498 606</b>     | <b>0,29%</b>                      |
| <b>Mortgage loans</b>                     |                        |                                    |                      |                                   |
| - Not past due                            | 767 326                | (1 793)                            | 765 533              | 0,23%                             |
| - Overdue less than 30 days               | 261 672                | (11 418)                           | 250 254              | 4,36%                             |
| - Overdue 30-60 days                      | 34 305                 | (8 374)                            | 25 931               | 24,41%                            |
| - Overdue 61-90 days                      | 11 708                 | (3 078)                            | 8 630                | 26,29%                            |
| - Overdue 91-180 days                     | 76 415                 | (26 468)                           | 49 947               | 34,64%                            |
| - Overdue 181-360 days                    | 30 922                 | (8 146)                            | 22 776               | 26,35%                            |
| - Overdue more than 360 days              | 75 881                 | (16 259)                           | 59 622               | 21,43%                            |
| <b>Total mortgage loans</b>               | <b>1 258 229</b>       | <b>(75 536)</b>                    | <b>1 182 693</b>     | <b>6,00%</b>                      |
| <b>Auto loans</b>                         |                        |                                    |                      |                                   |
| - Overdue more than 360 days              | 115                    | (104)                              | 11                   | 90,43%                            |
| <b>Total auto loans</b>                   | <b>115</b>             | <b>(104)</b>                       | <b>11</b>            | <b>90,43%</b>                     |
| <b>Total loans purchased by the Group</b> | <b>9 782 072</b>       | <b>(100 762)</b>                   | <b>9 681 310</b>     | <b>1,03%</b>                      |

The following table provides information on the credit quality of retail loan portfolios as at 31 December 2008.

|                                    | Gross loans<br>RUB'000 | Impairment<br>allowance<br>RUB'000 | Net loans<br>RUB'000 | Impairment to<br>gross loans<br>% |
|------------------------------------|------------------------|------------------------------------|----------------------|-----------------------------------|
| <b>Loans issued to individuals</b> |                        |                                    |                      |                                   |
| <b>Consumer loans</b>              |                        |                                    |                      |                                   |
| - Not past due                     | 29 406 001             | (261 624)                          | 29 144 377           | 0,89%                             |
| - Overdue less than 30 days        | 1 912 417              | (289 637)                          | 1 622 780            | 15,15%                            |
| - Overdue 30-60 days               | 1 079 091              | (403 441)                          | 675 650              | 37,39%                            |
| - Overdue 61-90 days               | 785 536                | (363 222)                          | 422 314              | 46,24%                            |
| - Overdue 91-180 days              | 1 210 951              | (722 720)                          | 488 231              | 59,68%                            |

|   | Gross loans<br>RUB'000 | Impairment<br>allowance<br>RUB'000 | Net loans<br>RUB'000 | Impairment to<br>gross loans<br>% |
|---|------------------------|------------------------------------|----------------------|-----------------------------------|
| - Overdue 181-360 days                    | 1 634 069              | (1 131 071)                        | 502 998              | 69,22%                            |
| - Overdue more than 360 days              | 925 326                | (751 123)                          | 174 203              | 81,17%                            |
| <b>Total consumer loans</b>               | <b>36 953 391</b>      | <b>(3 922 838)</b>                 | <b>33 030 553</b>    | <b>10,62%</b>                     |
| <b>Mortgage loans</b>                     |                        |                                    |                      |                                   |
| - Not past due                            | 15 251 051             | (14 867)                           | 15 236 184           | 0,10%                             |
| - Overdue less than 30 days               | 866 909                | (19 580)                           | 847 329              | 2,26%                             |
| - Overdue 30-60 days                      | 233 497                | (16 450)                           | 217 047              | 7,05%                             |
| - Overdue 61-90 days                      | 139 545                | (15 540)                           | 124 005              | 11,14%                            |
| - Overdue 91-180 days                     | 194 610                | (30 149)                           | 164 461              | 15,49%                            |
| - Overdue 181-360 days                    | 316 667                | (65 884)                           | 250 783              | 20,81%                            |
| - Overdue more than 360 days              | 436 588                | (93 540)                           | 343 048              | 21,43%                            |
| <b>Total mortgage loans</b>               | <b>17 438 867</b>      | <b>(256 010)</b>                   | <b>17 182 857</b>    | <b>1,47%</b>                      |
| <b>Auto loans</b>                         |                        |                                    |                      |                                   |
| - Not past due                            | 5 414 540              | (44 041)                           | 5 370 499            | 0,81%                             |
| - Overdue less than 30 days               | 403 280                | (62 097)                           | 341 183              | 15,4%                             |
| - Overdue 30-60 days                      | 195 429                | (76 097)                           | 119 332              | 38,94%                            |
| - Overdue 61-90 days                      | 123 282                | (60 918)                           | 62 364               | 49,41%                            |
| - Overdue 91-180 days                     | 231 714                | (148 734)                          | 82 980               | 64,19%                            |
| - Overdue 181-360 days                    | 430 987                | (298 144)                          | 132 843              | 69,18%                            |
| - Overdue more than 360 days              | 759 427                | (523 316)                          | 236 111              | 68,91%                            |
| <b>Total auto loans</b>                   | <b>7 558 659</b>       | <b>(1 213 347)</b>                 | <b>6 345 312</b>     | <b>16,05%</b>                     |
| <b>Other loans to individuals</b>         |                        |                                    |                      |                                   |
| - Not past due                            | 6 263 219              | (73 408)                           | 6 189 811            | 1,17%                             |
| - Overdue less than 30 days               | 360 402                | (117 529)                          | 242 873              | 32,61%                            |
| - Overdue 30-60 days                      | 201 776                | (126 189)                          | 75 587               | 62,54%                            |
| - Overdue 61-90 days                      | 127 522                | (87 438)                           | 40 084               | 68,57%                            |
| - Overdue 91-180 days                     | 268 000                | (208 916)                          | 59 084               | 77,95%                            |
| - Overdue 181-360 days                    | 183 219                | (149 195)                          | 34 024               | 81,43%                            |
| - Overdue more than 360 days              | 121 639                | (111 886)                          | 9 753                | 91,98%                            |
| <b>Total other loans to individuals</b>   | <b>7 525 777</b>       | <b>(874 561)</b>                   | <b>6 651 216</b>     | <b>11,62%</b>                     |
| <b>Total retail loans</b>                 | <b>69 476 694</b>      | <b>(6 266 756)</b>                 | <b>63 209 938</b>    | <b>9,02%</b>                      |
| <b>Total loans purchased by the Group</b> |                        |                                    |                      |                                   |
| <b>Consumer loans</b>                     |                        |                                    |                      |                                   |
| - Not past due                            | 10 029 916             | (2 902)                            | 10 027 014           | 0,03%                             |
| - Overdue less than 30 days               | 24 474                 | (3 707)                            | 20 767               | 15,15%                            |
| - Overdue 61-90 days                      | 12 635                 | (5 256)                            | 7 379                | 41,60%                            |
| - Overdue 181-360 days                    | 3 317                  | (3 317)                            | -                    | 100,00%                           |
| - Overdue more than 360 days              | 3 085                  | (2 867)                            | 218                  | 92,93%                            |
| <b>Total consumer loans</b>               | <b>10 073 427</b>      | <b>(18 049)</b>                    | <b>10 055 378</b>    | <b>0,18%</b>                      |
| <b>Mortgage loans</b>                     |                        |                                    |                      |                                   |
| - Not past due                            | 811 942                | (1 317)                            | 810 625              | 0,16%                             |
| - Overdue less than 30 days               | 206 640                | (7 194)                            | 199 446              | 3,48%                             |

|   | <b>Gross loans</b> | <b>Impairment allowance</b> | <b>Net loans</b>  | <b>Impairment to gross loans</b> |
|---|--------------------|-----------------------------|-------------------|----------------------------------|
|   | <b>RUB'000</b>     | <b>RUB'000</b>              | <b>RUB'000</b>    | <b>%</b>                         |
| - Overdue 30-60 days                      | 39 106             | (6 812)                     | 32 294            | 17,42%                           |
| - Overdue 61-90 days                      | 14 454             | (2 162)                     | 12 292            | 14,96%                           |
| - Overdue 91-180 days                     | 19 481             | (5 044)                     | 14 437            | 25,89%                           |
| - Overdue 181-360 days                    | 41 178             | (8 561)                     | 32 617            | 20,79%                           |
| - Overdue more than 360 days              | 58 741             | (12 585)                    | 46 156            | 21,42%                           |
| <b>Total mortgage loans</b>               | <b>1 191 542</b>   | <b>(43 675)</b>             | <b>1 147 867</b>  | <b>3,67%</b>                     |
| <b>Auto loans</b>                         |                    |                             |                   |                                  |
| - Overdue more than 360 days              | 117                | (104)                       | 13                | 88,89%                           |
| <b>Total auto loans</b>                   | <b>117</b>         | <b>(104)</b>                | <b>13</b>         | <b>88,89%</b>                    |
| <b>Total loans purchased by the Group</b> | <b>11 265 086</b>  | <b>(61 828)</b>             | <b>11 203 258</b> | <b>0,55%</b>                     |

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The key assumptions at 31 March 2009 are:

- Loss migration rates have been estimated based on historic loss migration pattern for the last 24 months adjusted to reflect current economic conditions.
- Collateral values for mortgages factor in a 30% reduction in prices and statistics for unsuccessful repossessions. No value is attributed to properties in the process of construction.
- Collateral values for auto loans factor in car prices based on actual repossession experience.

***Analysis of movements in the impairment allowance***

Movements in the loan impairment allowance by classes of retail loans as at 31 March 2009 are as follows.

|  | <b>Consumer<br/>loans<br/>RUB'000</b> | <b>Mortgage<br/>loans<br/>RUB'000</b> | <b>Auto loans<br/>RUB'000</b> | <b>Other loans<br/>RUB'000</b> | <b>Total<br/>RUB'000</b> |
|--|---------------------------------------|---------------------------------------|-------------------------------|--------------------------------|--------------------------|
| <b>Loan impairment allowance as at 1 January</b> | 3 940 887                             | 299 685                               | 1 213 451                     | 874 561                        | <b>6 328 584</b>         |
| Loan impairment allowance                        | 1 690 311                             | 134 416                               | 209 036                       | 585 402                        | <b>2 619 165</b>         |
| <b>Loan impairment allowance as at 31 March</b>  | <b>5 631 198</b>                      | <b>434 101</b>                        | <b>1 422 487</b>              | <b>1 459 963</b>               | <b>8 947 749</b>         |

Movements in the loan impairment allowance by classes of retail loans as at 31 March 2009 are as follows.

|  | <b>Consumer<br/>loans<br/>RUB'000</b> | <b>Mortgage<br/>loans<br/>RUB'000</b> | <b>Auto loans<br/>RUB'000</b> | <b>Other loans<br/>RUB'000</b> | <b>Total<br/>RUB'000</b> |
|--|---------------------------------------|---------------------------------------|-------------------------------|--------------------------------|--------------------------|
| <b>Loan impairment allowance as at 1 January</b>   | 4 660 569                             | 126 162                               | 422 511                       | 117 001                        | <b>5 326 243</b>         |
| Loans written off during the year as uncollectible | (276)                                 | -                                     | (239)                         | -                              | <b>(515)</b>             |
| Loans sold   | (1 610 204)                           |                                       |                               |                                | <b>(1 610 204)</b>       |
| Loan impairment allowance                          | 647 341                               | 9 240                                 | 176 235                       | 51 780                         | <b>884 597</b>           |
| <b>Loan impairment allowance as at 31 March</b>    | <b>3 697 430</b>                      | <b>135 403</b>                        | <b>598 507</b>                | <b>168 781</b>                 | <b>4 600 121</b>         |

***Securitization of assets***

As at 31 December 2007, the Group sold mortgage loans of RUB 7 856 636 thousand (as at 31 December 2006: null) to URSA Mortgage Finance S.A. To fund the purchase of mortgage loans URSA Mortgage Finance S.A. issued Notes, which are direct, secured and unconditional obligations of URSA Mortgage Finance S.A. and are backed by mortgage loans.

The Bank currently holds all of the Notes and thus retains substantially all the risk and rewards, and therefore URSA Mortgage Finance S.A. is consolidated into the accounts of the Group, and the loans are included in the Group's balance sheet.

In 2008, the Group sold further mortgage loans of RUB 928 032 thousand to URSA Mortgage Finance S.A..

***Industry and geographical analysis of the loan portfolio***

Loans and advances to customers are issued primarily to customers located within the Russian Federation, who operate in the following economic sectors.

|   | <b>31 March<br/>2009</b> |            | <b>31 December<br/>2008</b> |            |
|---|--------------------------|------------|-----------------------------|------------|
|   | <b>RUB'000</b>           | <b>%</b>   | <b>RUB'000</b>              | <b>%</b>   |
| Individuals   | 74 818 588               | 56         | 80 741 780                  | 57         |
| Trade   | 18 457 430               | 14         | 18 637 357                  | 13         |
| Financial services                                    | 11 471 569               | 9          | 11 406 011                  | 8          |
| Production  | 10 880 529               | 8          | 10 922 021                  | 8          |
| Construction  | 7 254 412                | 6          | 7 883 632                   | 6          |
| Services  | 5 146 431                | 4          | 5 469 502                   | 4          |
| Mining  | 1 760 641                | 1          | 1 931 591                   | 1          |
| Farming   | 1 786 286                | 1          | 1 682 981                   | 1          |
| Transport   | 436 731                  | -          | 537 993                     | 1          |
| Trade finance   | 484 879                  | -          | 480 949                     | -          |
| Government bodies                                     | -                        | -          | 351 884                     | -          |
| Energy  | 59 076                   | -          | 894                         | -          |
| Other   | 1 159 268                | 1          | 782 852                     | 1          |
| <b>Total loans to customers (gross of provisions)</b> | <b>133 715 840</b>       | <b>100</b> | <b>140 829 447</b>          | <b>100</b> |

#### *Loan maturities*

The maturity of the Group's loan portfolio is presented in Note 11, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

## **6 Goodwill**

On 22 December 2006 Sibacadembank acquired 100% of the shares of UVTB through an exchange of shares. As a result UVTB acceded to Sibacadembank and all of the outstanding shares of UVTB were converted into newly issued ordinary and preference shares of Sibacadembank, the name of which was changed to URSA Bank. As a result of accession, UVTB ceased to exist as a legal entity with assets and liabilities being transferred to URSA Bank.

The Group has assessed goodwill for impairment based on the results of an independent appraisal. For the purposes of impairment testing, goodwill is allocated to the former UVTB business. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable amount represents value in use as determined by discounting the future cash flows generated from the business. The following key assumptions were used in determining the recoverable amount:

- Cash flows were projected based on a six-year business plan.
- Growth of the total assets is projected at 20% for 2009, 11% for 2010, 16% for 2011, 13% for 2012, 11% for 2013 and 5% for 2014.
- A discount rate of 19% was applied in determining the net present value of future cash flows. The discount rate was estimated based on a risk-free rate of 2.73% and overall risk-premium rate of 16.27%.

The values assigned to the key assumptions represent management's assessment of future trends in the market.

The cash flows of the UVTB business were forecast to the end of 2014, after which terminal cash flows have been estimated based on the assumption of no further growth of net income in real terms. No impairment has been identified.

## 7 Deposits and balances from banks and other financial institutions

|  | <b>31 March<br/>2009</b> | <b>31 December<br/>2008</b> |
|--|--------------------------|-----------------------------|
|  | <b>RUB'000</b>           | <b>RUB'000</b>              |
| Term deposits  | 38 259 715               | 28 436 385                  |
| Syndicated loans   | 9 395 032                | 8 636 811                   |
| Vostro accounts  | 94 513                   | 320 981                     |
| <b>Total deposits and balances from banks and other financial institutions</b> | <b>47 749 260</b>        | <b>37 394 177</b>           |

### *Concentration of deposits and balances from banks and other financial institutions*

As at 31 March 2009 and 31 December 2008 the Group had one counterparty, whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as of 31 March 2009 and 31 December 2008 was RUB 26,775,615 thousand and RUB 18,265,294 thousand, respectively.

## 8 Debt securities in issue

|                                       | <b>31 March<br/>2009</b> | <b>31 December<br/>2008</b> |
|---------------------------------------|--------------------------|-----------------------------|
|                                       | <b>RUB'000</b>           | <b>RUB'000</b>              |
| Long-term loan participation notes    | 35 333 653               | 43 015 921                  |
| Domestic bonds                        | 17 528 304               | 17 318 853                  |
| Promissory notes                      | 1 435 005                | 3 899 131                   |
| Deposit certificates                  | -                        | -                           |
| <b>Total debt securities in issue</b> | <b>54 296 962</b>        | <b>64 233 905</b>           |

As at 31 March 2009 and 31 December 2008, the Group had the following long-term loan participation notes outstanding:

| Principal amount as at 31 March 2009 (in thousand) | Principal amount as at 31 December 2008 (in thousand) | Interest rate | Issue date        | Maturity date     | 31 March 2009     | 31 December 2008  |
|--|---|---------------|-------------------|-------------------|-------------------|-------------------|
| USD 218 639  | USD 265 643   | 9,00%         | 12 May 2006       | 12 May 2009       | 7 690 740         | 7 550 786         |
| HUF 3 214 575                                      | HUF 4 384 575   | 11,66%        | 21 September 2006 | 21 September 2009 | 512 727           | 525 225           |
| RUB 5 000 000                                      | RUB 5 000 000   | 9,13%         | 26 February 2007  | 26 February 2010  | 5 035 492         | 5 147 484         |
| EUR 228 248  | EUR 400 000   | 7,00%         | 21 May 2007       | 21 May 2010       | 10 686 634        | 17 260 441        |
| EUR 249 465  | EUR 300 000   | 8,30%         | 16 November 2006  | 16 November 2011  | 11 408 060        | 12 531 985        |
| <b>Total long-term loan participation notes</b>    |   |               |                   |                   | <b>35 333 653</b> | <b>43 015 921</b> |

As at 31 March 2009 and 31 December 2008, the Group had the following domestic bonds outstanding:

| Principal amount as at 31 March 2009 (in thousand) | Principal amount as at 31 December 2008 (in thousand) | Interest rate | Issue date      | Maturity date   | 31 March 2009     | 31 December 2008  |
|--|---|---------------|-----------------|-----------------|-------------------|-------------------|
| 3 000 000  | 3 000 000   | 9,60%         | 8 June 2006     | 4 June 2009     | 2 819 825         | 2 752 380         |
| 3 000 000  | 3 000 000   | 10,05%        | 24 October 2006 | 18 October 2011 | 3 123 545         | 3 048 315         |
| 5 000 000  | 5 000 000   | 8,40%         | 26 July 2007    | 19 July 2012    | 5 066 263         | 5 170 628         |
| 6 203 000  | 6 203 000   | 11,19%        | 17 April 2008   | 9 April 2015    | 6 518 671         | 6 347 530         |
| <b>Total domestic bonds</b>                        |   |               |                 |                 | <b>17 528 304</b> | <b>17 318 853</b> |

Bonds with a nominal value of RUB 5,000,000 thousand and RUB 6,203,000 thousand have early redemption clauses at the option of the bond holder on 26 January 2010 and 21 April 2009, respectively.

## 9 Subordinated debt

| Principal<br>(in thousands)    | Interest rate | Issue date          | Maturity date     | 31 March<br>2009 | 31 December<br>2008 |
|--------------------------------|---------------|---------------------|-------------------|------------------|---------------------|
| RUB 7 000                      | 12,00%        | 20 April 2004       | 20 April 2009     | 7 000            | 7 000               |
| RUB 15 000                     | 11,00%        | 16 June 2005        | 16 June 2010      | 15 000           | 15 000              |
| USD 30 000                     | 12,25%        | 29 June 2005        | 6 July 2010       | 1 043 792        | 926 332             |
| USD 6 000                      | LIBOR +8,00%  | 21 November<br>2005 | 15 December 2010  | 208 825          | 175 510             |
| USD 130                        | 12,00%        | 30 June 2006        | 30 December 2011  | 4 561 538        | 3 824 786           |
| USD 10 000                     | LIBOR +6,50%  | 28 November<br>2006 | 15 September 2013 | 339 167          | 299 871             |
| USD 5 000                      | LIBOR +6,75%  | 15 August<br>2006   | 15 October 2013   | 178 075          | 149 648             |
| USD 7 500                      | LIBOR +6,75%  | 15 August<br>2006   | 15 October 2013   | 267 327          | 224 695             |
| USD 20 000                     | LIBOR +6,00%  | 25 October<br>2006  | 25 October 2013   | 694 664          | 586 831             |
| <b>Total subordinated debt</b> |               |                     |                   | <b>7 315 388</b> | <b>6 209 673</b>    |

As at 31 March 2009 subordinated debt included loans received from a related party maturing in 2009, 2010 and 2013, which carry annual interest rates of 12%, 11% and LIBOR + 6% respectively. In case of bankruptcy, the repayment of the subordinated debt shall be made after repayment in full of all other liabilities of the Group

## 10 Analysis by segment

The Group's primary format for reporting segment information is by business segments. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relates to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments.

The Group is organized into three main business segments:

- Commercial banking – includes corporate banking operations which include deposit taking and commercial lending, settlements and cash operations with corporate clients.
- Retail banking – includes retail banking operations which include deposit taking and lending, settlements, foreign exchange and cash operations with individuals.
- Treasury and investments – includes corporate finance, debt and equity capital markets, money markets, trading and brokerage in securities, foreign exchange, REPO transactions and trading in derivatives.

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

|                          | 31 March 2009<br>RUB'000 | 31 December<br>2008<br>RUB'000 |
|--------------------------|--------------------------|--------------------------------|
| <b>Assets</b>            |                          |                                |
| Commercial banking       | 63 745 867               | 64 922 259                     |
| Retail banking           | 70 034 106               | 79 684 336                     |
| Treasury and investments | 39 890 195               | 19 356 824                     |
| Unallocated assets       | 29 047 735               | 44 935 869                     |
| <b>Total assets</b>      | <b>202 717 903</b>       | <b>208 899 288</b>             |
| <b>Liabilities</b>       |                          |                                |
| Commercial banking       | 22 027 858               | 29 563 445                     |
| Retail banking           | 38 118 160               | 37 144 019                     |



|                          |                    |                    |
|--------------------------|--------------------|--------------------|
| Treasury and investments | 113 533 172        | 113 472 402        |
| Unallocated liabilities  | 840 101            | 676 881            |
| <b>Total liabilities</b> | <b>174 519 291</b> | <b>180 856 747</b> |

Income statement segment information for the main reportable business segments of the Group as at 31 March 2009 is set out below.

| <b>RUB'000</b>                     | <b>Commercial<br/>banking</b> | <b>Retail<br/>banking</b> | <b>Treasury and<br/>investments</b> | <b>Total</b>     |
|------------------------------------|-------------------------------|---------------------------|-------------------------------------|------------------|
| External revenue                   | 2 422 736                     | 4 868 846                 | 1 431 462                           | 8 723 044        |
| Net revenue from other segments    | (486 167)                     | (487 644)                 | 973 811                             | -                |
| <b>Revenue</b>                     | <b>1 936 569</b>              | <b>4 381 202</b>          | <b>2 405 273</b>                    | <b>8 723 044</b> |
| Impairment losses                  | (1 247 192)                   | (2 619 165)               | -                                   | (3 866 357)      |
| Interest expense                   | (597 923)                     | (941 791)                 | (2 385 284)                         | (3 924 998)      |
| Fee and commission expense         | (12 809)                      | (45 632)                  | (54 663)                            | (113 104)        |
| Staff costs and operating expenses | (360 176)                     | (1 252 176)               | (17 316)                            | (1 629 668)      |
| Loss from sale of loans            | -                             | -                         | -                                   | -                |
| <b>Segment result</b>              | <b>(281 531)</b>              | <b>(477 562)</b>          | <b>(51 990)</b>                     | <b>(811 083)</b> |
| Income tax                         |                               |                           |                                     | <b>172 508</b>   |
| <b>Net income</b>                  |                               |                           |                                     | <b>(638 575)</b> |
| <b>Other segment items</b>         |                               |                           |                                     |                  |
| Capital expenditure                | 50 720                        | 176 331                   | 2 438                               | 229 489          |
| Depreciation charge                | 30 417                        | 105 747                   | 1 462                               | 137 626          |

Income statement segment information for the main reportable business segments of the Group as at 31 March 2008 is set out below.

|                                    | <b>Commercial<br/>banking</b> | <b>Retail<br/>banking</b> | <b>Treasury and<br/>investments</b> | <b>Total</b>     |
|------------------------------------|-------------------------------|---------------------------|-------------------------------------|------------------|
| External revenue                   | 2 268 240                     | 4 812 109                 | 1 027 239                           | 8 107 588        |
| Net revenue from other segments    | (1 141 861)                   | (714 681)                 | 1 856 542                           | -                |
| <b>Revenue</b>                     | <b>1 126 379</b>              | <b>4 097 428</b>          | <b>2 883 781</b>                    | <b>8 107 588</b> |
| Impairment losses                  | (36 302)                      | (904 564)                 |                                     | (940 866)        |
| Interest expense                   | (281 452)                     | (891 138)                 | (1 821 707)                         | (2 994 297)      |
| Fee and commission expense         | (24 818)                      | (12 296)                  | (65 342)                            | (102 456)        |
| Loss from sale of loans            | -                             | 44 884                    | -                                   | 44 884           |
| Staff costs and operating expenses | (392 582)                     | (1 439 604)               | (16 264)                            | (1 848 451)      |
| <b>Segment result</b>              | <b>391 225</b>                | <b>894 711</b>            | <b>980 467</b>                      | <b>2 266 402</b> |
| Income tax expense                 |                               |                           |                                     | <b>(658 404)</b> |
| <b>Net income</b>                  | <b>-</b>                      | <b>-</b>                  | <b>-</b>                            | <b>1 607 998</b> |
| <b>Other segment items</b>         |                               |                           |                                     |                  |
| Capital expenditure                | 72 343                        | 265 284                   | 2 998                               | 340 625          |
| Depreciation charge                | 21 477                        | 78 758                    | 890                                 | 101 125          |

## 11 Risk management

The financial activity of the Group exposes it to many types of risks. For purposes of effective risk management, the Group has identified that it has exposure to the following major types of risks: credit, market, liquidity and operational risks.

### Risk management system

The Group's risk management system includes:

- Risk management organizational structure – the system of divisions and departments of the Group involved in the risk management process;
- risk identification, assessment and control framework;
- system of internal risk controls.

#### (i) Risk management organizational structure

The Board of Directors, Management Board, Asset and Liability Management Committee (ALCO), Operating Risk Committee, Credit Committees and Risk Management Division are responsible for risk management.

The Board of Directors performs general supervision over the risk management system, and approves the development strategy for the risk management system, risk policies and major transactions. The Management Board is responsible for approval and control over the implementation of risk management policies. ALCO performs day-to-day management of market and liquidity risks. Day-to-day credit risk management is performed by a system of Credit Committees. Direct risk management is performed through a system of special Risk Management Divisions. The Chief Risk Officer (CRO) is responsible for the overall risk management function at the Group. He reports directly to the Chief Executive Officer (CEO) of the Group.

The Bank considers a collegiate approach to decision-making to be a priority. The scope of responsibilities is clearly defined when allocating duties to management and staff at the Group. Monitoring of such responsibilities is performed by review of the relevant reports on a regular basis.

#### (ii) Risk identification, assessment and control framework

The risk management instruments used by the Group are described in the relevant methodological documents (methodologies, instructions and policies). The risk management methodology is regularly reviewed by the Group and updated to reflect changes in market conditions, products and services offered by the Group, and the constantly evolving risk management best practices.

#### (iii) System of internal risk controls

The Group's system of internal risk controls includes the following functions:

- control over the Group's risk exposure (monitoring of exposure to risks, control over risk limits);
- compliance control;
- internal audit of the risk management system.

### Credit risk

Credit risk is the risk of financial losses to the Group in connection with the non-performance, late or partial performance by a debtor of its obligations to the Group.

#### (i) Credit risk management organizational structure

To optimize the decision-making process on loans, the Group has created a comprehensive system of Credit Committees with different levels of responsibilities:

- 1st level credit committees of the Siberian and Urals banks;
- 2nd level credit committees of the Siberian and Urals banks;
- 1st level credit committees of branches and head-offices;
- 2nd level credit committees of branches and head-offices.

The duties of the 1<sup>st</sup> level Credit Committees of the Siberian and Urals banks are approved by the CEO of the Group. The duties of other Credit Committees are allocated by the 1<sup>st</sup> level Credit Committees of the Siberian and Urals banks based on the scope of business of the relevant branch or head-office and the qualifications and experience of the members of the Credit Committee. In this regard, 2<sup>nd</sup> level Credit Committees are mostly delegated duties related to decision making on SME loan applications.

The 1<sup>st</sup> level Credit Committees of the Siberian and Urals banks report to the CEO of the Group, while other Credit Committees report to the 1<sup>st</sup> level Credit Committees of the Siberian and Urals banks. The heads of credit risk departments and divisions are appointed the chairpersons of Credit Committees. Meetings of the Credit Committees are usually held several times a week. If the obligations of a borrower or group of borrowers exceed RUB 1 billion, the decision of the Credit Committee must be approved by the Management Board of the Bank.

The main principles of lending and risk assessment are determined by the Group's credit policy. The credit policy establishes:

- procedures for review and approval of loan applications;
- principles for assessing the creditworthiness of borrowers;
- principles for evaluating collateral;
- requirements on credit documentation;
- procedures for monitoring of loans;
- procedures for working with distressed debt.

The credit policy is reviewed annually and approved by the Management Board of the Group. The Management Board monitors implementation of the credit policy. The credit policy is approved separately for the corporate division, the retail division and financial market operations division.

*(ii) Assessment and control of credit risk*

The Group's credit risk exposure is estimated through the assessment (monitoring) of the financial position of borrowers (including issuers and counterparties).

Credit risk is controlled through the setting of credit risk limits:

- limits on the obligations of a borrower or group of borrowers;
- concentration limits (limits on the obligations of the largest borrower and the industry structure of the loan portfolio, including the securities portfolio).

*(iii) Loan administration*

Corporate loan applications are originated by managers of business units. A loan application includes general information on a borrower's business, its credit history and financial position. Completed loan applications are independently reviewed by the specialists of the Credit Risk Departments or Divisions in terms of the borrower's creditworthiness, evaluation of collateral, and allocation of an internal credit rating. The Legal Department concurrently performs the legal due diligence of the credit project. As a result, a second conclusion is made. Based on the conclusions of the managers of business units and specialists of the Credit Risk Departments or Divisions, the relevant Credit Committee takes a decision on the loan application.

After loan origination, the Group regularly reviews the borrower's financial position and the quality of its debt servicing. The review is based on the borrower's most recent financial statements and other information submitted by the borrower at the Group's request or obtained independently by the Group. The review may lead to the reconsideration of the borrower's internal credit rating. The Group also monitors the current market value of collateral using reports of either independent appraisers or the conclusions of authorized Group specialists. If the market value of the collateral decreases, the Group usually requests that the debtor provide additional security on the loan.

Depending on the amount of the loan, retail loan applications are reviewed using a three-level system: pursuant to a simplified procedure using scoring models, through a system of independent risk experts (underwriters) or through the adoption of decisions by the Retail Lending Committee in the form similar to corporate loan applications.

In addition to analysis of individual borrowers, the Group also analyzes the entire credit portfolio in terms of credit concentration risks by borrowers, industries and geographical regions.

**Market risk**

Market risk is the risk that changes in market prices of securities, foreign currency and precious metals exchange rates, and interest rates will lead to changes in income or the value of the Group's portfolio. Market risk includes currency, interest rate and other price risk. The Group's exposure to market risk arises from open positions in equities, foreign currencies, precious metals and interest rates.

The objective of market risk management is to ensure the Group's ability to control the effects of market risk factors.

Overall responsibility for market risk management has been delegated to ALCO, chaired by the First Deputy Chief Executive Officer of the Group (Chief Finance Officer). ALCO is responsible for management of the structure of the Group's assets and liabilities, setting marginal interest rates, setting market risk limits, and approving the methodology for market risk management.

Market risk is managed by the Treasury Department and Financial Risk Department of the Group. The Financial Risk Department estimates the Group's exposure to market risk, and calculates and monitor market risk limits: Value-at risk open position limits, interest-sensitivity limits and stop-loss limits. The Treasury Department manages open positions within the established limits whilst seeking to obtain the maximum profit for the Group.

**Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's net income for the period and equity to changes in securities prices based on positions existing as at 31 March 2009 and 31 December 2008 and a simplified scenario of a 5% change in all securities prices is as follows:

|                                  | 31 March 2009         |                   | 31 December 2008      |                   |
|----------------------------------|-----------------------|-------------------|-----------------------|-------------------|
|                                  | Net income<br>RUB'000 | Equity<br>RUB'000 | Net income<br>RUB'000 | Equity<br>RUB'000 |
| 5% increase in securities prices | 9 892                 | 55 776            | 9 892                 | 62 472            |
| 5% decrease in securities prices | (9 892)               | (55 776)          | (9 892)               | (62 472)          |

**Currency risk**

Currency risk is the risk of financial losses as a result of a change in the exchange rates of foreign currencies and the prices of precious metals.

The Group may be exposed to currency risk due to the currency gap between assets and liabilities.

As at 31 March 2009 the Group had the following foreign currency positions:

|   | <b>Roubles</b>      | <b>USD dollars</b> | <b>Other</b>       | <b>Total</b>       |
|---|---------------------|--------------------|--------------------|--------------------|
|   | <b>RUB'000</b>      | <b>RUB'000</b>     | <b>currencies</b>  | <b>RUB'000</b>     |
|   | <b>RUB'000</b>      | <b>RUB'000</b>     | <b>RUB'000</b>     | <b>RUB'000</b>     |
| <b>Assets</b>   |                     |                    |                    |                    |
| Cash and cash equivalents   | 3 349 619           | 26 985 708         | 18 492 665         | <b>48 827 992</b>  |
| Mandatory cash balances with the Central Bank of the Russian Federation | 270 502             | -                  | -                  | <b>270 502</b>     |
| Placements with banks and other financial institutions                  | 1 241 450           | 584 469            | -                  | <b>1 825 919</b>   |
| Financial instruments at fair value through profit or loss              | 4 617 284           | 1 418 991          | -                  | <b>6 036 275</b>   |
| Loans to customers  | 110 376 387         | 7 935 244          | 2 443 241          | <b>120 754 872</b> |
| Financial instruments available-for-sale                                | 3 751 470           | 768 841            | 1 248              | <b>4 521 559</b>   |
| Financial instruments held-to-maturity                                  | 6 300 665           | -                  | -                  | <b>6 300 665</b>   |
| Assets for sale   | 1 339 582           | -                  | -                  | <b>1 339 582</b>   |
| Property and equipment  | 4 932 040           | -                  | -                  | <b>4 932 040</b>   |
| Other assets  | 880 830             | 85 713             | 1 732              | <b>968 275</b>     |
| Goodwill  | 6 494 241           | -                  | -                  | <b>6 494 241</b>   |
| Deferred tax asset  | 445 981             | -                  | -                  | <b>445 981</b>     |
| <b>Total assets</b>   | <b>144 000 051</b>  | <b>37 778 966</b>  | <b>20 938 886</b>  | <b>202 717 903</b> |
| <b>Liabilities</b>  |                     |                    |                    |                    |
| Financial instruments at fair value through profit or loss              | 170 858             | -                  | -                  | <b>170 858</b>     |
| Deposits and balances from banks and other financial institutions       | 29 045 176          | 17 178 236         | 1 525 848          | <b>47 749 260</b>  |
| Amounts payable under sale and repurchase agreements                    | 1 323 926           | -                  | -                  | <b>1 323 926</b>   |
| Current accounts and deposits from customers                            | 45 249 276          | 10 979 353         | 6 594 167          | <b>62 822 796</b>  |
| Debt securities in issue  | 23 824 337          | 7 690 740          | 22 781 885         | <b>54 296 962</b>  |
| Subordinated debt   | 22 000              | 7 293 388          | -                  | <b>7 315 388</b>   |
| Other liabilities   | 803 866             | 34 638             | 1 597              | <b>840 101</b>     |
| <b>Total liabilities</b>  | <b>100 439 439</b>  | <b>43 176 355</b>  | <b>30 903 497</b>  | <b>174 519 291</b> |
| <b>Net balance sheet position as of 31 March 2009</b>                   | <b>43 560 612</b>   | <b>(5 397 389)</b> | <b>(9 964 611)</b> | <b>28 198 612</b>  |
| <b>Net off-balance sheet position as of 31 March 2009</b>               | <b>(14 593 419)</b> | <b>5 114 400</b>   | <b>9 479 019</b>   | <b>-</b>           |
| <b>Net position as of 31 March 2009</b>                                 | <b>28 967 193</b>   | <b>(282 989)</b>   | <b>(485 592)</b>   | <b>28 198 612</b>  |
| <b>Net position as of 31 December 2008</b>                              | <b>28 015 815</b>   | <b>(85 531)</b>    | <b>112 257</b>     | <b>28 042 541</b>  |

The net RUB position substantially represents the Bank's net equity, which is denominated in RUB.

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of the Group's net income for the period and equity to changes in the foreign currency exchange rates based on positions existing as at 31 March 2009 and 31 December 2008 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows.

|                                    | 31 March 2009         |                   | 31 December 2008      |                   |
|------------------------------------|-----------------------|-------------------|-----------------------|-------------------|
|                                    | Net income<br>RUB'000 | Equity<br>RUB'000 | Net income<br>RUB'000 | Equity<br>RUB'000 |
| 5% appreciation of USD against RUB | (11 320)              | (11 320)          | (3 421)               | (3 421)           |
| 5% depreciation of USD against RUB | 11 320                | 11 320            | 3 421                 | 3 421             |
| 5% appreciation of EUR against RUB | (19 847)              | (19 847)          | 3 649                 | 3 649             |
| 5% depreciation of EUR against RUB | 19 847                | 19 847            | (3 649)               | (3 649)           |

**Interest rate risk**

Interest rate risk is the risk that movements in interest rates will affect the Group's income 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.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

*Interest rate reprising risk*

An analysis of sensitivity of the Group's net income for the period and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 March 2009 and 31 December 2008 is as follows.

|                      | 31 March 2009         |                   | 31 December 2008      |                   |
|----------------------|-----------------------|-------------------|-----------------------|-------------------|
|                      | Net income<br>RUB'000 | Equity<br>RUB'000 | Net income<br>RUB'000 | Equity<br>RUB'000 |
| 100 bp parallel rise | (116 689)             | (116 689)         | (21 214)              | (21 214)          |
| 100 bp parallel fall | 116 689               | 116 689           | 21 214                | 21 214            |

*Fair value interest rate risk*

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and financial assets available for sale due to changes in the interest rates based on positions existing as at 31 March 2009 and 31 December 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows.

|                      | 31 March 2009         |                   | 31 December 2008      |                   |
|----------------------|-----------------------|-------------------|-----------------------|-------------------|
|                      | Net income<br>RUB'000 | Equity<br>RUB'000 | Net income<br>RUB'000 | Equity<br>RUB'000 |
| 100 bp parallel rise | 6 316                 | 11 781            | (47 327)              | (59 926)          |
| 100 bp parallel fall | (6 316)               | (11 781)          | 47 327                | 59 926            |

The table below shows the interest bearing assets and liabilities of the Group and the corresponding average effective interest rates as at 31 March 2009 and 31 December 2008.

|   | <b>Value<br/>RUB'000</b> | <b>31 March<br/>2009<br/>Average<br/>effective<br/>interest rate</b> | <b>Value<br/>RUB'000</b> | <b>31 March<br/>2009<br/>Average<br/>effective<br/>interest rate</b> |
|---|--------------------------|--|--------------------------|--|
| <b>Interest bearing assets</b>  |                          |  |                          |  |
| <b>Cash and cash equivalents</b>  |                          |  |                          |  |
| <i>Correspondent accounts and overnight placements with other Banks</i> |                          |  |                          |  |
| - RUB   | 1 036 419                | 0,8%   | 132 535                  | 0,1%   |
| - foreign currency  | 41 298 194               | -  | 4 710 733                | -  |
| <b>Placements with banks and other financial institutions</b>           |                          |  |                          |  |
| - RUB   | 1 219 865                | 11,8%  | 246 968                  | 4,1%   |
| - foreign currency  | 582 358                  | 1,9%   | 2 403 557                | 2,5%   |
| <b>Financial instruments at fair value through profit or loss</b>       |                          |  |                          |  |
| - RUB   | 76 813                   | 9,3%   | 220 483                  | 9,3%   |
| - foreign currency  | 1 418 990                | 7,5%   | 1 221 841                | 7,6%   |
| <b>Financial instruments available-for-sale</b>                         |                          |  |                          |  |
| - RUB   | 1 819 223                | 15,0%  | -                        | -  |
| - foreign currency  | 768 841                  | 9,3%   | 840 024                  | 9,1%   |
| <b>Financial instruments held to maturity</b>                           |                          |  |                          |  |
| - RUB   | 6 300 665                | 11,2%  | 6 286 814                | 13,2%  |
| <b>Loans to customers</b>   |                          |  |                          |  |
| <i>Loans to corporate entities</i>                                      |                          |  |                          |  |
| - RUB   | 44 572 179               | 15,8%  | 45 796 596               | 15,1%  |
| - foreign currency  | 10 311 856               | 12,7%  | 11 476 512               | 12,8%  |
| <i>Loans to individuals</i>   |                          |  |                          |  |
| Originated by the Group   |                          |  |                          |  |
| - RUB   | 56 122 898               | 24,8%  | 63 119 890               | 26,5%  |
| - foreign currency  | 66 629                   | 10,7%  | 90 048                   | 11,6%  |
| Purchased by the Group  |                          |  |                          |  |
| - RUB   | 9 681 310                | 18,5%  | 11 203 258               | 17,4%  |



|  | Value<br>RUB'000 | 31 March<br>2009<br>Average<br>effective<br>interest rate | Value<br>RUB'000 | 31 March<br>2009<br>Average<br>effective<br>interest rate |
|--|------------------|---|------------------|---|
| <b>Interest bearing liabilities</b>                                      |                  |   |                  |   |
| <b>Deposits and balances from banks and other financial institutions</b> |                  |   |                  |   |
| <i>Vostro accounts</i>   |                  |   |                  |   |
| - RUB  | 33 420           | -   | 197 146          | -   |
| - foreign currency   | 61 093           | -   | 123 835          | -   |
| <i>Term deposits and syndicated debt</i>                                 |                  |   |                  |   |
| - RUB  | 29 011 756       | 13,9%   | 18 265 293       | 12,4%   |
| - foreign currency   | 18 642 991       | 3,0%  | 18 807 903       | 3,6%  |
| <b>Amounts payable under sale and repurchase agreements</b>              |                  |   |                  |   |
| - RUB  | 1 323 926        | 11,0%   | 3 806 916        | 9,7%  |
| <b>Current accounts and deposits from customers</b>                      |                  |   |                  |   |
| - RUB  | 38 504 808       | 12,2%   | 42 838 208       | 11,7%   |
| - foreign currency   | 16 360 772       | 6,3%  | 15 806 360       | 7,6%  |
| <b>Debt securities in issue</b>  |                  |   |                  |   |
| - RUB  | 23 824 337       | 9,9%  | 26 204 581       | 9,8%  |
| - foreign currency   | 30 472 625       | 8,0%  | 38 029 324       | 7,9%  |
| <b>Subordinated debt</b>   |                  |   |                  |   |
| - RUB  | 22 000           | 11,3%   | 22 000           | 11,3%   |
| - foreign currency   | 7 293 388        | 12,6%   | 6 187 672        | 12,6%   |

The following table shows information on the Group's exposure to interest rate risks as at 31 March 2009. The table includes assets and liabilities at their carrying value, as at the earlier of the following two dates: maturity or the date of repricing of interest rates. The Group has estimated the maturity dates for mortgage loans (long-term loans) based on early payment statistical data. Thus, developing the schedule of mortgage loan prepayments the Group used an "acceleration of redemption ratio" calculated on the basis of statistical analysis of ratio of actual payments of principal amount of mortgage loans compared to the contracted amounts. The period used for statistical data was for 12 month before the reporting date. The period used for statistical data was for 12 month before the reporting date.

|   | <b>Less than<br/>1 month<br/>RUB'000</b> | <b>1 to 6<br/>months<br/>RUB'000</b> | <b>6 to 12<br/>months<br/>RUB'000</b> | <b>1 to 5<br/>years<br/>RUB'000</b> | <b>More than<br/>5 years<br/>RUB'000</b> | <b>Non-interest<br/>bearing<br/>RUB'000</b> | <b>Overdue<br/>RUB'000</b> | <b>Total<br/>RUB'000</b> |
|---|--|--------------------------------------|---------------------------------------|-------------------------------------|--|---|----------------------------|--------------------------|
| <b>Assets</b>   |  |                                      |                                       |                                     |  |   |                            |                          |
| Cash and cash equivalents   | 42 334 612                               | -                                    | -                                     | -                                   | -  | 6 493 380                                   | -                          | <b>48 827 992</b>        |
| Mandatory cash balances with the Central Bank of the Russian Federation | -  | -                                    | -                                     | -                                   | -  | 270 502                                     | -                          | <b>270 502</b>           |
| Placements with banks and other financial institutions                  | 1 383 262                                | 415 493                              | -                                     | 3 468                               | -  | 23 696                                      | -                          | <b>1 825 919</b>         |
| Financial instruments at fair value through profit or loss              | -  | 28 107                               | 97 959                                | 407 071                             | 962 666                                  | 4 540 472                                   | -                          | <b>6 036 275</b>         |
| Loans to customers  | 10 086 548                               | 19 100 165                           | 14 374 768                            | 54 640 461                          | 10 394 587                               | -   | 12 158 343                 | <b>120 754 872</b>       |
| Financial instruments available-for-sale                                | -  | -                                    | 1 890 566                             | 697 498                             | -  | 1 933 495                                   | -                          | <b>4 521 559</b>         |
| Financial instruments held-to-maturity                                  | 1 524 181                                | 186 872                              | 4 589 612                             | -                                   | -  | -   | -                          | <b>6 300 665</b>         |
| Assets for sale   | -  | -                                    | -                                     | -                                   | -  | 1 339 582                                   | -                          | <b>1 339 582</b>         |
| Property and equipment  | -  | -                                    | -                                     | -                                   | -  | 4 932 040                                   | -                          | <b>4 932 040</b>         |
| Other assets  | -  | -                                    | -                                     | -                                   | -  | 968 275                                     | -                          | <b>968 275</b>           |
| Goodwill  | -  | -                                    | -                                     | -                                   | -  | 6 494 241                                   | -                          | <b>6 494 241</b>         |
| Deferred tax asset  | -  | -                                    | -                                     | -                                   | -  | 445 981                                     | -                          | <b>445 981</b>           |
| <b>Total assets</b>   | <b>55 328 603</b>                        | <b>19 730 637</b>                    | <b>20 952 905</b>                     | <b>55 748 498</b>                   | <b>11 357 253</b>                        | <b>27 441 664</b>                           | <b>12 158 343</b>          | <b>202 717 903</b>       |

Overdue amounts represent the full balances of overdue customers after provisions.

|  | Less than<br>1 month<br>RUB'000 | 1 to 6<br>months<br>RUB'000 | 6 to 12<br>months<br>RUB'000 | 1 to 5<br>years<br>RUB'000 | More than<br>5 years<br>RUB'000 | Non-interest<br>bearing<br>RUB'000 | Overdue<br>RUB'000 | Total<br>RUB'000   |
|--|---------------------------------|-----------------------------|------------------------------|----------------------------|---------------------------------|------------------------------------|--------------------|--------------------|
| <b>Liabilities</b>   |                                 |                             |                              |                            |                                 |                                    |                    |                    |
| Financial instruments at fair value through profit or loss   | -                               | -                           | -                            | -                          | -                               | 170 858                            | -                  | 170 858            |
| Deposits and balances from banks and other financial institutions                                    | 3 947 962                       | 41 513 834                  | 253 810                      | 2 033 654                  | -                               | -                                  | -                  | 47 749 260         |
| Amounts payable under sale and repurchase agreements   | 1 323 926                       | -                           | -                            | -                          | -                               | -                                  | -                  | 1 323 926          |
| Current accounts and deposits from customers   | 2 997 310                       | 20 688 381                  | 14 243 013                   | 16 911 272                 | 25 604                          | 7 957 216                          | -                  | 62 822 796         |
| Debt securities in issue   | 6 871 350                       | 11 747 030                  | 6 338 420                    | 29 340 162                 | -                               | -                                  | -                  | 54 296 962         |
| Subordinated debt  | 452 402                         | 1 406 332                   | -                            | 5 456 654                  | -                               | -                                  | -                  | 7 315 388          |
| Other liabilities  | -                               | -                           | -                            | -                          | -                               | 840 101                            | -                  | 840 101            |
| <b>Total liabilities</b>   | <b>15 592 950</b>               | <b>75 355 577</b>           | <b>20 835 243</b>            | <b>53 741 742</b>          | <b>25 604</b>                   | <b>8 968 175</b>                   | <b>-</b>           | <b>174 519 291</b> |
| <b>Net balance sheet position on interest bearing assets and liabilities as of 31 March 2009</b>     | <b>39 735 653</b>               | <b>(55 624 940)</b>         | <b>117 662</b>               | <b>2 006 756</b>           | <b>11 331 649</b>               | <b>18 473 489</b>                  | <b>12 158 343</b>  | <b>28 198 612</b>  |
| <b>Net off-balance sheet position on interest bearing assets and liabilities as of 31 March 2009</b> | <b>-</b>                        | <b>(6 961 000)</b>          | <b>-</b>                     | <b>6 961 000</b>           | <b>-</b>                        | <b>-</b>                           | <b>-</b>           | <b>-</b>           |
| <b>Net position on interest bearing assets and liabilities as of 31 March 2009</b>                   | <b>39 735 653</b>               | <b>(62 585 940)</b>         | <b>117 662</b>               | <b>8 967 756</b>           | <b>11 331 649</b>               | <b>18 473 489</b>                  | <b>12 158 343</b>  | <b>28 198 612</b>  |
| <b>Net position on interest bearing assets and liabilities as of 31 December 2008</b>                | <b>(4 045 484)</b>              | <b>(54 649 505)</b>         | <b>7 447 632</b>             | <b>6 153 671</b>           | <b>11 840 541</b>               | <b>50 582 521</b>                  | <b>10 713 165</b>  | <b>28 042 541</b>  |

### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments.

Liquidity risk exists when the maturities of assets and liabilities do not match. It should be noted that it is unusual for financial institutions ever to be completely matched since the business transacted is often of an uncertain term. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group's liquidity risk management policy is determined by ALCO, the Treasury Department manages the Bank's current liquidity ratio, and the Financial Risk Department assesses liquidity risks.

The Group takes the following actions for the purposes of liquidity risk management:

- diversification of the structure of assets and liabilities;
- forecasts of all inflows and planning of all cash flows by major currencies over the next 30 calendar days;
- forming a portfolio of highly liquid securities sufficient for maintaining a stable liquidity position;
- development and implementation of plans for liquidity management in extreme situations;
- monitoring of conformity of liquidity ratios to the requirements of the regulator – Central Bank of the Russian Federation;
- measures to set or increase credit lines for the Group by counterparty banks to provide a reserve source for maintaining liquidity on the interbank market.

Liquidity risk is estimated through gap-analysis (calculation of liquidity gap between assets and liabilities by call dates and maturity) and setting limits on cumulative liquidity gap. Stress-testing of the Group's liquidity is also performed. The liquidity risk estimates are reported to Group management and ALCO.

The following tables show 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. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 March 2009 were as follows.

|   | <b>Demand and<br/>less than<br/>1 month<br/>RUB'000</b> | <b>From 1 to<br/>6 months<br/>RUB'000</b> | <b>From 6 to<br/>12 months<br/>RUB'000</b> | <b>From 1 to<br/>5 years<br/>RUB'000</b> | <b>More than<br/>5 years<br/>RUB'000</b> | <b>Total gross<br/>nominal<br/>outflow/<br/>(inflow)<br/>RUB'000</b> | <b>Carrying<br/>amount<br/>RUB'000</b> |
|---|---|---|--|--|--|--|--|
| <b>Non-derivative liabilities</b>                                 |   |   |  |  |  |  |  |
| Deposits and balances from banks and other financial institutions | 3 726 136   | 39 904 947                                | 847 515                                    | 4 847 548                                | 294 960                                  | 49 621 106   | 47 749 260                             |
| Amounts payable under sale and repurchase agreements              | 1 323 926   | -   | -  | -  | -  | 1 323 926  | 1 323 926                              |
| Current accounts and deposits from customers                      | 11 214 388  | 20 270 341                                | 16 572 193                                 | 19 700 982                               | 31 993                                   | 67 789 897   | 62 822 796                             |
| Debt securities in issue  | 6 919 024   | 12 328 657                                | 7 543 597                                  | 33 573 530                               | -  | 60 364 808   | 54 296 962                             |
| Subordinated debt   | 31 537  | 395 056                                   | 429 034                                    | 8 863 862                                | -  | 9 719 489  | 7 315 388                              |
| Other liabilities   | 651 913   | 64 160                                    | 3 494                                      | 15 973                                   | 104 561                                  | 840 101  | 840 101                                |
| <b>Derivative liabilities</b>                                     |   |   |  |  |  |  |  |
| Inflow  | (5 223 379)   | (1 695 739)                               | (1 580 056)                                | (12 365 491)                             | -  | (20 864 665)   | (4 293 166)                            |
| Outflow   | 5 224 055   | 1 059 552                                 | 2 653 171                                  | 9 789 944                                | -  | 18 726 722   | 170 858                                |
| <b>Total</b>  | <b>23 867 600</b>                                       | <b>72 326 974</b>                         | <b>26 468 948</b>                          | <b>64 426 348</b>                        | <b>431 514</b>                           | <b>187 521 384</b>   | <b>170 226 125</b>                     |
| <b>Loan commitments</b>   | <b>3 914 433</b>  | <b>1 300 836</b>                          | <b>1 491 620</b>                           | <b>1 395 359</b>                         | <b>427 373</b>                           | <b>8 529 621</b>   | <b>8 529 621</b>                       |

The gross undiscounted cash flows of the Group as at 31 December 2008 were as follows.

|   | <b>Demand and<br/>less than<br/>1 month<br/>RUB'000</b> | <b>From 1 to<br/>6 months<br/>RUB'000</b> | <b>From 6 to<br/>12 months<br/>RUB'000</b> | <b>From 1 to<br/>5 years<br/>RUB'000</b> | <b>More than<br/>5 years<br/>RUB'000</b> | <b>Total gross<br/>nominal<br/>outflow/<br/>(inflow)<br/>RUB'000</b> | <b>Carrying<br/>amount<br/>RUB'000</b> |
|---|---|---|--|--|--|--|--|
| <b>Non-derivative liabilities</b>                                 |   |   |  |  |  |  |  |
| Deposits and balances from banks and other financial institutions | 1 483 907   | 22 615 164                                | 10 278 290                                 | 4 263 862                                | 448 855                                  | 39 090 078   | 37 394 177                             |
| Amounts payable under sale and repurchase agreements              | 3 806 916   | -   | -  | -  | -  | 3 806 916  | 3 806 916                              |
| Current accounts and deposits from customers                      | 19 135 173  | 23 298 474                                | 11 694 058                                 | 18 420 468                               | 32 946                                   | 72 581 119   | 67 448 987                             |
| Debt securities in issue  | 510 201   | 21 248 133                                | 3 432 549                                  | 47 196 866                               | -  | 72 387 749   | 64 233 905                             |
| Subordinated debt   | 64 772  | 306 865                                   | 357 974                                    | 7 961 025                                | -  | 8 690 636  | 6 209 672                              |
| Other liabilities   | 473 891   | 37 019                                    | 3 600                                      | 17 740                                   | 144 631                                  | 676 881  | 676 881                                |
| <b>Derivative liabilities</b>                                     |   |   |  |  |  |  |  |
| Inflow  | (5 223 379)   | (1 695 739)                               | (1 580 056)                                | (12 365 491)                             | -  | (20 864 665)   | (4 293 166)                            |
| Outflow   | 5 224 055   | 1 059 552                                 | 2 653 171                                  | 9 789 944                                | -  | 18 726 722   | 170 859                                |
| <b>Total</b>  | <b>35 343 669</b>                                       | <b>71 248 285</b>                         | <b>18 357 392</b>                          | <b>62 311 847</b>                        | <b>431 456</b>                           | <b>187 692 649</b>   | <b>170 226 126</b>                     |
| <b>Loan commitments</b>   | <b>3 914 433</b>  | <b>1 300 836</b>                          | <b>1 491 620</b>                           | <b>1 395 359</b>                         | <b>427 373</b>                           | <b>8 529 621</b>   | <b>8 529 621</b>                       |

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with requirements of the Central Bank of Russia. The Group was in compliance with these ratios during Q1 2008 and Q1 2009.

The following table shows the undiscounted cash flows on the Group's financial assets and liabilities 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 asset and liability. The following information is used by the Group to manage its liquidity risk.

|   | <b>Less than<br/>1 month<br/>RUB'000</b> | <b>From 1 to<br/>6 months<br/>RUB'000</b> | <b>From 6 to<br/>12 months<br/>RUB'000</b> | <b>From 1 to<br/>5 years<br/>RUB'000</b> | <b>More than<br/>5 years<br/>RUB'000</b> | <b>No maturity<br/>RUB'000</b> | <b>Overdue<br/>RUB'000</b> | <b>Total<br/>RUB'000</b> |
|---|--|---|--|--|--|--------------------------------|----------------------------|--------------------------|
| <b>Assets</b>   |  |   |  |  |  |                                |                            |                          |
| Cash and cash equivalents   | 48 827 992                               | -   | -  | -  | -  | -                              | -                          | <b>48 827 992</b>        |
| Mandatory cash balances with the Central Bank of the Russian Federation | 46 695                                   | 79 549                                    | 65 604                                     | 78 544                                   | 110                                      | -                              | -                          | <b>270 502</b>           |
| Placements with banks and other financial institutions                  | 1 417 257                                | 419 931                                   | 151  | 4 838                                    | -  | -                              | -                          | <b>1 842 177</b>         |
| Financial instruments at fair value through profit or loss              | 1 495 804                                | -   | -  | -  | -  | 247 305                        | -                          | <b>1 743 109</b>         |
| Loans to customers  | 11 471 260                               | 24 956 923                                | 19 591 200                                 | 67 693 573                               | 21 701 093                               | -                              | 27 316 752                 | <b>172 730 801</b>       |
| Financial instruments available-for-sale                                | 3 563                                    | 177 513                                   | 4 697 847                                  | -  | -  | 1 898                          | -                          | <b>4 880 821</b>         |
| Financial instruments held-to-maturity                                  | 3 146 669                                | 474 891                                   | 3 348 828                                  | -  | -  | -                              | -                          | <b>6 970 388</b>         |
| Assets for sale   | -  | -   | 1 339 582                                  | -  | -  | -                              | -                          | <b>1 339 582</b>         |
| Property and equipment  | -  | -   | -  | -  | -  | 4 932 040                      | -                          | <b>4 932 040</b>         |
| Other assets  | 155 100                                  | 446 767                                   | 117 298                                    | 33 286                                   | 11 440                                   | 189 407                        | 14 977                     | <b>968 275</b>           |
| Goodwill  | -  | -   | -  | -  | -  | 6 494 241                      | -                          | <b>6 494 241</b>         |
| Deferred tax asset  | -  | -   | -  | -  | -  | 445 981                        | -                          | <b>445 981</b>           |
| <b>Total assets</b>   | <b>66 564 340</b>                        | <b>26 555 574</b>                         | <b>29 160 510</b>                          | <b>67 810 241</b>                        | <b>21 712 643</b>                        | <b>12 310 872</b>              | <b>27 331 729</b>          | <b>251 445 909</b>       |

Overdue amounts represent the full balances of overdue customers after provisions.

|   | <b>Less than<br/>1 month<br/>RUB'000</b> | <b>From 1 to<br/>6 months<br/>RUB'000</b> | <b>From 6 to<br/>12 months<br/>RUB'000</b> | <b>From 1 to<br/>5 years<br/>RUB'000</b> | <b>More than<br/>5 years<br/>RUB'000</b> | <b>No maturity<br/>RUB'000</b> | <b>Overdue<br/>RUB'000</b> | <b>Total<br/>RUB'000</b> |
|---|--|---|--|--|--|--------------------------------|----------------------------|--------------------------|
| <b>Liabilities</b>  |  |   |  |  |  |                                |                            |                          |
| Deposits and balances from banks and other financial institutions | 3 726 136                                | 39 904 947                                | 847 515                                    | 4 847 548                                | 294 960                                  | -                              | -                          | <b>49 621 106</b>        |
| Amounts payable under sale and repurchase agreements              | 1 323 926                                | -   | -  | -  | -  | -                              | -                          | <b>1 323 926</b>         |
| Current accounts and deposits from customers                      | 11 214 388                               | 20 270 341                                | 16 572 193                                 | 19 700 982                               | 31 993                                   | -                              | -                          | <b>67 789 897</b>        |
| Debt securities in issue  | 6 919 024                                | 12 328 657                                | 7 543 597                                  | 33 573 530                               | -  | -                              | -                          | <b>60 364 808</b>        |
| Subordinated debt   | 31 537                                   | 395 056                                   | 429 034                                    | 8 863 862                                | -  | -                              | -                          | <b>9 719 489</b>         |
| Other liabilities   | 651 913                                  | 64 160                                    | 3 494                                      | 15 973                                   | 104 561                                  |                                |                            | <b>840 101</b>           |
| <b>Derivatives</b>  |  |   |  |  |  |                                |                            |                          |
| Inflow  | (5 223 379)                              | (1 695 739)                               | (1 580 056)                                | (12 365 491)                             | -  | -                              | -                          | (20 864 665)             |
| Outflow   | 5 224 055                                | 1 059 552                                 | 2 653 171                                  | 9 789 944                                | -  | -                              | -                          | 18 726 722               |
| <b>Total liabilities</b>  | <b>23 867 600</b>                        | <b>72 326 974</b>                         | <b>26 468 948</b>                          | <b>64 426 348</b>                        | <b>431 514</b>                           | <b>-</b>                       | <b>-</b>                   | <b>187 521 384</b>       |
| <b>Net gap</b>  | <b>42 696 740</b>                        | <b>(45 771 400)</b>                       | <b>2 691 562</b>                           | <b>3 383 893</b>                         | <b>21 281 129</b>                        | <b>12 310 872</b>              | <b>27 331 729</b>          | <b>63 924 525</b>        |
| <b>Cumulative gap as at 31 March 2009</b>                         | <b>42 696 740</b>                        | <b>(3 074 660)</b>                        | <b>(383 098)</b>                           | <b>3 000 795</b>                         | <b>24 281 924</b>                        | <b>36 592 796</b>              | <b>63 924 525</b>          |                          |
| <b>Cumulative gap as at 31 December 2008</b>                      | <b>38 154 427</b>                        | <b>4 076 476</b>                          | <b>2 413 684</b>                           | <b>9 159 906</b>                         | <b>34 996 552</b>                        | <b>48 609 644</b>              | <b>67 740 591</b>          |                          |



### **Operational risk**

Operational risk is the risk of financial losses to the Group due to:

- the mismatch of internal business processes to the nature and scale of the Group's activities;
- violation by Group officials and/or other parties of the internal regulations of the Group and the laws of the Russian Federation (due to incompetence, accidental or deliberate actions or inaction);
- disparity (insufficiency) of the functional capabilities (characteristics) of the information, technical and other systems used by the Group and/or their failure (breakdown);
- impact of external events;
- impact of legal risk factors.

The Group is in the process of development and implementation of an operational risk framework which incorporates the following elements:

- identification of operational risk (including concentration zones);
- assessment (determining materiality for the Group);
- reducing the Group's exposure to operational risk;
- monitoring of operational risk;
- control over operational risk.

The Group uses the following methods for identifying operational risk:

- systems of self-assessment of operational risk by Group divisions;
- collection of information on losses related to operational risk, their systemization and storage;
- analysis of the reports of the Group's internal and external auditors and supervisory bodies;
- analysis of statistical information on losses as a result of realization of operational risk in other credit institutions.

The Group has identified the following as the main methods for assessing the level of operational risk:

- use of a system of key risk indicators (under development);
- statistical analysis of distribution of actual losses (based on an analysis of databases on operational losses);
- modeling/scenario analysis (under development).

Exposure to operational risk is reduced through the use of the following measures:

- regulation, standardization and improvement of the Group's business processes to reduce exposure to operational risk;
- distribution of equity to cover possible losses from the realization of operational risk (under development);
- organization of a system for insuring operational risk (comprehensive insurance contract "BBB");
- improving the information security system (access control to computerized banking products, control over security of computer networks, etc.);
- implementation of a quality management system;
- improvement of the system of internal controls.

The procedures for monitoring and control over operational risks include the following:

- procedures for control over key operational risks;
- monitoring of the quality of business processes;

- control over increasing operational loss limits pursuant to the Group's internal documents;
- regular formation of operational risk cards;
- preparation of reports for Group management.

## 12 Contingencies

### *Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### *Litigation*

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 of the Group.

### *Taxation contingencies*

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. 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. 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.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 13 Related party transactions

There is no ultimate controlling party as none of the Group's ultimate shareholders own more than 50% of the Group.

The shareholders' structure of the Group is as follows:

| Name of shareholder                          | Share in the share capital<br>31 March 2009 |
|--|---|
| Kim Igor Vladimirovich                       | 29,88%                                      |
| EBRD   | 13,82%                                      |
| AVINDALE INVESTMENTS S.A.                    | 8,80%                                       |
| Bekarev Andrey Alexandrovich                 | 6,51%                                       |
| Taranov Alexandr Alexandrovich               | 6,51%                                       |
| DEG  | 5,01%                                       |
| ZAO DKK (nominal shareholder)                | 10,07%                                      |
| ZAO ING Bank (Eurasia) (nominal shareholder) | 8,12%                                       |
| Other  | 11,28%                                      |

For the purposes of these interim consolidated condensed 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 Standards 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.

The outstanding balances as at 31 March 2009 with related parties are as follows:

| RUB'000  | 31 March 2009 |                          |   |        | Total            |
|--|---------------|--------------------------|---|--------|------------------|
|  | Shareholders  | Key management personnel | Companies with significant shareholders in common | Other  |                  |
| <b>Placements with banks and other financial institutions</b>            |               |                          |   |        |                  |
| Term deposits  | -             | -                        | 1 128 918   | -      | <b>1 128 918</b> |
| <b>Loans to customers</b>  |               |                          |   |        |                  |
| Loans outstanding (gross)  | 14 625        | 76 658                   | 751 984   | 689    | <b>843 956</b>   |
| Loan impairment  | -             | (1 090)                  | (12 413)  | (41)   | <b>(13 544)</b>  |
| <b>Other assets</b>  |               |                          |   |        |                  |
| Investments in unconsolidated subsidiary                                 | -             | -                        | -   | 162    | <b>162</b>       |
| <b>Deposits and balances from banks and other financial institutions</b> |               |                          |   |        |                  |
| Term placements of other banks   | 2 151 702     | -                        | -   | -      | <b>2 151 702</b> |
| Correspondent accounts of other banks                                    | -             | -                        | 66 948  | -      | <b>66 948</b>    |
| <b>Current accounts and deposits from customers</b>                      |               |                          |   |        |                  |
| Term deposits  | 11 223        | 2 117                    | 113 698   | 1 598  | <b>128 636</b>   |
| Current/demand accounts  | 458 873       | 1 102 117                | 57 133  | 42 799 | <b>1 670 922</b> |
| <b>Subordinated debt</b>   | 688 154       | -                        | 22 000  | -      | <b>710 154</b>   |
| <b>Credit related commitments</b>  | 19 692        | 3 269                    | 302   | 23     | <b>23 286</b>    |
| <b>Guarantees issued</b>   | -             | -                        | 423 669   | -      | <b>423 669</b>   |
| <b>Guarantees received</b>   | 20 343        | 27 808                   | 15 324  | 47     | <b>63 522</b>    |

As at 31 March 2009 the Group purchased consumer finance loans to individuals from a related party at their book value which have an outstanding balance of RUB 8,401,609 thousand (31 December 2007: RUB 9,943,050 thousand). Loans continue to be serviced by this related party. The Group pays a service commission per month to this related party.

In respect of the loans purchased, the related party has provided a renewable guarantee to the Group of RUB 115,000 thousand (31 December 2008: RUB 115,000 thousand) in respect of principal and interest amounts. Should the full amount of the guarantee be required to be called on, the seller is obligated to either provide further guarantees, in increments of RUB 115,000 thousand (31 December 2008: RUB 115,000 thousand), as required up to the full value of the outstanding loans, or to pay a penalty of 2% of the outstanding balance of the loan portfolio and accrued interest.

As at 31 March 2009 effective interest rates on major related parties transactions were as follows:

|   | 31 March 2009 |                  |
|---|---------------|------------------|
|   | RUB           | Foreign currency |
| <b>Assets</b>   |               |                  |
| Placements with banks and other financial institutions            | 12,50%        | 2,55%            |
| Loans to customers  | 18,22%        | 11,00%           |
| <b>Liabilities</b>  |               |                  |
| Deposits and balances from banks and other financial institutions | -             | 6,57%            |
| Current accounts and deposits from customers                      | 12,06%        | 11,17%           |
| Subordinated debt   | 11,32%        | 4,09%            |

As at 31 March 2009, the results of transactions with related parties are as follows:

| RUB'000   | 31 March 2009 |                          |   |         |          |
|---|---------------|--------------------------|---|---------|----------|
|   | Shareholders  | Key management personnel | Companies with significant shareholders in common | Other   | Total    |
| Interest income on loans to customers   | 276           | 3 766                    | 336   | 29      | 4 407    |
| Interest income on placements with banks and other financial institutions             | -             | -                        | 16 614  | -       | 16 614   |
| Interest expense on deposits and balances from banks and other financial institutions | (36 445)      | -                        | -   | -       | (36 445) |
| Interest expense on current accounts and deposits from customers                      | (27)          | -                        | (5 634)   | (106)   | (5 767)  |
| Interest expense on subordinated debt   | (6 808)       | -                        | (617)   | -       | (7 425)  |
| Impairment losses   | -             | 1 003                    | 2 204   | (15)    | 3 192    |
| Net fee and commission income   | 15            | 1                        | 31 772  | 17      | 31 805   |
| Other operating income  | 18 105        | -                        | 1 368   | 933     | 20 406   |
| General administrative expenses   | (70)          | -                        | (87 752)  | (3 255) | (91 077) |
| Occupancy   | -             | -                        | (1 024)   | -       | (1 024)  |

During Q1 2009 the total remuneration of the key management personnel of the Group, including discretionary compensation, amounted to RUB 69,457 thousand (31 December 2008: RUB 487,374 thousand).

Included in key management personnel are members of the Board of Directors and the Management Board.

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

The outstanding balances as at 31 December 2008 with related parties are as follows:

| RUB'000  | 31 December 2008 |                          |   |        | Total            |
|--|------------------|--------------------------|---|--------|------------------|
|  | Shareholders     | Key management personnel | Companies with significant shareholders in common | Other  |                  |
| <b>Cash and cash equivalents</b>   |                  |                          |   |        |                  |
| Correspondent accounts   | -                | -                        | 67  | -      | <b>67</b>        |
| <b>Placements with banks and other financial institutions</b>            |                  |                          |   |        |                  |
| Term deposits  | -                | -                        | 286 486   | -      | <b>286 486</b>   |
| <b>Loans to customers</b>  |                  |                          |   |        |                  |
| Loans outstanding (gross)  | 12 516           | 119 886                  | 752 586   | 703    | <b>885 691</b>   |
| Loan impairment  | -                | (2 093)                  | (14 617)  | (26)   | <b>(16 736)</b>  |
| <b>Other assets</b>  |                  |                          |   |        |                  |
| Investments in unconsolidated subsidiary                                 | -                | -                        | -   | 162    | <b>162</b>       |
| Settlements with shareholders  | 115 546          | -                        | -   | -      | <b>115 546</b>   |
| <b>Deposits and balances from banks and other financial institutions</b> |                  |                          |   |        |                  |
| Term placements of other banks   | 1 850 376        | -                        | -   | -      | <b>1 850 376</b> |
| Correspondent accounts of other banks                                    | -                | -                        | 308 115   | -      | <b>308 115</b>   |
| <b>Current accounts and deposits from customers</b>                      |                  |                          |   |        |                  |
| Term deposits  | 437 588          | 103 849                  | 55 474  | 43 498 | <b>640 409</b>   |
| Current/demand accounts  | 3 660            | 3 766                    | 161 777   | 2 149  | <b>171 352</b>   |
| <b>Subordinated debt</b>   | 590 806          | -                        | 22 000  | -      | <b>612 806</b>   |
| <b>Credit related commitments</b>  | 17 602           | 4 614                    | 1 000   | 45     | <b>23 261</b>    |
| <b>Guarantees issued</b>   | -                | -                        | 1 882 266   | -      | <b>1 882 266</b> |
| <b>Guarantees received</b>   | 20 343           | 32 132                   | 16 241  | 47     | <b>68 763</b>    |

As at 31 December 2008 effective interest rates on major related parties transactions were as follows:

|   | <b>31 December 2008</b> |                         |
|---|-------------------------|-------------------------|
|   | <b>RUB</b>              | <b>Foreign currency</b> |
| <b>Assets</b>   |                         |                         |
| Placements with banks and other financial institutions            | -                       | 3,51%                   |
| Loans to customers  | 18,17%                  | 11,66%                  |
| <b>Liabilities</b>  |                         |                         |
| Deposits and balances from banks and other financial institutions | -                       | 5,88%                   |
| Current accounts and deposits from customers                      | 11,21%                  | 10,87%                  |
| Subordinated debt   | 11,32%                  | 8,52%                   |

The results of transactions with related parties for Q1 2008 are as follows:

|   | <b>31 March 2008</b> |                                 |  |              |                 |
|---|----------------------|---------------------------------|--|--------------|-----------------|
|   | <b>Shareholders</b>  | <b>Key management personnel</b> | <b>Companies with significant shareholders in common</b> | <b>Other</b> | <b>Total</b>    |
| Interest income on loans to customers   | 188                  | 2 461                           | 12 646   | 28           | <b>15 323</b>   |
| Interest expense on deposits and balances from banks and other financial institutions | (56 890)             | -                               | -  | -            | <b>(56 890)</b> |
| Interest expense on current accounts and deposits from customers                      | (1 370)              | (733)                           | (3 862)  | (396)        | <b>(6 361)</b>  |
| Interest expense on subordinated debt   | (15 951)             | -                               | (691)  | -            | <b>(16 642)</b> |
| Impairment allowance  |                      | 3 843                           | 1 092  | 107          | <b>5 042</b>    |
| Net fee and commission income   | 8                    | -                               | 9 252  | 18           | <b>9 278</b>    |
| Other operating income  | -                    | -                               | 825  | -            | <b>825</b>      |
| Operating expenses  | (49)                 | -                               | (51 929)   | (2 520)      | <b>(54 498)</b> |
| Occupancy   | -                    | -                               | (7 377)  | -            | <b>(7 377)</b>  |