ABH Financial Limited

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

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of ABH Financial Limited:

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

20 April 2009
Moscow, Russian Federation

In thousands of US Dollars	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	3 860 019	2 634 359
Mandatory cash balances with central banks		79 313	308 092
Trading securities	8	588 281	841 457
Repurchase receivables relating to trading securities	8	150 821	534 426
Due from other banks	9	1 837 436	1 916 685
Loans and advances to customers	10	17 969 661	15 330 090
Investments	11	371 676	114 201
Repurchase receivables relating to investments	11	215 070	-
Other financial assets	12	1 194 887	498 003
Other assets	13	371 144	180 417
Premises and equipment	14	389 595	274 526
Deferred tax asset	29	24 483	62 304
TOTAL ASSETS		**27 052 386**	**22 694 560**
LIABILITIES			
Due to other banks	15	7 407 065	2 849 461
Customer accounts	16	12 583 066	12 180 392
Debt securities issued	17	2 390 550	3 178 936
Syndicated and other loans	18	1 063 848	1 354 090
Subordinated debt	19	463 715	526 006
Other financial liabilities	20	832 940	565 594
Other liabilities	21	110 622	128 545
Deferred tax liability	29	39 135	56 839
TOTAL LIABILITIES		**24 890 941**	**20 839 863**
EQUITY			
Share capital	22	944 800	694 800
Fair value reserve for investments available for sale		(44 911)	39
Revaluation reserve for premises		53 201	56 785
Cumulative translation reserve		(359 131)	(217 890)
Retained earnings		1 553 678	1 320 963
Net assets attributable to the Company's equity holders		**2 147 637**	**1 854 697**
Minority interest	**37**	**13 808**	**-**
TOTAL EQUITY		**2 161 445**	**1 854 697**
TOTAL LIABILITIES AND EQUITY		**27 052 386**	**22 694 560**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 20 April 2009 and any further changes require approval of this body.

In thousands of US Dollars	Note	2008	2007
Interest income	23	2 824 291	1 706 243
Interest expense	23	(1 405 733)	(790 211)
Expenses directly attributable to lending operations	23	(36 665)	(17 015)
Net margin from lending operations		**1 381 893**	**899 017**
Provision for loan impairment	9, 10	(956 128)	(222 875)
Net margin after provision for loan impairment		**425 765**	**676 142**
Fee and commission income	24	420 693	318 973
Fee and commission expense	24	(79 754)	(60 606)
Gains less losses arising from trading securities	25	73 523	43 303
Gains less losses arising from foreign currencies and precious metals	25	280 678	18 957
(Losses less gains)/gains less losses arising from investments	11	(22 829)	34 630
Share of results and impairment of associates	11	(49 414)	(30 304)
Gains arising from acquisition of own debts	26	138 837	2 737
Other impairment provisions	12,13,33	(52 602)	(8 370)
Other operating income	27	79 041	15 437
Operating expenses	28	(813 249)	(681 965)
Profit before tax		**400 689**	**328 934**
Income tax expense	29	(170 559)	(75 448)
Profit for the year		**230 130**	**253 486**
Profit attributable to:			
Equity holders of the Company		230 164	253 486
Minority interest		(34)	-
Profit for the year		**230 130**	**253 486**

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

In thousands of US Dollars	**Attributable to the equity holders of the Company**						**Minority interest**	**Total equity**
	Share capital (Note 22)	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 31 December 2006	**344 800**	**70**	**25 929**	**(216 461)**	**1 155 837**	**1 310 175**	**9**	**1 310 184**
Revaluation of premises, net of taxation (Note 14)	-	-	33 108	-	-	33 108	-	33 108
Investment securities available for sale (Note 11)								
- revaluation to fair value	-	39	-	-	-	39	-	39
- disposals	-	(70)	-	-	-	(70)	-	(70)
Translation movement	-	-	-	90 867	-	90 867	-	90 867
Net change in hedge of net investment in foreign operations (Note 34)	-	-	-	(74 607)	-	(74 607)	-	(74 607)
Share of other equity movements of associates (Note 11)	-	-	-	(17 689)	-	(17 689)	-	(17 689)
Net income/(loss) recorded directly in equity	**-**	**(31)**	**33 108**	**(1 429)**	**-**	**31 648**	**-**	**31 648**
Profit for the year	-	-	-	-	253 486	253 486	-	253 486
Total recognised income/(loss) for the year	**-**	**(31)**	**33 108**	**(1 429)**	**253 486**	**285 134**	**-**	**285 134**
Share capital contribution (Note 22)	350 000	-	-	-	-	350 000	-	350 000
Dividends declared (Note 22)	-	-	-	-	(92 393)	(92 393)	-	(92 393)
Other movements	-	-	(2 252)	-	4 033	1 781	(9)	1 772
Balance as at 31 December 2007	**694 800**	**39**	**56 785**	**(217 890)**	**1 320 963**	**1 854 697**	**-**	**1 854 697**
Revaluation of premises, net of taxation (Note 14)	-	-	(4 022)	-	-	(4 022)	-	(4 022)
Tax rate change (Note 29)	-	-	2 989	-	-	2 989	-	2 989
Investment securities available for sale (Note 11)								
- revaluation to fair value	-	(60 975)	-	-	-	(60 975)	-	(60 975)
- disposals	-	5 204	-	-	-	5 204	-	5 204
- income tax	-	10 821	-	-	-	10 821	-	10 821
Translation movement	-	-	-	(388 783)	-	(388 783)	(989)	(389 772)
Net change in hedge of net investment in foreign operations (Note 34)	-	-	-	248 948	-	248 948	-	248 948
Share of other equity movements of associates (Note 11)	-	-	-	(1 406)	-	(1 406)	-	(1 406)
Net loss recorded directly in equity	**-**	**(44 950)**	**(1 033)**	**(141 241)**	**-**	**(187 224)**	**(989)**	**(188 213)**
Profit for the year	-	-	-	-	230 164	230 164	(34)	230 130
Total recognised income/(loss) for the year	**-**	**(44 950)**	**(1 033)**	**(141 241)**	**230 164**	**42 940**	**(1 023)**	**41 917**
Share capital contribution (Note 22)	250 000	-	-	-	-	250 000	-	250 000
Business combinations (Note 37)	-	-	-	-	-	-	14 831	14 831
Realised revaluation reserve	-	-	(2 551)	-	2 551	-	-	-
Balance as at 31 December 2008	**944 800**	**(44 911)**	**53 201**	**(359 131)**	**1 553 678**	**2 147 637**	**13 808**	**2 161 445**

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

In thousands of US Dollars	Note	2008	2007
Cash flows from operating activities			
Interest received		2 836 574	1 677 579
Interest paid, other than on debt securities issued, syndicated and other loans and subordinated debt		(1 070 755)	(485 728)
Expense directly attributable to the lending operations		(36 468)	(16 910)
Fees and commissions received		419 566	316 113
Fees and commissions paid		(80 964)	(59 342)
Net income received from trading securities		(174 560)	36 930
Net income received from trading in foreign currencies		(506 908)	63 346
Other operating income received		45 119	10 912
Staff costs paid		(452 747)	(374 779)
Other operating expenses paid		(329 094)	(281 649)
Income tax paid		(117 063)	(146 507)
Cash flows from operating activities before changes in operating assets and liabilities		**532 700**	**739 965**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with central banks		193 477	(30 975)
Net decrease/(increase) in trading securities and repurchase receivables		141 012	(369 767)
Net increase in due from other banks		(96 114)	(186 599)
Net increase in loans and advances to customers		(4 307 009)	(5 234 509)
Net decrease/(increase) in other assets and other financial assets		44 556	(225 210)
Net increase in due to other banks		5 306 162	1 314 268
Net increase in customer accounts		1 076 065	3 676 325
Net (decrease)/increase in other liabilities and other financial liabilities		(106 313)	31 183
Net cash from/(used in) operating activities		**2 784 536**	**(285 319)**
Cash flows from investing activities			
Acquisition of investments available for sale	11	(421 099)	(8 902)
Proceeds from disposal of investments available for sale	11	12 893	374
Acquisition of investments at fair value through profit and loss		(6 335)	(5 409)
Proceeds from disposal of investments at fair value through profit and loss		14 166	16 134
Proceeds from disposal of investment property		53 435	-
Acquisition of premises, equipment and intangible assets	14	(68 405)	(90 372)
Proceeds from disposal of premises, equipment and intangible assets	14	10 219	15 353
Proceeds from disposal of subsidiaries		-	19 792
Acquisition of subsidiaries	37	(103 399)	-
Cash outflow on disposal of subsidiaries		-	(1 557)
Dividend income received	27	2 358	4 005
Net cash used in investing activities		**(506 167)**	**(50 582)**
Cash flows from financing activities			
Share capital contribution	22	250 000	350 000
Proceeds from syndicated and other loans	18	577 888	1 200 846
Repayment of syndicated and other loans	18	(885 125)	(832 063)
Interest paid on syndicated and other loans	23	(61 219)	(59 313)
Proceeds from debt securities issued	17	815 311	1 323 715
Repayment of debt securities issued	17	(1 356 305)	(864 272)
Interest paid on debt securities in issue	23	(233 965)	(158 645)
Proceeds from subordinated debt	19	-	298 525
Interest paid on subordinated debt	19	(46 029)	(32 359)
Net cash (used in)/from financing activities		**(939 444)**	**1 226 434**
Net increase in cash and cash equivalents		**1 338 925**	**890 533**
Cash and cash equivalents at the beginning of the year	7	2 634 359	1 672 681
Effect of exchange rate changes on cash and cash equivalents		(113 265)	71 145
Cash and cash equivalents at the end of the year	**7**	**3 860 019**	**2 634 359**

Refer to Note 11 for details of payment of dividends in kind.

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise four main business segments: corporate banking, retail banking, treasury and investment banking (refer to Note 30). The corporate banking, retail banking and treasury activities of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

The Company is wholly owned by ABH Holdings Corp. ("ABHH"), a British Virgin Islands registered company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/or owns a 50% or more interest in ABHH. The Controlling Shareholders have entered into an agreement to vote as if they were a single shareholder in relation to all matters relating to ABHH.

The Company is registered at P.O. Box 146, Trident Chambers, 1 Wickhams Cay, Road Town, Tortola, British Virgin Islands.

As at 31 December 2008 the Group had 364 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2007: 303 offices).

Corporate banking, retail banking and treasury. Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank N.V. (Netherlands), JSC SB Alfa-Bank Kazakhstan (Kazakhstan) and OJSC Bank Severnaya Kazna (Russian Federation).

Alfa-Bank's registered office is located at 27 Kalanchyovskaya Street, Moscow 107078, Russian Federation. Alfa-Bank's principal place of business is 9 Mashi Poryvaevoy Street, Moscow 107078, Russian Federation.

Investment banking. The Company is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies. The official United States Dollar ("US Dollar" or "USD") exchange rate of the CBRF increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.41 at 30 March 2009. Due to increased market volatility, one-day MosPrime rate fluctuated between 6.83% p.a. and 25.17% p.a. during the period from 31 December 2008 to 30 March 2009. International reserves of the Russian Federation decreased from USD 557 billion at 30 September 2008 to USD 427 billion at 31 December 2008 to USD 384 billion at 30 March 2009. The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 41.83 at 31 December 2008 and USD 48.96 at 30 March 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the State deposit insurance coverage to RR 700 thousand per individual in case of the withdrawal of a license of a bank or an imposed moratorium on payments by the CBRF.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.
- The CBRF made significant placements to the leading Russian banks collateralised by guarantees issued by third party banks. Refer to Note 15 and 33.
- The CBRF provided additional liquidity through regular unsecured finance auctions.

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

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

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch"), has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in local and international stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. Since September 2008 several medium size Russian banks have been acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing crisis is currently not possible to predict.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings or deposits and re-finance its existing borrowings or deposits at terms and conditions similar to those applied to earlier transactions.

2 Operating Environment of the Group (Continued)

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

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

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

As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for certain securities and, as such, in the opinion of management certain securities are no longer being quoted on an active market. Hence fair value as at 31 December 2008 of certain securities has been determined using a valuation technique. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. Determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, investment property, available-for-sale financial assets, financial instruments categorised as at fair value through profit or loss and all derivative contracts. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies’ law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in thousands of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses. US Dollar amounts should not be construed as a representation that Russian Rouble amounts have been or could have been converted to US Dollars at the rates specified further in this Note; non-monetary items are translated at historic rates.

3 Summary of Significant Accounting Policies (Continued)

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, OJSC Alfa-Bank and OJSC Bank Severnaya Kazna have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as their operations are managed in US Dollars and reliant on the economic conditions in the rest of the world as well as in the Russian Federation. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under “Foreign Currency Translation” section of this note.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in Note 4.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired (measured at the date of exchange) is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group’s equity.

Associated companies. Associated companies are entities over which the Group has significant influence, but not control, usually represented by between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group’s share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. The carrying amount of investments in associated companies includes goodwill identified on acquisition less accumulated impairment losses, if any. Impairment losses, when identified, are recorded in the consolidated statement of income in share of results of associates. When the Group’s share of losses in an associated company equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group’s interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of the Company is US Dollars. The Group determines the appropriate functional currency for each subsidiary. Refer also to Note 4.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in the consolidated statement of income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

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

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

(iii) all exchange differences resulting from this translation and exchange differences arising from currency instruments designated as hedge of net investment in foreign operations (to the extent that the hedge is effective) are recorded in equity.

The income and expenses for each Group entity's income statement for the nine months ended 30 September 2008 are translated at the average rate for this period, each consecutive month's income and expenses (October-December 2008) are translated at average rates for the corresponding month due to the increased volatility in the exchange rates in the last months of 2008.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

As at 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 (2007: USD 1 = RR 24.5462), the average exchange rate for the nine months ended 30 September 2008 was USD 1 = RR 24.0452, for October 2008 USD 1 = RR 26.3559, for November 2008 USD 1 = RR 27.3112, for December 2008 USD 1 = RR 28.1359 (2007: USD 1 = RR 25.5770).

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost, as described below.

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

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in the consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

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

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments (except for loans representing government assistance) at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with other banks, beyond 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.

Mandatory cash balances with central banks. Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three months.

3 Summary of Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in the consolidated statement of income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of income as gains less losses from trading securities in the period in which they arise.

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

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

Impairment of financial assets carried at amortised cost. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets for collective assessment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which can cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (pledger, underwriter), arrest or seizure of the borrower's (pledger's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval;
- total loss of pledged property;
- disablement or death of the borrower (pledger, underwriter) or business owner (more than 50% share capital);
- change of the borrower's (pledger's, underwriter's) or business owner's (more than 50% share capital) place of residence and/or place of work without written notice sent to the Group;
- there is trustworthy information that the borrower (pledger, underwriter) or business owner (more than 50% share capital) is missing or went abroad for more than 1 year;
- the borrower (pledger, underwriter) or business owner (more than 50% share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity without written notice sent to the Group.

3 Summary of Significant Accounting Policies (Continued)

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio. In general, the periods used vary between one month and 12 months.

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

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

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

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

Uncollectible assets including accrued interest are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Investments designated at fair value through profit or loss at inception. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Board of Directors.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks or customer accounts depending on counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

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

Investment property. Property that is held for capital appreciation, and that is not occupied by the Group, is classified as investment property. Investment property comprises land held under operating leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. Investment property is measured at its fair value, including related transaction costs. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as income approach, etc. These valuations are reviewed annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Changes in fair values are recorded in the consolidated statement of income.

3 Summary of Significant Accounting Policies (Continued)

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised (i.e. as the asset is used by the Group). The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

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

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the consolidated statement of income. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

Customer relationship. Customer relationship includes relationships with the corporate and individual customers which kept current accounts with the bank at the time of the business combination. Customer relationship is amortised on a diminishing balance basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease.

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

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of income.

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

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

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at amortised cost.

If the Group purchases its own debt securities issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of income as gains less losses arising from acquisition of own debts.

Syndicated loans. Syndicated loans are loans in which a group of financial institutions provides funds to the Group. Syndicated loans are carried at amortised cost.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Acquired own subordinated notes are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of income as gains less losses arising from acquisition of own debts.

Government assistance in form of loans. Loans from the State or State agencies representing government assistance are initially recorded in the amount of cash received and subsequently carried at amortised cost.

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the balance sheet date are disclosed as subsequent events.

3 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in the consolidated statement of income in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group designates certain derivatives as hedge of a part of the net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income.

Amounts accumulated in equity are recycled in the consolidated statement of income in the periods when the hedged item is disposed of.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories in which the Group operates. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income except if it is recognised directly in equity when it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the balance sheet date which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Revenues from the assignment of film rights for a fixed fee under non-cancellable contracts where the Group has no remaining obligations to perform are recognised at the time of sale and are included in other operating income.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Expenses directly attributable to lending operations. Expenses directly attributable to lending operations comprise of property tax and insurance costs relating to the leased assets which are directly attributable to finance leasing operations as well as contributions paid to the State Deposit Insurance Agency. These expenses are not incremental transaction costs that would have to be recognized as part of the effective interest rate.

Property tax and insurance costs relating to the leased assets are not subject to deduction from or offsetting with the minimum lease payments receivable because they are not reimbursable to the lessor. The lease contract has an option for the lessor to change lease payments if property tax, insurance, and borrowing costs change, but there is no obligation to do so, and the lessor has a primary responsibility for the payment of insurance and property tax.

Contributions paid to the State Deposit Insurance Agency are not linked to particular customer deposits or deposit products.

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from the consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs.

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

In thousands of US Dollars	As originally presented	Reclassification	As presented
Consolidated Balance Sheet as at 31 December 2007			
Loans and advances to customers	15 037 535	292 555	15 330 090
Other financial assets	778 447	(280 444)	498 003
Premises and equipment	290 818	(16 292)	274 526
Other assets	176 236	4 181	180 417
Other borrowed funds	3 743 834	(3 743 834)	-
Promissory notes issued	789 192	(789 192)	-
Debt securities issued	-	3 178 936	3 178 936
Syndicated and other loans	-	1 354 090	1 354 090
Consolidated Statement of Income for the year ended 2007			
Expenses directly attributable to lending operations	-	(17 015)	(17 015)
Operating expenses	(698 980)	17 015	(681 965)
Gains arising from acquisition of own debts	-	2 737	2 737
Other operating income	18 174	(2 737)	15 437

Management carried out these reclassifications relating to the prior year figures reported in the consolidated financial statements in order to provide better information to the users of the financial statements.

Advances on leasing operations which generated interest income were reclassified from other assets and other financial assets to loans and advances to customers.

Other borrowed funds were split to the separate balance sheet lines according to their substance: debt securities issued and syndicated and other loans. Promissory notes were reclassified into debt securities issued.

Net book value of intangible assets has been reclassified to other assets in order to disclose them together with other intangible assets.

Property tax and insurance costs related to the leased assets which are directly attributable to finance leasing operations as well as contributions paid to the State Deposit Insurance Agency previously recorded within operating expenses were reclassified to expenses directly attributable to lending operations.

Gains arising from acquisition of own debts previously recorded within other operating income are presented separately on the face of the consolidated statement of income.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment of loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of USD 119 021 thousand (2007: USD 38 069 thousand), respectively.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Due to instability in money and foreign exchange markets as at the end of 2008, different OTC market makers provided a wide spread of yield curves for selected currencies. Changing applied yield curves by +/- 10% would result in increase or decrease of gains less losses from operations with foreign currencies by USD 22 332 thousand and USD 21 611 thousand respectively.

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 33). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

Management applies its judgement in interpretation of existing tax legislation for the purposes of assessment of current and deferred taxation. Also, Management uses judgement to assess the realisability of deferred tax assets, which is subject to availability of profits and other circumstances, including the ability to claim full deduction of the expenses incurred in relation to the underlying assets and liabilities. Management reassesses current and deferred tax balances at each reporting date and adjusts them accordingly.

During 2008 the Russian tax authorities performed a tax audit of Alfa-Bank's operations for 2005-2006 and challenged the Group's interpretation and application of the tax legislation relating to deductibility for tax purposes of certain provisions for loan impairment. As a result, the Group paid additional taxes for 2005-2006 and related fines in the amount of USD 38 032 thousand. Also, during 2008 the Group reassessed its estimates relating to deductibility of similar provisions for loan impairment in the periods subsequent to 2006 and (i) increased its current tax liabilities related to 2007 by USD 24 881 thousand and (ii) released deferred tax assets in the amount of USD 64 879 thousand which were recorded in prior periods.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Management believes that the previous assessment of deductibility for tax purposes of the above provisions for loan impairment was based on the best information then available including existing industry practices and results of previous tax audits.

This change in estimate was recorded through the consolidated statement of income for 2008. See Note 29.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble) and their major activities include provision of brokerage services to foreign investors. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- **IFRIC 11, IFRS 2 – Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008);
- **IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant impact on the Group's consolidated financial statements.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures,* and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

In accordance with the Order approved by the Chief Financial Officer dated 27 October 2008 the Group reclassified the following financial assets from the held for trading category to the available for sale category (Note 11):

In thousands of US Dollars	**Carrying value**	**Cash flows expected to be recovered**	**Effective interest rate, %**
Russian Federation Eurobonds	24 656	46 017	7.5
Corporate bonds	61 142	78 934	11.1
Corporate Eurobonds	224 713	279 636	8.3
Total	**310 511**	**404 587**	

5 Adoption of New or Revised Standards and Interpretations (Continued)

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

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

Interest income, foreign exchange gains less losses and impairment losses recognised in the consolidated income statement for the year ended 31 December 2008 for the reclassified assets amounted to a net loss of USD 2 586 thousand. Had the assets not been reclassified, fair value gains less losses recognised in the consolidated income statement would have been lower by USD 49 352 thousand.

As at 31 December 2008 the fair value of the reclassified assets amounted to USD 186 398 thousand.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

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

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

6 New Accounting Pronouncements (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amendment to affect its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Management is currently assessing what impact the standard will have on the Group's consolidated financial statements.

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

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

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

6 New Accounting Pronouncements (Continued)

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Management is currently assessing what impact the standard will have on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. Management is currently assessing the impact of the new interpretation on the Group's consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

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

7 Cash and Cash Equivalents

In thousands of US Dollars	**2008**	**2007**
Cash on hand	790 545	626 094
Cash balances with central banks (other than mandatory cash balances)	2 287 459	1 359 638
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	345 572	126 543
- Europe and USA	328 070	112 282
- Other countries	1 223	15 755
Overnight placements with banks		
- Russian Federation	-	6 112
- Other countries	107 150	387 935
Total cash and cash equivalents	**3 860 019**	**2 634 359**

The analysis by credit quality of overnight placements is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better. Analysis by credit quality of overnight placements was as follows:

In thousands of US Dollars	**2008**	**2007**
Neither past due nor impaired		
- limit from USD 100 to 200 million	100 550	116 718
- limit below USD 100 million	6 600	277 329
Total overnight placements	**107 150**	**394 047**

The credit quality of the balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. Furthermore, after establishing a correspondent account, depending on the magnitude of the balance, Management carries out regular monitoring of the financial position and performance of the counterparties.

As at 31 December 2008 the ten largest aggregate balances on correspondent and settlement accounts and overnight placements with banks and financial institutions amounted to USD 768 139 thousand (2007: USD 508 131 thousand) or 98.2% (2007: 78.3%) of the correspondent and settlement accounts and overnight placements.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivables

In thousands of US Dollars	2008	2007
Trading securities		
Corporate Eurobonds	346 245	191 125
Eurobonds of other states	95 697	43 930
Corporate bonds	90 963	419 342
Bonds of other states	29 975	4 738
Municipal bonds	5 700	3 661
Russian Federation Eurobonds	2 064	-
Total debt trading securities	**570 644**	**662 796**
Corporate shares	10 871	152 569
ADRs and GDRs	6 766	26 092
Total trading securities	**588 281**	**841 457**
Repurchase receivables		
Corporate bonds	113 216	228 536
Corporate Eurobonds	22 024	172 812
Russian Federation Eurobonds	14 935	83 567
Municipal bonds	646	1 444
Eurobonds of other states	-	15 960
Repurchase receivables relating to debt securities	**150 821**	**502 319**
Corporate shares	-	30 776
ADRs and GDRs	-	1 331
Total repurchase receivables	**150 821**	**534 426**
Total trading securities and repurchase receivables	**739 102**	**1 375 883**

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euros, issued mainly by large Russian and CIS companies and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from February 2009 to July 2035 (2007: from January 2008 to July 2035), coupon rates from 1.6% to 13.5% p.a. (2007: from 6.3% to 12.0% p.a.) and yields to maturity from 5.8% to 68.6% p.a. (2007: from 4.7% to 12.7% p.a.), depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in Euros, issued mainly by European and CIS states, and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from January 2009 to November 2017 (2007: January 2009 to August 2040), coupon rates from 2.8% to 6.8% p.a. (2007: from 2.8% to 11.0% p.a.) and yields to maturity from 1.8% to 31.6% p.a. (2007: from 4.0% to 8.1% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2008 these bonds have maturity dates ranging from January 2009 to February 2017 (2007: February 2008 to June 2014), coupon rates from 6.7% to 16.5% p.a. (2007: from 7.6% to 16.0% p.a.) and yields to maturity from 5.8% to 84.4% p.a. (2007: from 7.5% to 26.0% p.a.), depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

8 Trading Securities and Repurchase Receivables (Continued)

Analysis by credit quality of debt trading securities and repurchase receivables was as follows at 31 December 2008:

In thousands of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Bonds of other states	Russian Federation Eurobonds	Municipal bonds	Total
Current and not impaired							
- limit above USD 50 million	18 237	47 408	-	-	16 999	-	82 644
- limit from USD 10 to 50 million	264 939	53 027	90 089	-	-	5 621	413 676
- limit below USD 10 million	8 781	5 692	5 608	-	-	-	20 081
- position hedged by derivatives	40 181	54 938	-	-	-	696	95 815
- other	36 131	43 114	-	29 975	-	29	109 249
Total debt trading securities and repurchase receivables	**368 269**	**204 179**	**95 697**	**29 975**	**16 999**	**6 346**	**721 465**

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2007:

In thousands of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Bonds of other states	Russian Federation Eurobonds	Municipal bonds	Total
Current and not impaired							
- limit above USD 50 million	65 177	-	-	-	83 567	-	148 744
- limit from USD 10 to 50 million	140 401	113 759	43 930	-	-	-	298 090
- limit below USD 10 million	88 696	25 372	4 887	-	-	-	118 955
- position hedged by derivatives	31 191	371 518	-	-	-	3 661	406 370
- other	38 472	137 229	11 073	4 738	-	1 444	192 956
Total debt trading securities and repurchase receivables	**363 937**	**647 878**	**59 890**	**4 738**	**83 567**	**5 105**	**1 165 115**

As at 31 December 2008 and as at 31 December 2007 the long balance sheet position of the Group in trading securities and repurchase receivables was partially hedged by an opposite position in derivative financial instruments for those securities. These hedges significantly reduce credit risk related to respective securities and therefore such securities not covered by individual limits are disclosed separately in the table above. Refer to Note 34.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As at 31 December 2008 no amounts of the debt securities were past due (2007: none). As all trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

As discussed in Note 5, during 2008 the Group reclassified a certain part of its trading securities to investment securities available for sale.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading. Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 31. The information on securities issued by related parties and owned by the Group is disclosed in Note 36.

9 Due from Other Banks

In thousands of US Dollars	2008	2007
Term placements with other banks	1 731 785	1 774 200
Reverse sale and repurchase agreements with other banks	110 501	142 485
Less: Provision for impairment	(4 850)	-
Total due from other banks	**1 837 436**	**1 916 685**

As at 31 December 2008 reverse sale and repurchase agreements with other banks were effectively collateralised by securities purchased with estimated fair value of USD 128 127 thousand (2007: USD 159 048 thousand), all of which the Group had the right to sell or repledge.

As at 31 December 2008 the ten largest aggregate balances due from other banks amounted to USD 1 374 589 thousand (2007: USD 1 538 989 thousand) or 74.8% (2007: 80.3%) of total due from other banks.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Current and not impaired			
- limit above USD 200 million	51 866	118	51 984
- limit from USD 100 to 200 million	1 233 218	-	1 233 218
- limit below USD 100 million	396 986	45 944	442 930
- other	33 117	64 439	97 556
Current and individually determined to be impaired	16 598	-	16 598
Provision for impairment	**(4 850)**	**-**	**(4 850)**
Total due from other banks	**1 726 935**	**110 501**	**1 837 436**

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Current and not impaired			
- limit above USD 200 million	355 100	-	355 100
- limit from USD 100 to 200 million	1 106 923	-	1 106 923
- limit below USD 100 million	229 854	53 596	283 450
- other	82 323	88 889	171 212
Total due from other banks	**1 774 200**	**142 485**	**1 916 685**

9 Due from Other Banks (Continued)

The above analysis by credit quality is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better.

As at 31 December 2008 included within term placements with other banks are deposits placed under the Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 84 197 thousand (2007: USD 80 480 thousand). Refer to Note 17.

As at 31 December 2008 included within term placements with other banks are margin call deposits in the amount of USD 324 474 thousand (2007: USD 92 952 thousand) placed as collateral under transactions with derivatives.

As at 31 December 2008 and 2007 the fair value of each class of financial assets included in due from other banks approximated their carrying value. As at 31 December 2008 the estimated fair value of due from other banks was USD 1 837 436 thousand (2007: USD 1 916 685 thousand). Refer to Note 35.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

10 Loans and Advances to Customers

In thousands of US Dollars	**2008**	**2007**
Corporate loans	14 797 554	12 495 826
Finance lease receivables	1 305 127	617 129
Loans to individuals - credit cards and personal instalment loans ("PILs")	961 585	676 554
Loans to individuals - car loans	704 928	531 088
Loans to individuals - mortgage loans	508 880	225 970
Loans to individuals - consumer loans	499 438	318 965
Loans to small and medium-size enterprises ("SMEs")	284 128	199 534
Advances on lease operations	67 350	292 555
Reverse repo - corporate customers and individuals	30 887	353 159
Total gross loans and advances to customers	**19 159 877**	**15 710 780**
Less: Provision for loan impairment	(1 190 216)	(380 690)
Total loans and advances to customers	**17 969 661**	**15 330 090**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 were as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Loans to individuals: Credit cards and PILs	Car loans	Mortgage loans	Consumer loans	Total
Provision for loan impairment as at 1 January 2008	**268 743**	**8 466**	**12 824**	**-**	**36 639**	**21 406**	**631**	**31 981**	**380 690**
Provisions during the year	781 677	19 906	22 863	1 595	67 517	28 396	4 596	55 211	981 761
Amounts written off as uncollectible	(5 476)	-	-	-	(49 080)	(23 122)	(1 182)	(41 005)	(119 865)
Translation movement	(33 950)	(1 393)	(2 110)	-	(6 029)	(3 522)	(104)	(5 262)	(52 370)
Provision for loan impairment as at 31 December 2008	**1 010 994**	**26 979**	**33 577**	**1 595**	**49 047**	**23 158**	**3 941**	**40 925**	**1 190 216**

Movements in the provision for loan impairment during 2007 were as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Loans to individuals: Credit cards and PILs	Car loans	Mortgage loans	Consumer loans	Total
Provision for loan impairment as at 1 January 2007	**215 646**	**-**	**10 692**	**-**	**40 727**	**17 638**	**43**	**18 547**	**303 293**
Provisions during the year	46 066	8 258	6 435	-	81 614	33 926	569	62 870	239 738
Amounts written off as uncollectible	(11 885)	-	(5 395)	-	(89 564)	(31 967)	-	(51 571)	(190 382)
Disposal of subsidiary	(84)	-	-	-	-	-	-	-	(84)
Translation movement	19 000	208	1 092	-	3 862	1 809	19	2 135	28 125
Provision for loan impairment as at 31 December 2007	**268 743**	**8 466**	**12 824**	**-**	**36 639**	**21 406**	**631**	**31 981**	**380 690**

The provision for loan impairment during 2008 differs from the amount presented in the consolidated statement of income due to USD 30 483 thousand (2007: USD 16 863 thousand) recovery during 2008 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in the consolidated statement of income.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the loans and advances to customers were as follows:

	2008		2007	
In thousands of US Dollars	**Amount**	**%**	**Amount**	**%**
Construction	3 238 113	17	2 179 498	14
Individuals	2 686 340	14	1 992 222	13
Trade and commerce	2 065 232	11	2 676 303	17
Railway transport	1 819 629	10	821 551	5
Machinery and metal working	1 113 652	6	663 245	4
Power generation	988 425	5	793 016	5
Ferrous metallurgy	896 890	5	831 225	5
Finance and investment companies	881 595	5	987 115	6
Non-ferrous metallurgy	858 019	4	632 188	4
Oil industry	814 803	4	195 662	1
Armament production	703 305	4	709 118	5
Food industry	476 794	2	260 094	2
Nuclear industry	455 417	2	567 906	4
Diamond extraction and processing	302 387	2	300 062	2
Aviation transport	301 957	2	236 194	2
Agriculture	250 777	1	153 502	1
Mass media and telecommunications	236 717	1	195 304	1
Coal Industry	213 165	1	146 271	1
Chemistry and petrochemistry	207 609	1	189 108	1
Natural gas industry	48 668	0	426 466	3
Timber industry	47 642	0	34 062	0
Water transport	43 689	0	76 044	0
Other	509 052	3	644 624	4
Total gross loans and advances to customers	**19 159 877**	**100**	**15 710 780**	**100**

As at 31 December 2008 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 4 254 523 thousand (2007: USD 2 849 552 thousand) or 22.2% (2007: 18.1%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 6 273 743 thousand (2007: USD 4 428 934 thousand) or 32.7% (2007: 28.2%) of the gross loans and advances to customers.

As at 31 December 2008 loans and advances to customers in the total amount of USD 837 201 thousand were pledged as collateral for the financing received from the CBRF (Note 15) and USD 395 929 thousand for the financing received from the State Deposit Insurance Agency (Note 18).

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse repo	Total
Current and not impaired						
- Rating I	4 459 234	5 157	86 440	2 896	7 154	4 560 881
- Rating II	4 402 637	54 336	496 612	58 864	6 916	5 019 365
- Rating III	3 645 215	182 748	512 684	4 957	5 308	4 350 912
- Rating IV	344 387	2 940	92 897	-	-	440 224
Total gross current and not impaired	**12 851 473**	**245 181**	**1 188 633**	**66 717**	**19 378**	**14 371 382**
Past due but not impaired						
- less than 30 days overdue	186 680	1 529	48 626	-	-	236 835
- 30 to 90 days overdue	-	-	57 462	-	-	57 462
Total gross past due but not impaired	**186 680**	**1 529**	**106 088**	**-**	**-**	**294 297**
Individually determined to be impaired						
- current	947 844	18 525	10 406	633	-	977 408
- less than 30 days overdue	405 299	4 012	-	-	-	409 311
- 30 to 90 days overdue	245 999	8 387	-	-	-	254 386
- 90 to 180 days overdue	68 715	3 565	-	-	-	72 280
- 180 to 360 days overdue	89 793	2 929	-	-	-	92 722
- over 360 days overdue	1 751	-	-	-	-	1 751
Total gross individually impaired	**1 759 401**	**37 418**	**10 406**	**633**	**-**	**1 807 858**
Total gross loans and advances	**14 797 554**	**284 128**	**1 305 127**	**67 350**	**19 378**	**16 473 537**
Provision for loan impairment	**(1 010 994)**	**(26 979)**	**(33 577)**	**(1 595)**	**-**	**(1 073 145)**
Total loans and advances to corporate customers	**13 786 560**	**257 149**	**1 271 550**	**65 755**	**19 378**	**15 400 392**

Refer to Note 31 for definition of credit quality ratings. The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as "current and not impaired" until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse repo	Total
Current and not impaired						
- Rating I	4 226 715	10 310	94 000	21 154	113 514	4 465 693
- Rating II	4 588 345	51 085	342 704	148 992	-	5 131 126
- Rating III	3 263 203	134 290	163 364	121 080	-	3 681 937
- Rating IV	311 462	122	-	1 329	-	312 913
Total gross current and not impaired	**12 389 725**	**195 807**	**600 068**	**292 555**	**113 514**	**13 591 669**
Past due but not impaired						
- less than 30 days overdue	-	-	17 061	-	-	17 061
Total gross past due but not impaired	**-**	**-**	**17 061**	**-**	**-**	**17 061**
Individually determined to be impaired						
- current	82 651	244	-	-	-	82 895
- less than 30 days overdue	-	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	-	-	-
- 90 to 180 days overdue	5 232	3 076	-	-	-	8 308
- 180 to 360 days overdue	-	-	-	-	-	-
- over 360 days overdue	18 218	407	-	-	-	18 625
Total gross individually impaired	**106 101**	**3 727**	**-**	**-**	**-**	**109 828**
Total gross loans and advances	**12 495 826**	**199 534**	**617 129**	**292 555**	**113 514**	**13 718 558**
Provision for loan impairment	**(268 743)**	**(8 466)**	**(12 824)**	**-**	**-**	**(290 033)**
Total loans and advances to corporate customers	**12 227 083**	**191 068**	**604 305**	**292 555**	**113 514**	**13 428 525**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	**Credit cards and PILs**	**Car loans**	**Mortgage loans**	**Consumer loans**	**Reverse repo**	**Total**
Current and not impaired	887 197	666 144	492 589	456 844	11 509	2 514 283
Total gross current and not impaired	**887 197**	**666 144**	**492 589**	**456 844**	**11 509**	**2 514 283**
Past due but not impaired						
- less than 30 days overdue	34 379	21 313	9 947	21 277	-	86 916
Total gross past due but not impaired	**34 379**	**21 313**	**9 947**	**21 277**	**-**	**86 916**
Individually determined to be impaired						
- 30 to 90 days overdue	23 539	10 648	5 437	11 017	-	50 641
- 90 to 180 days overdue	16 470	6 823	907	10 300	-	34 500
Total gross individually impaired	**40 009**	**17 471**	**6 344**	**21 317**	**-**	**85 141**
Total gross loans and advances	**961 585**	**704 928**	**508 880**	**499 438**	**11 509**	**2 686 340**
Provision for loan impairment	**(49 047)**	**(23 158)**	**(3 941)**	**(40 925)**	**-**	**(117 071)**
Total loans and advances to individuals	**912 538**	**681 770**	**504 939**	**458 513**	**11 509**	**2 569 269**

Current and not impaired loans to individuals represent loans without signs of individual impairment and originated on the basis of underwriting procedures (Note 31).

The primary factors that the Group considers in determining whether a loan is impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The amount reported as past due is the whole balance of such loans not only the individual instalments that are past due.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	**Credit cards and PILs**	**Car loans**	**Mortgage loans**	**Consumer loans**	**Reverse repo**	**Total**
Current and not impaired	630 089	506 171	224 654	283 932	239 645	1 884 491
Total gross current and not impaired	**630 089**	**506 171**	**224 654**	**283 932**	**239 645**	**1 884 491**
Past due but not impaired						
- less than 30 days overdue	16 673	9 975	492	10 748	-	37 888
Total gross past due but not impaired	**16 673**	**9 975**	**492**	**10 748**	**-**	**37 888**
Individually determined to be impaired						
- 30 to 90 days overdue	13 766	8 166	824	11 656	-	34 412
- 90 to 180 days overdue	16 026	6 776	-	12 629	-	35 431
Total gross individually impaired	**29 792**	**14 942**	**824**	**24 285**	**-**	**69 843**
Total gross loans and advances	**676 554**	**531 088**	**225 970**	**318 965**	**239 645**	**1 992 222**
Provision for loan impairment	**(36 639)**	**(21 406)**	**(631)**	**(31 981)**	-	**(90 657)**
Total loans and advances to individuals	**639 915**	**509 682**	**225 339**	**286 984**	**239 645**	**1 901 565**

Gross and net investments in finance lease by their maturity are analysed below:

In thousands of US Dollars	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Gross finance lease receivable as at 31 December 2008	**376 951**	**1 220 267**	**346 462**	**1 943 680**
Less: Future income on finance lease	(85 314)	(510 453)	(42 786)	(638 553)
Net investment in finance leases as at 31 December 2008	**291 637**	**709 814**	**303 676**	**1 305 127**
Gross finance lease receivable as at 31 December 2007	**178 241**	**527 365**	**163 824**	**869 430**
Less: Future income on finance lease	(40 340)	(191 730)	(20 231)	(252 301)
Net investment in finance leases as at 31 December 2007	**137 901**	**335 635**	**143 593**	**617 129**

10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2008 was as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Car loans	Mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- residential real estate	16 475	-	-	-	9 947	26 422
- other real estate	86 902	-	-	-	-	86 902
- equipment	-	-	81 286	-	-	81 286
- other assets	3 486	-	-	13 587	-	17 073
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	6 344	6 344
- other real estate	344 733	7 313	-	-	-	352 046
- equipment	809 172	2 991	7 973	-	-	820 136
- other assets	46 743	253	-	11 138	-	58 134
Total	**1 307 511**	**10 557**	**89 259**	**24 725**	**16 291**	**1 448 343**

Fair value of the collateral was determined by the Group's credit department using the Group's internal guidelines on the basis of an internal expert evaluation, an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2007 was as follows:

In thousands of US Dollars	Corporate loans	Loans to small and medium size enterprises	Finance lease receivables	Loans to individuals - car loans	Loans to individuals - mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- equipment	-	-	20 473	-	-	20 473
- other assets	-	-	-	7 537	-	7 537
Fair value of collateral - individually impaired loans						
- residential real estate	4 228	-	-	-	658	4 886
- other real estate	-	27	-	-	-	27
- cars	-	-	-	11 289	-	11 289
- cash deposits	5 187	118	-	-	-	5 305
- other assets	8 166	-	-	-	-	8 166
Total	**17 581**	**145**	**20 473**	**18 826**	**658**	**57 683**

The Group regularly requires collateral and/or guarantees for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees can be provided by controlling shareholders, government entities, banks and other solvent legal entities. As at 31 December 2008 corporate loans in the amount of USD 4 798 910 thousand (2007: USD 3 901 101 thousand) were not secured and loans in the amount of USD 2 470 781 thousand (2007: USD 3 931 275 thousand) were secured only by third party guarantee where guarantors are evaluated on the same basis as the borrower itself. As at 31 December 2008 and 2007 most of the loans to small and medium size enterprises were secured by collateral or guarantees. Finance lease receivables are secured by the leased equipment. Reverse sale and repurchase agreements are effectively collateralised by securities sold under those agreements. As at 31 December 2008 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 38 728 thousand (2007: 512 695 thousand) all of which the Group had right to sell or repledge.

10 Loans and Advances to Customers (Continued)

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are respectively collateralised by cars and property acquired.

The estimated fair value of loans and advances to customers was as follows:

In thousands of US Dollars	2008 Fair value	2008 Carrying value	2007 Fair value	2007 Carrying value
Corporate loans	12 890 048	13 786 560	12 171 041	12 227 083
Finance lease receivables	1 244 710	1 271 550	604 305	604 305
Loans to individuals - credit cards and PILs	912 538	912 538	639 995	639 915
Loans to individuals - car loans	621 710	681 770	509 682	509 682
Loans to individuals - mortgage loans	465 735	504 939	225 339	225 339
Loans to individuals - consumer loans	457 654	458 513	286 984	286 984
Loans to SMEs	249 539	257 149	198 320	191 068
Advances on lease operations	65 755	65 755	292 555	292 555
Reverse repo - corporate customers and individuals	30 887	30 887	353 159	353 159
Total loans and advances to customers	**16 938 576**	**17 969 661**	**15 281 380**	**15 330 090**

Refer to Note 35 for the discount rates used for fair value calculation. For the purposes of measurement the Group classified all balances included in loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

11 Investments and Repurchase Receivables Relating to Investments

In thousands of US Dollars	2008	2007
Russian Federation Rouble bonds and Eurobonds	150 207	-
Corporate Eurobonds	138 030	-
Corporate bonds	28 915	-
Bonds of other states	-	8 969
Total debt investments available for sale	**317 152**	**8 969**
Russian Federation Rouble bonds and Eurobonds	215 070	-
Total repurchase receivables relating to debt investments available for sale	**215 070**	**-**
Total debt investments available for sale and repurchase receivables	**532 222**	**8 969**
Equity investments at fair value through profit and loss	**54 524**	**46 259**
Amtel-Vredestein N.V.	**-**	50 820
Patriot Capital LLC	**-**	8 153
Total investments in associates	**-**	**58 973**
Total investments and repurchase receivables relating to investments	**586 746**	**114 201**

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Debt investments available for sale and repurchase receivables relating to debt investments available for sale

Russian Federation Rouble bonds and Eurobonds are interest-bearing securities denominated in Russian Roubles or US Dollars and are freely tradable in the Russian Federation and internationally. As at 31 December 2008 these bonds have maturity dates ranging from March 2009 to February 2036, coupon rates from 5.8% to 10.0% p.a. and yields to maturity from 6.0% to 11.8% p.a., depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars or Russian Roubles, issued mainly by large Russian and CIS companies, and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from March 2009 to July 2016, coupon rates from 6.3% to 10.0% p.a. and yields to maturity from 2.4% to 100.0% p.a., depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Notes 15). The counterparty financial institutions have a right to resell or pledge these securities.

As at 31 December 2008 the analysis by credit quality of debt investments available for sale and repurchase receivables is as follows:

In thousands of US Dollars	**Russian Federation Rouble bonds and Eurobonds**	**Corporate Eurobonds**	**Corporate bonds**	**Total**
Current and not impaired				
- limit above USD 100 million	365 277	7 369	-	372 646
- limit from USD 50 to 100 million	-	74 557	17 400	91 957
- limit below USD 50 million	-	-	770	770
Total current and not impaired debt investments available for sale and repurchase receivables	**365 277**	**81 926**	**18 170**	**465 373**
Individually determined to be impaired				
- limit below USD 50 million	-	56 104	10 745	66 849
Total impaired debt investments available for sale and repurchase receivables	**-**	**56 104**	**10 745**	**66 849**
Total debt investments available for sale and repurchase receivables	**365 277**	**138 030**	**28 915**	**532 222**

As at 31 December 2007 all debt investments available for sale were issued by a counterparty for which the limit set was below USD 50 million.

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Movements in debt investments available for sale and repurchase receivables were as follows:

In thousands of US Dollars	Note	2008	2007
Carrying amount as at 1 January		**8 969**	**374**
Reclassified from trading securities	5	310 511	-
Acquisition of debt investments available for sale		421 099	8 902
Disposals of debt investments available for sale		(12 893)	(374)
Revaluation to fair value		(60 975)	39
Interest income accrued		26 980	28
Interest income received		(23 736)	-
Redemption at nominal value		(7 536)	-
Impairment of debt investments available for sale		(33 841)	-
Effect of exchange rates changes		19 396	-
Effect of translation to presentation currency		(115 752)	-
Carrying amount as at 31 December		**532 222**	**8 969**

Currency, maturity and interest rate analysis of debt investments available for sale and repurchase receivables is disclosed in Note 31.

Investments in associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

In thousands of US Dollars	2008	2007
Carrying amount as at 1 January	58 973	198 806
Amtel-Vredestein N.V.		
Share of results	(28 546)	(17 714)
Impairment	(20 868)	(12 590)
Translation movement	(1 406)	(17 689)
CTC Media Inc.		
Payments of dividends in-kind by the Company	-	(92 393)
Patriot Capital LLC		
Translation movement	378	553
Liquidation	(8 531)	-
Carrying amount as at 31 December	**-**	**58 973**

Amtel-Vredestein N.V. ("Amtel") As at 31 December 2008 the Group owned a 27.57% interest (2007: 27.57%) in Amtel-Vredestein N.V., a tyre manufacturing company operating in the Russian Federation and Europe. This investment is impaired and is carried at its recoverable amount determined as the investment's fair value. Due to the absence of active market quotations as at 31 December 2008, the fair value as at that date was determined using valuation techniques (2007: using market quotations).

CTC Media Inc. As at 31 December 2006 the Group owned a 20.1% interest in CTC Media Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures, operating in the Russian Federation. In January 2007, the Company declared dividends in the amount of USD 92 393 thousand paid in-kind by means of distribution of 20.1% of its interest in CTC, having a book value of USD 92 393 thousand and reducing the Group's interest in CTC to nil.

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Patriot Capital LLC was established to perform certain investment projects. As at 31 December 2007 the Group owned a 50% interest in Patriot Capital LLC. The company was liquidated in June 2008 because its business activities were terminated.

Gains less losses arising from investments

The table below represents an analysis of gains less losses arising from investments:

In thousands of US Dollars	**2008**	**2007**
Gains less losses from equity investments at fair value through profit or loss	16 216	34 560
(Losses less gains)/gains less losses on disposed investments available for sale	(5 204)	70
Impairment of investments available for sale	(33 841)	-
Total (losses less gains)/gains less losses arising from investments	**(22 829)**	**34 630**

Information on related party balances is disclosed in Note 36.

12 Other Financial Assets

In thousands of US Dollars	**Note**	**2008**	**2007**
Derivative financial instruments	34	990 698	163 172
Trade debtors		78 450	79 490
Receivables on operations with securities		64 963	197 033
Other		74 066	64 540
Less: Provision for impairment		(13 290)	(6 232)
Total other financial assets		**1 194 887**	**498 003**

As at 31 December 2008 derivative financial instruments included USD 203 754 thousand related to instruments contracted with ABH Ukraine Group (Note 36) and USD 618 593 thousand related to instruments contracted with large international banks.

At 31 December 2008 the Group received margin call deposits as collateral under transactions with derivative financial instruments from its counterparties for the total amount of USD 302 804 thousand (2007: USD 80 392 thousand). Refer to Notes 15 and 16.

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

In thousands of US Dollars	**2008**	**2007**
Provision for impairment of other financial assets as at 1 January	**6 232**	**5 744**
Provision for impairment during the year	13 245	258
Amounts written off during the year as uncollectible	(5 036)	(166)
Effect of translation to presentation currency	(1 151)	396
Provision for impairment as at 31 December	**13 290**	**6 232**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Derivative financial instruments	Receivab-les on operations with securities	Trade debtors	Other	Total
Current and not impaired with credit history	990 698	47 910	34 247	18 709	1 091 564
Current and not impaired without credit history	-	16 543	32 345	53 279	102 167
Past due and impaired	-	510	11 858	2 078	14 446
Total gross other financial assets	**990 698**	**64 963**	**78 450**	**74 066**	**1 208 177**
Provision for impairment	-	(510)	(10 702)	(2 078)	(13 290)
Total other financial assets	**990 698**	**64 453**	**67 748**	**71 988**	**1 194 887**

Analysis by credit quality of other financial assets outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Derivative financial instruments	Receivables on operations with securities	Trade debtors	Other	Total
Current and not impaired with credit history	163 172	179 583	3 129	52 599	398 483
Current and not impaired without credit history	-	17 450	69 406	11 941	98 797
Past due and impaired	-	-	6 955	-	6 955
Total gross other financial assets	**163 172**	**197 033**	**79 490**	**64 540**	**504 235**
Provision for impairment	-	-	(6 232)	-	(6 232)
Total other financial assets	**163 172**	**197 033**	**73 258**	**64 540**	**498 003**

“Entities with credit history" are those entities of which the Group is aware of their credit history more than one year.

As at 31 December 2008 the fair value of each class of financial assets included in other financial assets approximated their carrying value. As at 31 December 2008 the estimated fair value of other financial assets was USD 1 194 887 thousand (2007: USD 498 003 thousand). Refer to Note 35.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments, as loans and receivables. Refer to Note 34 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

13 Other Assets

In thousands of US Dollars	Note	2008	2007
Prepayment of taxes, other than on income		151 062	72 406
Customer relationship	37	79 101	-
Goodwill	37	74 838	-
Prepayment of current income tax		41 905	54 388
Computer software		20 766	16 292
Banking license	37	3 472	-
Investment property	27	-	37 331
Total other assets		**371 144**	**180 417**

Movements in intangible assets during 2008 were as follows:

	2008				2007
In thousands of US Dollars	Goodwill	Computer software	Customer relationship	Banking license	Computer software
Carrying amount as at 1 January	**-**	**16 292**	**-**	**-**	**20 266**
Cost					
Opening balance	-	61 979	-	-	53 805
Additions	-	18 306	-	-	10 415
Acquisition through business combinations (Note 37)	101 612	-	84 751	3 720	-
Impairment	(20 000)	-	-	-	-
Disposals	-	(2 254)	-	-	(3 854)
Translation movement	(6 774)	(4 974)	(5 650)	(248)	1 613
Closing balance	**74 838**	**73 057**	**79 101**	**3 472**	**61 979**
Accumulated depreciation					
Opening balance	-	45 687	-	-	33 539
Amortisation (Note 28)	-	9 411	-	-	10 868
Disposals	-	(484)	-	-	(454)
Translation movement	-	(2 323)	-	-	1 734
Closing balance	**-**	**52 291**	**-**	**-**	**45 687**
Carrying amount as at 31 December	**74 838**	**20 766**	**79 101**	**3 472**	**16 292**

Impairment of goodwill relating to acquisition of OJSC Bank Severnaya Kazna was assessed based on results of post-acquisition due diligence and a provisional purchase price allocation performed by the Management of the Group and taking into account the market developments since the date of acquisition to 31 December 2008. The entire amount of impairment was allocated to the corporate banking segment. Management believes that a fair price was paid for this acquisition which was made shortly before 31 December 2008 and no further impairment of goodwill is required.

The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In thousands of US Dollars	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Carrying amount as at 31 December 2007	**125 696**	**24 285**	**122 733**	**1 812**	**274 526**
Cost or valuation					
Opening balance	155 101	37 505	227 390	1 812	421 808
Revaluation	(6 081)	-	-	-	(6 081)
Additions and transfers	7 517	5 097	36 326	1 159	50 099
Acquisition through business combinations (Note 37)	112 132	-	16 450	41 966	170 548
Disposals	(9 881)	(1 784)	(10 332)	(7)	(22 004)
Translation movement	(31 244)	(6 295)	(29 393)	(310)	(67 242)
Closing balance	**227 544**	**34 523**	**240 441**	**44 620**	**547 128**
Accumulated depreciation					
Opening balance	29 405	13 220	104 657	-	147 282
Revaluation	(1 053)	-	-	-	(1 053)
Depreciation (Note 28)	3 201	13 677	30 494	-	47 372
Disposals	(165)	(36)	(9 119)	-	(9 320)
Translation movement	(4 970)	(2 794)	(18 984)	-	(26 748)
Closing balance	**26 418**	**24 067**	**107 048**	**-**	**157 533**
Carrying amount as at 31 December 2008	**201 126**	**10 456**	**133 393**	**44 620**	**389 595**

As at 31 December 2007 and 31 December 2008 the Group performed a revaluation of its premises on the basis of a valuation by an independent firm of appraisers. The market value of premises was assessed using the sales comparison method. The negative or positive difference between the carrying amount and the revalued amount less the related deferred tax asset or liability were recorded respectively as a debit or credit to a revaluation reserve in the consolidated statement of changes in equity.

As at 31 December 2008 the carrying amount of premises would have been USD 134 625 thousand (2007: USD 50 979 thousand) had the premises been carried at cost less depreciation.

In thousands of US Dollars	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Carrying amount as at 31 December 2006	**77 162**	**25 207**	**79 756**	**6 012**	**188 137**
Cost or valuation					
Opening balance	96 541	29 313	165 140	6 012	297 006
Revaluation	51 206	-	-	-	51 206
Additions and transfers	578	13 542	62 830	3 007	79 957
Disposals	(986)	(7 728)	(15 157)	(7 649)	(31 520)
Translation movement	7 762	2 378	14 577	442	25 159
Closing balance	**155 101**	**37 505**	**227 390**	**1 812**	**421 808**
Accumulated depreciation					
Opening balance	19 379	4 106	85 384	-	108 869
Revaluation	7 642	-	-	-	7 642
Depreciation (Note 28)	1 711	8 888	24 053	-	34 652
Disposals	(58)	(334)	(11 447)	-	(11 839)
Translation movement	731	560	6 667	-	7 958
Closing balance	**29 405**	**13 220**	**104 657**	**-**	**147 282**
Carrying amount as at 31 December 2007	**125 696**	**24 285**	**122 733**	**1 812**	**274 526**

15 Due to Other Banks

In thousands of US Dollars	2008	2007
Correspondent accounts and overnight placements of other banks		
- Russian Federation	96 559	59 503
- Other countries	174 915	37 242
Term placements of the CBRF	4 960 208	-
Term placements of other banks	1 766 505	2 159 197
Sale and repurchase agreements with the CBRF	405 940	-
Sale and repurchase agreements with other banks	2 938	593 519
Total due to other banks	**7 407 065**	**2 849 461**

As at 31 December 2008 the ten largest aggregate balances due to other banks amounted to USD 6 412 028 thousand (2007: USD 1 594 018 thousand) or 86.6% (2007: 55.9%) of total due to other banks, of which USD 5 366 148 thousand (2007: nil) represented balances outstanding to the CBRF.

As at 31 December 2008 the balances outstanding to the CBRF comprised of the Rouble-denominated loans received (i) under a cross-guarantee lending programme (Note 33) in the amount of USD 1 771 350 thousand bearing interest rates from 8.3% to 12.0% p.a. and having maturity dates ranging from April to June 2009; (ii) under a secured lending programme in the amount of USD 470 740 thousand bearing interest rates from 10.0% to 11.0% p.a. with maturity dates ranging from February to March 2009 and secured by loans and advances to customers in the amount of USD 837 201 thousand (Note 10); (iii) under sale and repurchase agreements in the amount of USD 405 940 thousand with the fair value of securities pledged of USD 404 318 thousand, and (iv) other regular money market finance in the amount of USD 2 718 118 thousand including the finance obtained through unsecured finance auctions.

As at 31 December 2008 own trading securities (Note 8) and investment securities available for sale (Note 11) with the aggregated fair value of USD 365 891 thousand (2007: USD 534 426 thousand) have been sold to third parties under sale and repurchase agreements with the CBRF and other banks. In addition, as at 31 December 2008 trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 43 044 thousand (2007: USD 324 999 thousand) were transferred and therefore effectively pledged under sale and purchase agreements with the CBRF and other banks.

As at 31 December 2008 and 2007 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2008 the estimated fair value of due to other banks was USD 7 407 065 thousand (2007: USD 2 849 461 thousand). Refer to Note 35.

As at 31 December 2008 included within term placements of other banks are margin call deposits in the amount of USD 179 003 thousand (2007: USD 21 700 thousand) received by the Group as collateral under transactions with derivatives with banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

16 Customer Accounts

In thousands of US Dollars	2008	2007
Commercial organisations		
- Current/settlement accounts	2 023 659	2 524 597
- Term deposits	2 948 189	3 968 881
Individuals		
- Current/demand accounts	3 392 325	3 333 292
- Term deposits	2 753 980	1 585 263
State and public organisations		
- Current/settlement accounts	2 139	32 179
- Term deposits	1 462 774	736 180
Total customer accounts	**12 583 066**	**12 180 392**

Economic sector concentrations within customer accounts were as follows:

	2008		2007	
In thousands of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	6 146 305	48	4 918 555	39
Finance and investment companies	1 762 072	14	726 913	6
State and public organisations	1 464 913	12	768 359	6
Manufacturing	956 532	8	1 058 087	9
Trade and commerce	611 543	5	847 555	7
Energy, oil and gas	592 379	5	2 283 247	19
Mass media and telecommunication	339 940	3	446 561	4
Science	33 526	0	197 717	2
Other	675 856	5	933 398	8
Total customer accounts	**12 583 066**	**100**	**12 180 392**	**100**

As at 31 December 2008 the ten largest aggregate balances amounted to USD 3 715 023 thousand (2007: USD 4 562 847 thousand) or 29.5% (2007: 37.5%) of the total customer accounts, of which USD 1 362 048 thousand (2007: USD 1 774 914 thousand) represented balances outstanding to Alfa Group (Note 36) and its shareholders.

Included in customer accounts are balances in the amount of USD 33 031 thousand (2007: USD 51 554 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2008 included within customer accounts are margin call deposits in the amount of USD 123 801 thousand (2007: USD 58 692 thousand) received by the Group as collateral under transactions with derivatives with customers.

As at 31 December 2008 the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. As at 31 December 2008 the estimated fair value of customer accounts was USD 12 583 066 thousand (2007: USD 12 180 392 thousand). Refer to Note 35.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

17 Debt Securities Issued

In thousands of US Dollars	2008	2007
Notes issued under a DPR Programme	693 916	1 047 105
Promissory notes and domestic bonds	411 500	789 192
Euro Medium Term Notes maturing in 2012	381 887	447 414
Euro Medium Term Notes maturing in 2009	381 380	405 467
Euro Medium Term Notes maturing in 2013	302 988	-
Euro-Commercial Papers	218 879	157 385
Euro Medium Term Notes maturing in 2008	-	249 539
Russian Rouble denominated bonds maturing in 2008	-	82 834
Total debt securities issued	**2 390 550**	**3 178 936**

In 2006 the Group established a Diversified Payment Rights Secured Debt Issuance Programme, whereby notes issued under the program are collateralised by the Group's rights to funds being transferred through the Group's correspondent accounts ("DPR Programme").

On 30 March 2007 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 145 000 thousand and USD 200 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 2.0% per annum respectively payable quarterly. The notes are repayable by quarterly instalments starting from 15 June 2007 for Euro denominated notes and 15 June 2008 for US Dollar denominated notes until maturity on 15 March 2012. As at 31 December 2008 the effective interest rate was 5.6% per annum for EUR-denominated bonds and 4.3% per annum for USD-denominated bonds (2007: 7.2% and 8.3% per annum respectively). The issue proceeds net of transaction costs amounted to EUR 144 087 thousand and USD 198 464 thousand.

On 7 December 2006 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 230 000 thousand and USD 260 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 1.9% per annum respectively payable quarterly. The notes are repayable by quarterly instalments starting from 15 March 2007 until maturity on 15 December 2011. As at 31 December 2008 the effective interest rate was 5.8% per annum for EUR-denominated bonds and 4.5% per annum for USD-denominated bonds (2007: 7.2% and 8.2% per annum respectively). The issue proceeds net of transaction costs amounted to EUR 228 468 thousand and USD 258 259 thousand.

On 30 March 2006 the Group issued US Dollar denominated notes with a nominal value of USD 350 000 thousand under the DPR Programme. These notes bear a coupon at a rate of LIBOR plus 1.6% per annum payable quarterly and are repayable by quarterly instalments starting from 15 June 2006 until maturity on 15 March 2011. As at 31 December 2008 the effective interest rate was 4.1% per annum (2007: 8.3% per annum). The issue proceeds net of transaction costs amounted to USD 344 175 thousand.

The Group is also required to deposit with designated banks funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme (Note 9).

As at 31 December 2008 the Group repurchased on the market notes issued under the DPR Programme with a nominal value of USD 44 386 thousand and EUR 46 868 thousand (2007: USD 32 900 thousand and EUR 5 100 thousand).

Promissory notes and domestic bonds comprise of debt securities issued by the Group with a discount to face value or with interest accrual in Russian Roubles, US Dollars and Euros and bear an effective interest rate from 0.0% to 12.5% depending on the type of issue and currency of the security (2007: from 0.0% to 8.0% p.a.).

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 000 thousand which was increased in November 2006 up to USD 2 000 000 thousand.

17 Debt Securities Issued (Continued)

On 24 June 2008 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a fixed coupon at a rate of 9.25% per annum payable semi-annually and mature on 24 June 2013. The issue proceeds net of transaction costs and discount amounted to USD 398 126 thousand and the effective interest rate at origination was 9.6% per annum.

On 25 June 2007 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 500 000 thousand. The notes carry a fixed coupon at a rate of 8.2% per annum payable semi-annually and mature on 25 June 2012. The issue proceeds net of transaction costs and discount amounted to USD 497 918 thousand and the effective interest rate at origination was 8.5% per annum.

On 3 October 2006 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a fixed coupon at a rate of 7.875% per annum payable semi-annually and mature on 10 October 2009. The issue proceeds net of transaction costs and discount amounted to USD 398 586 thousand and the effective interest rate at origination was 8.2% per annum.

As at 31 December 2008 the Group repurchased on the market notes issued under the MTN Programme with a nominal value of USD 239 084 thousand (2007: USD 52 000 thousand).

On 11 December 2003 the Group established a Euro Commercial Paper Programme ("ECP Programme"). Initially the aggregate principal amount of outstanding notes issued under the ECP Programme at any time was not to exceed USD 200 000 thousand and the term of the notes was not to be more than 365 days. In November 2006, the maximum allowed principal amount of outstanding notes was increased to USD 1 000 000 thousand. As at 31 December 2008 the nominal value of outstanding notes was USD 162 210 thousand and EUR 43 000 thousand (2007: USD 102 950 thousand and EUR 40 000 thousand) and they were issued at a discount to the nominal value ranging from 7.5% to 8.3% (2007: 5.0% to 6.7%) depending on the type of issue. As at 31 December 2008 the average effective interest rate at origination on notes outstanding was 8.8% for USD-denominated notes and 8.8% for EUR-denominated notes (2007: 7.2% and 7.1% respectively).

The financial result from repurchase of debt securities issued is disclosed in Note 26.

As at 31 December 2008 and 2007 the fair values of debt securities issued estimated either using ask price if the security is quoted or valuation techniques (Note 35) if the security is unquoted were as follows:

	2008		2007	
In thousands of US Dollars	**Total fair value**	**Carrying value**	**Total fair value**	**Carrying value**
Notes issued under a DPR Programme	696 361	693 916	1 022 769	1 047 105
Promissory notes and domestic bonds	408 664	411 500	786 261	789 192
Euro Medium Term Notes maturing in 2012	229 177	381 887	423 722	447 414
Euro Medium Term Notes maturing in 2009	372 878	381 380	394 818	405 467
Euro Medium Term Notes maturing in 2013	215 126	302 988	-	-
Euro-Commercial Papers	218 879	218 879	157 385	157 385
Euro Medium Term Notes maturing in 2008	-	-	248 871	249 539
Russian Rouble denominated bonds maturing in 2008	-	-	82 858	82 834
Total debt securities issued	**2 141 085**	**2 390 550**	**3 116 684**	**3 178 936**

Refer to Note 35 for the discount rates used for fair valuation.

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 31.

18 Syndicated and Other Loans

In thousands of US Dollars	2008	2007
Syndicated loan maturing on 23 January 2009	455 748	457 698
Loan from SDIA maturing on 9 December 2013	266 520	-
Syndicated loan maturing on 13 July 2009	249 294	-
Syndicated loan maturing on 14 January 2010	70 527	-
Syndicated loan maturing on 7 July 2009	20 022	-
Syndicated loan maturing on 23 May 2009	1 737	-
Syndicated loan maturing on 23 July 2008	-	462 571
Syndicated loan maturing on 7 November 2008	-	307 960
Syndicated loan maturing on 17 December 2008	-	125 861
Syndicated and other loans	**1 063 848**	**1 354 090**

On 25 July 2007 the Group received a syndicated loan in the amount of USD 900 000 thousand by two tranches in the amount of USD 447 875 thousand and USD 452 125 thousand. The first tranche matured on 23 January 2009 and bore a floating interest rate of LIBOR plus 0.6% per annum payable semi-annually. The second tranche matured on 23 July 2008 and was repaid in the amount of USD 452 125 thousand at its maturity date. As at 31 December 2008 the effective interest rate was 3.8% per annum for the first tranche. The issue proceeds net of transaction costs amounted to USD 445 148 thousand for the first tranche and USD 450 277 thousand for the second tranche and effective interest rate at origination was 3.8% per annum for the first tranche and 4.0% per annum for the second tranche. The second tranche was fully repaid on 23 January 2009.

On 9 December 2008 in relation to the acquisition of OJSC Bank Severnaya Kazna (Note 37) the Group received a RR 7 800 000 thousand loan from the State Deposit Insurance Agency (“SDIA”) carrying a fixed interest rate of 6.5% p.a. payable monthly. The loan is repayable in 5 instalments: four instalments of RR 1 000 million payable on 9 December each year from 2009 to 2012 and the fifth instalment of RR 3 800 million payable on 9 December 2013. The loan is secured by loans and advances to customers in the amount of USD 395 929 thousand (Note 10).

On 14 July 2008 the Group received a syndicated loan in the amount of USD 315 000 thousand by two tranches in the amount of USD 245 500 thousand and USD 69 500 thousand. The first tranche matures on 13 July 2009 and bears floating interest rate of LIBOR plus 1.0% per annum payable semi-annually. The second tranche matures on 14 January 2010 and bears floating interest rate of LIBOR plus 1.3% per annum payable semi-annually. As at 31 December 2008 the effective interest rate was 4.9% per annum for the first tranche and 5.1% per annum for the second tranche. The issue proceeds net of transaction costs amounted to USD 243 544 thousand for the first tranche and USD 68 861 thousand for the second tranche.

As at 31 December 2008 and 2007 the estimated fair value of syndicated and other loans was USD 1 023 848 thousand (2007: USD 1 360 608 thousand).

Refer to Note 35 for the discount rates used for fair value calculation. Currency, maturity and interest rate analyses of syndicated loans are disclosed in Note 31.

19 Subordinated Debt

In thousands of US Dollars	2008	2007
Subordinated loan maturing in 2017	264 437	300 909
Subordinated loan maturing in 2015	199 278	225 097
Total subordinated debt	**463 715**	**526 006**

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 000 thousand. The notes bear a fixed interest rate of 8.635% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at a rate per annum representing the aggregate of the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay this subordinated loan at nominal on 22 February 2012. The issue proceeds net of transaction costs were equal to USD 298 525 thousand and effective interest rate at origination was 9.0% per annum. As at 31 December 2008 the Group repurchased on the market the subordinated notes maturing in 2017 with a nominal value of USD 41 915 thousand (2007: USD 6 500 thousand).

On 9 December 2005 the Group issued subordinated notes in the amount of USD 225 000 thousand. The notes bear a fixed interest rate of 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.3% per annum payable semi-annually until maturity on 9 December 2015. The Group has an option to repay this subordinated loan on 9 December 2010. The issue proceeds net of transaction costs were equal to USD 223 610 thousand and effective interest rate at origination was 9.0% per annum. As at 31 December 2008 the Group repurchased on the market the subordinated notes maturing in 2015 with a nominal value of USD 26 250 thousand (2007: nil).

The financial result from repurchase of subordinated debt is disclosed in Note 26.

As at 31 December 2008 and 2007 the fair value of subordinated debt determined using the asking price was as follows:

	2008		2007	
In thousands of US Dollars	Total fair value	Carrying value	Total fair value	Carrying value
Subordinated loan maturing in 2017	133 841	264 437	282 866	300 909
Subordinated loan maturing in 2015	126 842	199 278	217 184	225 097
Total subordinated debt	**260 683**	**463 715**	**500 050**	**526 006**

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31.

20 Other Financial Liabilities

In thousands of US Dollars	Note	2008	2007
Derivative financial instruments	34	533 472	150 775
Trade creditors		88 951	93 185
Payable on operations with securities		86 428	155 337
Provision for losses on credit related commitments	33	45 905	21 383
Plastic card and other settlements with clients		19 634	118 648
Conversion operations		19 116	2 669
Other		39 434	23 597
Total other financial liabilities		**832 940**	**565 594**

As at 31 December 2008 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2008 the estimated fair value of other financial liabilities was USD 832 940 thousand (2007: USD 565 594 thousand). Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

21 Other Liabilities

In thousands of US Dollars	2008	2007
Accrued staff costs	60 327	105 271
Current income tax payable	40 322	17 905
Taxation payable, other than on income	9 973	421
Other	-	4 948
Total other liabilities	**110 622**	**128 545**

22 Share Capital

	2008		**2007**	
In thousands of US Dollars	**Number of shares**	**Total share capital, in thousands of US Dollars**	**Number of shares**	**Total share capital, in thousands of US Dollars**
Total share capital as at 1 January	**694 800 000**	**694 800**	**344 800 000**	**344 800**
New shares issued	250 000 000	250 000	350 000 000	350 000
Total share capital as at 31 December	**944 800 000**	**944 800**	**694 800 000**	**694 800**

On 30 June 2008 the Company issued to ABHH 250 000 000 additional new ordinary shares in exchange for cash consideration of USD 250 000 thousand. On 28 June 2007 the Company issued to ABHH 350 000 000 additional new shares in exchange for cash consideration of USD 350 000 thousand.

As at 31 December 2008 authorised, issued and fully paid share capital of ABH Financial Limited comprised 944 800 000 ordinary shares (31 December 2007: 694 800 000 ordinary shares). All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

In January 2007 the Company declared dividends in the amount USD 92 393 thousand or USD 0.27 per share paid in kind by means of distribution of the total interest in one of its associates (Note 11).

23 Interest Income and Expense

In thousands of US Dollars	**2008**	**2007**
Interest income		
Loans and advances to corporate customers	2 062 244	1 197 309
Loans and advances to individuals	451 096	269 109
Due from other banks	159 234	162 193
Trading securities and repurchase receivables	124 737	77 494
Debt investments available for sale and repurchase receivables	26 980	28
Other	-	110
Total interest income	**2 824 291**	**1 706 243**
Interest expense		
Term deposits of legal entities	593 172	170 019
Due to other banks	251 145	128 601
Debt securities issued	229 984	202 292
Current/ settlement accounts	116 016	88 459
Term deposits of individuals	108 532	78 525
Syndicated loans	60 202	75 632
Subordinated debt	45 770	41 850
Other	912	4 833
Total interest expense	**1 405 733**	**790 211**
Expenses directly attributable to lending operations	**36 665**	**17 015**
Net margin from lending operations	**1 381 893**	**899 017**

Expenses directly attributable to lending operations include property tax and insurance costs relating to the leased assets which are directly attributable to finance leasing operations and regular contributions to the State Deposit Insurance Agency.

Refer to Note 36 for details of related party transactions.

24 Fee and Commission Income and Expense

In thousands of US Dollars	2008	2007
Fee and commission income		
Commission on settlement transactions	249 522	169 637
Commission on cash and foreign currency exchange transactions	68 556	55 133
Commission for consulting services	48 699	56 463
Agency commission on insurance operations	21 485	6 606
Commission on guarantees issued	15 297	16 536
Commission on transactions with securities	8 337	8 621
Commission from fiduciary activities	2 894	1 589
Other	5 903	4 388
Total fee and commission income	**420 693**	**318 973**
Fee and commission expense		
Commission on settlement transactions	56 860	38 819
Commission on cash and foreign currency exchange transactions	6 534	7 646
Commission for consulting services	6 180	7 072
Commission on transactions with securities	4 183	4 853
Commission from fiduciary activities	1 706	484
Other	4 291	1 732
Total fee and commission expense	**79 754**	**60 606**
Net fee and commission income	**340 939**	**258 367**

Refer to Note 36 for details of related party transactions.

25 Trading Gains

In thousands of US Dollars	2008	2007
Spot deals	(193 701)	35 587
Term deals	267 224	7 716
Total gains less losses arising from trading securities	**73 523**	**43 303**

In thousands of US Dollars	2008	2007
Spot deals	(359 993)	31 257
Term deals	(134 351)	95 246
Foreign exchange translation gains less losses / (losses less gains)	775 022	(107 546)
Total gains less losses arising from foreign currencies and precious metals	**280 678**	**18 957**

26 Gains Arising from Acquisition of Own Debts

In thousands of US Dollars	Note	2008	2007
Euro Medium Term Notes maturing in 2013	17	47 376	-
Euro Medium Term Notes maturing in 2012	17	27 328	648
Notes issued under a DPR Programme	17	21 015	610
Euro Medium Term Notes maturing in 2009	17	5 915	906
Subordinated loan maturing in 2017	19	21 523	573
Subordinated loan maturing in 2015	19	15 680	-
Total gains arising from acquisition of own debts		**138 837**	**2 737**

27 Other Operating Income

In thousands of US Dollars	Note	2008	2007
Revenue from sale of rights to film licenses		45 000	1 232
Gain on disposal of investment property	13	13 053	3 878
Dividend income		2 358	4 005
Penalties received		2 310	351
Other		16 320	5 971
Total other operating income		**79 041**	**15 437**

Refer to Note 36 for details of related party transactions.

28 Operating Expenses

In thousands of US Dollars	Note	2008	2007
Staff costs		430 328	369 639
Rent		83 837	58 372
Computer and telecommunications expenses		53 190	61 560
Depreciation	14	47 372	34 652
Expenses related to premises and equipment		36 776	34 318
Consulting and professional services		29 641	20 063
Maintenance		25 247	18 637
Taxes other than income tax		24 019	8 541
Advertising and marketing		20 600	19 003
Administrative expenses		17 269	11 351
Travel expenses		9 414	9 072
Amortisation of computer software	13	9 411	10 868
Other		26 145	25 889
Total operating expenses		**813 249**	**681 965**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 32 818 thousand (2007: USD 27 451 thousand). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff costs are long-term bonuses in the amount of USD 9 146 thousand (2007: USD 8 613 thousand), which are payable at least one year after balance sheet date.

Refer to Note 36 for details of related party transactions.

29 Income Taxes

Income tax expense comprises the following:

In thousands of US Dollars	2008	2007
Current tax	148 064	105 368
Deferred tax	22 495	(29 920)
Income tax expense for the year	**170 559**	**75 448**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 24% (2007: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2007: from 0% to 15%).

On 26 November 2008 the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the enacted tax rate of 20% to deferred tax balances as at 31 December 2008.

In thousands of US Dollars	2008	2007
IFRS profit before tax	**400 689**	**328 934**
Theoretical tax charge at the statutory rate (2008: 24%; 2007: 24%)	96 165	78 944
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impact of change in tax rate to 20% effective from 1 January 2009	(911)	-
- Effect of change in estimates relating to deductibility of provision for loan impairment on deferred taxation (Note 4)	64 879	-
- Effect of change in estimates relating to deductibility of provision for loan impairment on current taxation (Note 4)	49 002	-
- Non-deductible expenses	12 224	8 326
- Income which is exempt from taxation	(3 911)	(2 235)
- Income earned in tax free jurisdictions	(46 889)	(9 587)
Income tax expense for the year	**170 559**	**75 448**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2007: 24%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 9%.

29 Income Taxes (Continued)

In thousands of US Dollars	31 December 2007	Translation movement recorded directly in equity	Business combi-nations	Recorded in profit or loss	Recorded directly in equity	31 December 2008
Tax effect of deductible temporary differences						
Accruals	20 883	(3 347)	2 201	(5 874)	-	13 863
Available for sale investments	-	(136)	-	3 093	10 821	13 778
Provision for loan impairment	32 850	(4 042)	13 168	(41 976)	-	-
Trading securities	1 525	(467)	-	5 774	-	6 832
Other	7 046	(1 352)	-	3 987	-	9 681
Gross deferred tax asset	**62 304**	**(9 344)**	**15 369**	**(34 996)**	**10 821**	**44 154**
Deferred tax netted off within individual entities	-	-	-	(19 671)	-	(19 671)
Deferred tax asset	**62 304**	**(9 344)**	**15 369**	**(54 667)**	**10 821**	**24 483**
Tax effect of taxable temporary						
Premises and equipment	(49 067)	7 566	(17 679)	18 745	3 995	(36 440)
Intangible assets and other fair value adjustments	-	676	(10 138)	-	-	(9 462)
Investments	-	(7)	-	(7 843)	-	(7 850)
Provision for loan impairment	-	-	-	(5 054)	-	(5 054)
Investment property	(7 772)	1 119	-	6 653	-	-
Gross deferred tax liability	**(56 839)**	**9 354**	**(27 817)**	**12 501**	**3 995**	**(58 806)**
Deferred tax netted off within individual entities	-	-	-	19 671	-	19 671
Deferred tax liability	**(56 839)**	**9 354**	**(27 817)**	**32 172**	**3 995**	**(39 135)**
Total net deferred tax asset/(liability)	**5 465**	**10**	**(12 448)**	**(22 495)**	**14 816**	**(14 652)**

29 Income Taxes (Continued)

In thousands of US Dollars	31 December 2006	Translation movement recorded directly in equity	Recorded in profit or loss	Recorded directly in equity	31 December 2007
Tax effect of deductible temporary differences					
Tax loss carried forward	2 740	76	(2 816)	-	-
Provision for loan impairment	-	1 378	31 472	-	32 850
Trading securities	-	64	1 461	-	1 525
Accruals	22 565	1 502	(3 184)	-	20 883
Other	6 056	464	526	-	7 046
Gross deferred tax asset	**31 361**	**3 484**	**27 459**	-	**62 304**
Deferred tax netted off within individual entities	(28 621)	-	28 621	-	-
Deferred tax asset	**2 740**	**3 484**	**56 080**	-	**62 304**
Tax effect of taxable temporary differences					
Premises, equipment and intangible assets	(8 676)	(2 428)	(27 507)	(10 456)	(49 067)
Provision for loan impairment	(25 056)	(735)	25 791	-	-
Investment property	(7 242)	(526)	(4)	-	(7 772)
Trading securities	(4 062)	(119)	4 181	-	-
Gross deferred tax liability	**(45 036)**	**(3 808)**	**2 461**	**(10 456)**	**(56 839)**
Deferred tax netted off within individual entities	28 621	-	(28 621)	-	-
Deferred tax liability	**(16 415)**	**(3 808)**	**(26 160)**	**(10 456)**	**(56 839)**
Total net deferred tax (liability)/asset	**(13 675)**	**(324)**	**29 920**	**(10 456)**	**5 465**

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

30 Segment Analysis

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

Business Segments. The Group is organised on a basis of four main business segments:

- Corporate banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal instalment loans, car loans and mortgages, money transfers and private banking services.
- Investment banking - comprises securities trading, debt and equity capital markets services, derivative products, structured financing, corporate finance advisory services and merger and acquisition advice.
- Treasury - comprises the Group's funding activities and investing in liquid assets.

Under the current transfer pricing system used by the Group funds are ordinarily reallocated between segments at internal interest rates set by the Treasury Department of the Group, which are determined by reference to existing interest rate benchmarks.

30 Segment Analysis (Continued)

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

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Treasury	Elimina-tions	Total
2008						
Segment revenues						
External revenues	2 220 316	247 897	637 589	218 223	-	3 324 025
Revenues from other segments	1 254 816	48 317	257 072	2 003 405	(3 563 610)	-
Total revenues	**3 475 132**	**296 214**	**894 661**	**2 221 628**	**(3 563 610)**	**3 324 025**
Total revenues comprise:						
Interest income						2 824 291
Fee and commission income						420 693
Other operating income						79 041
Total revenues						**3 324 025**
Segment result	**(102 543)**	**74 556**	**(6 566)**	**520 159**	**-**	**485 606**
Unallocated costs						(35 503)
Share of results and impairment of associates						(49 414)
Profit before tax						**400 689**
Income tax expense						(170 559)
Profit for the year						**230 130**
Other segment items						
Capital expenditure	(222 561)	(15 179)	(189 244)	(2 052)	-	(429 036)
Depreciation and amortisation	(15 895)	(12 600)	(26 584)	(1 704)	-	(56 783)
Other non-cash expenses	(848 648)	(35 239)	(153 834)	(4 850)	-	(1 042 571)
31 December 2008						
Segment assets	**15 569 545**	**2 128 091**	**2 606 635**	**13 958 169**	**(7 276 442)**	**26 985 998**
Investments in associates						-
Current and deferred tax asset						66 388
Total assets						**27 052 386**
Segment liabilities	**12 042 776**	**1 180 827**	**6 146 305**	**12 545 193**	**(7 276 442)**	**24 638 659**
Unallocated liabilities						172 825
Current and deferred tax liability						79 457
Total liabilities						**24 890 941**

30 Segment Analysis (Continued)

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

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Treasury	Eliminations	Total
2007						
Segment revenues						
External revenues	1 289 752	219 718	409 412	121 771	-	2 040 653
Revenues from other segments	329 671	31 812	211 817	896 263	(1 469 563)	-
Total revenues	**1 619 423**	**251 530**	**621 229**	**1 018 034**	**(1 469 563)**	**2 040 653**
Total revenues comprise:						
Interest income						1 706 243
Fee and commission income						318 973
Other operating income						15 437
Total revenues						**2 040 653**
Segment result	**419 832**	**159 747**	**(222 983)**	**77 323**	**-**	**433 919**
Unallocated costs						(74 681)
Share of results and impairment of associates						(30 304)
Profit before tax						**328 934**
Income tax expense						(75 448)
Profit for the year						**253 486**
Other segment items						
Capital expenditure	(58 048)	(7 034)	(24 547)	(743)	-	(90 372)
Depreciation and amortisation	(29 239)	(3 543)	(12 364)	(374)	-	(45 520)
Other non-cash expenses	(69 129)	-	(178 979)	-	-	(248 108)
31 December 2007						
Segment assets	**15 181 225**	**3 002 711**	**4 717 898**	**6 247 765**	**(6 630 704)**	**22 518 895**
Investments in associates						58 973
Current and deferred tax asset						116 692
Total assets						**22 694 560**
Segment liabilities	**13 889 288**	**2 529 548**	**5 172 612**	**5 728 314**	**(6 630 704)**	**20 689 058**
Unallocated liabilities						76 061
Current and deferred tax liability						74 744
Total liabilities						**20 839 863**

Geographical segments. Refer to Note 31.

31 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprised of credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return of its operations.

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), and operational risks. The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance. The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significantly large exposures.

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

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management Department, the Retail Risk Management Department and Asset and Liability Management Committee ("ALCO"). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small and medium-size enterprises, mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal instalment loans, car loans and consumer loans portfolios.

Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan have their own Risk Management and Treasury Departments. For purpose of execution of lending operations these banks have limited authorities for credit decisions, and all credit exposures exceeding their authorities have to be approved by the Group's credit committees. For purpose of execution of operations with financial instruments Amsterdam Trade Bank N.V. follows the Investment Policy approved by Amsterdam Trade Bank N.V.'s Board of Directors; limits for JSC SB Alfa-Bank Kazakhstan's positions are defined by ALCO. Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan are consolidated for calculation of open currency position and interest rate risk exposure. The financial risk management of OJSC Bank Severnaya Kazna is performed centrally by Alfa-Bank. OJSC Bank Severnaya Kazna is not authorised to perform unilateral treasury and lending management functions.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

Risk assessment, management and control. The Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Group's Risk Management Department and Retail Risk Management Department. Compliance with the Group's standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate and presented to the Audit Committee and senior management of the Group.

31 Financial Risk Management (Continued)

There were not significant changes to the system of risk management in year 2008 compared to year 2007. A number of actions were taken throughout year 2008 to tighten policies and other requirements to mitigate the risks arising from deteriorating economic conditions.

Credit risk. The Group takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. During year 2008 the Lending Policy was revised by tightening the rules and increasing risk margins. The main changes were stricter concentration limits, increased interest rates, tightening of the requirements for collateral and restriction on the share of unsecured loans.

The Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on the special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 000 thousand have to be approved by the Executive Board. In certain circumstances (for example, based on tenor or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.

- The Retail Credit committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio, makes other decisions regarding retail lending. The committee convenes monthly and its members are representatives of all key retail departments of the Group.

Credit Process. In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower's creditworthiness, quality of proposed collateral and transaction's structure compliance with the Group's policies and limits.

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, cash-flow adequacy, long-term viability, credit history, competitive position and quality of collateral. Based on the assessment of the transaction's and borrower's risks, an internal rating is assigned to the borrower, collateral provided and the transaction as a whole.

31 Financial Risk Management (Continued)

The rating assignment is governed by an internal rating methodology. In accordance with the internal rating methodology the transaction is assigned a rating category from I to V.

- rating I - high quality credit transaction; the given rating is characterized with minimum credit risk of the transaction due to a great safety cushion of cash flows of the borrower and analyzed transaction combined with high quality collateral;
- rating II - standard quality credit transaction; assignment of such rating usually means low probability of default on such transactions due to an optimal combination of quality of cash flows of the borrower and analyzed transaction and proper collateral;
- rating III - stable quality credit transaction; assignment of such rating usually means acceptable quality of cash flows of the borrower and analyzed transaction and/or collateral;
- rating IV - low quality credit transaction; such transactions have rather high probability of default because of their poor quality and the lack or poor quality of collateral; and
- rating V - non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lay beyond the usual parity of risk and rewards. The Group does not enter into transactions with initial rating V.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draws a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

For the purposes of the credit risk management the Group stratified the loan portfolio to the following pools:

- Current loans pool includes current loans and loans technically overdue for less than 14 days which have ratings I-IV.
- Watch-list loans pool includes loans overdue for less than 14 days which demonstrated deterioration of credit quality.
- Problem loans pool includes loans with signs of impairment and loans overdue for more than 14 days, which however could be partially recovered.
- Defaulted loans pool includes loans which recovery requires foreclosure of collateral, commencement of litigation procedures.

Throughout 2008 transaction controls were strengthened: new loans within previously approved limits were granted to highly leveraged borrowers only after additional approval from the Risk Management Department.

Due to the nature of retail business, the Retail Risk Management Department has different risk management processes. Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. Therefore the scores can be developed only based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated technology environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

During 2008 some changes were introduced in order to tighten retail lending standards in view of expected recessionary trends. These changes primary related to the following areas: tighter acquisition cut offs on application score; introduction of new application scorecards for some segments that were earlier acquired through policy framework alone; lowering credit limits and debt burden ratios; broader coverage of credit bureaus before acquisition; stricter verification standards before approval; closure of high risk segments in specific pools in specific regions; reevaluation and change in pricing in line with higher anticipated risk; introduction of collection scores and tighter collection strategy and changes to upsell processes towards more tighter standards before upsell.

31 Financial Risk Management (Continued)

Monitoring. The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status. Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

During 2008 corporate and SME credit monitoring procedures were tightened: relationship managers and credit managers are obliged to visit clients monthly/quarterly/semi-annually depending on credit quality of the customers and magnitude of the exposure. Analysis of clients' sales, margins and loan portfolio dynamics is carried out on a monthly basis. There were several new control procedures developed: e.g. new reports from Operations on trades with various delays or problems, exposure reports on margin trading deals (in addition to existing controls of limits and margin), etc.

Monitoring of retail portfolios is conducted by the Retail Risk Management Department every month end or earlier based on the need. Such monitoring includes tracking the following indicators: approval/decline rates across products/customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sectoral caps identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability; and performance across products where such cards are used; and efficiency of the verification segmentation.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Group's risk appetite and portfolio limit structure.

Control. There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group's policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committee, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

At a transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Also the Group obtains collateral, such as a mortgage, pledge of assets, or floating charge over inventories. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques.

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

A credit risk premium is incorporated in risk assessment and lending decisions. The risk premium seeks to provide a fair compensation for the amount of each credit risk assumed by the Group.

31 Financial Risk Management (Continued)

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Group's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated balance sheet. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Analysis of maximum amount exposed to credit risk as at 31 December 2008 and 31 December 2007 was as follows:

In thousands of US Dollars	Note	2008	2007
Cash and cash equivalents (excluding cash on hand balances)	7	3 069 474	2 008 265
Mandatory cash balances with central banks		79 313	308 092
Debt trading securities	8	570 644	662 796
Repurchase receivables relating to debt securities	8	150 821	502 319
Due from other banks	9	1 837 436	1 916 685
Loans and advances to customers	10	17 969 661	15 330 090
Debt investments available for sale	11	317 152	8 969
Repurchase receivables relating to debt investments available for sale	11	215 070	-
Other financial assets	12	892 083	417 611
Cross guarantees	33	1 847 702	-
Guarantees issued	33	696 761	985 817
Import letters of credit	33	459 490	277 142
Total maximum amount exposed to credit risk		**28 105 607**	**22 417 786**

As at 31 December 2008 the amount of exposure to credit risk in relation to other financial assets was decreased by the margin call deposits received from banks and customers for the total amount of USD 302 804 thousand (2007: USD 80 392 thousand). Refer to Notes 15 and 16.

As at 31 December 2008 the amount of exposure to credit risk in relation to the issued import letters of credit was decreased by the collateral received from customers in the amount of USD 33 031 thousand (2007: USD 51 554 thousand). Refer to Note 16.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions and (ii) Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. Separate limits are established for the entities whose trading operations are performed through non-Moscow located trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group's proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group's derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, derivatives) trading desks. The fixed income and overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 10 000 thousand. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31 Financial Risk Management (Continued)

During year 2008 there were the following changes in market risk management: positions were reviewed and tightened where necessary and possible; business divisions have agreed not to take large new positions during this period of market turbulence, to restrict the list of instruments traded; margin parameters were reviewed and tightened for margin trading operations.

Equity price risk. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking position only, the Group uses a VaR model.

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

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

According to the assessments made by the Group as at 31 December 2008 and 2007, VaR estimates in respect of equity price risk do not exceed USD 10 000 thousand. The VaR measure of the exposure of the net equity position to market price fluctuations is not material: the long balance sheet position in equity instruments disclosed within trading securities and repurchase receivables is to considerable extent covered by the opposite position in equity derivatives. By the year end the Group had significantly decreased its exposure to equity price risk. Refer to Notes 8 and 34.

31 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, the Treasury Department of the Group is responsible for the centralised management of the currency risk of the Group. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department of the Group based on the management reports provided on open currency position. The Bank uses derivatives to manage current and forecast exposures resulting from foreign currencies. The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2008:

In thousands of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	2 310 843	1 106 979	418 118	24 079	-	3 860 019
Mandatory cash balances with	-	26 113	49 480	3 720	-	79 313
Trading securities	286 054	100 910	153 705	29 975	17 637	588 281
Repurchase receivables relating to trading securities	36 959	113 862	-	-	-	150 821
Due from other banks	803 786	808 815	224 216	619	-	1 837 436
Loans and advances to customers	8 518 166	8 099 080	1 250 087	102 328	-	17 969 661
Investments	114 490	202 662	-	-	54 524	371 676
Repurchase receivables relating to investments	17 990	197 080				215 070
Other financial assets	790 752	252 845	147 440	3 850	-	1 194 887
Other assets	8 016	174 829	10 122	-	178 177	371 144
Premises and equipment	-	-	-	-	389 595	389 595
Deferred tax asset	-	-	-	-	24 483	24 483
Total assets	**12 887 056**	**11 083 175**	**2 253 168**	**164 571**	**664 416**	**27 052 386**
Liabilities						
Due to other banks	1 025 207	5 814 930	453 231	113 697	-	7 407 065
Customer accounts	2 983 203	5 603 534	3 866 170	130 159	-	12 583 066
Debt securities issued	1 717 574	292 685	374 507	5 784	-	2 390 550
Syndicated and other loans	795 591	268 257	-	-	-	1 063 848
Subordinated debt	463 715	-	-	-	-	463 715
Other financial liabilities	648 702	85 820	96 101	2 317	-	832 940
Other liabilities	41 970	52 045	16 173	434	-	110 622
Deferred tax liability	-	-	-	-	39 135	39 135
Total liabilities	**7 675 962**	**12 117 271**	**4 806 182**	**252 391**	**39 135**	**24 890 941**
Net balance sheet position	**5 211 094**	**(1 034 096)**	**(2 553 014)**	**(87 820)**	**625 281**	**2 161 445**
Net balance sheet position less fair value of currency derivatives	**5 016 546**	**(1 043 361)**	**(2 626 975)**	**(88 087)**	**625 281**	**1 883 404**
Derivatives (Note 34)	**(3 357 195)**	**812 607**	**2 630 108**	**192 521**	**-**	**278 041**
Net balance sheet and derivatives position as at 31 December 2008	**1 659 351**	**(230 754)**	**3 133**	**104 434**	**625 281**	**2 161 445**

31 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2007:

In thousands of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	446 998	1 788 603	358 779	39 979	-	2 634 359
Mandatory cash balances with central banks	-	239 626	59 347	9 119	-	308 092
Trading securities	164 378	442 891	50 809	4 718	178 661	841 457
Repurchase receivables relating to trading securities	216 199	279 365	6 755	-	32 107	534 426
Due from other banks	949 184	386 657	564 830	16 014	-	1 916 685
Loans and advances to customers	7 300 859	6 580 061	1 345 406	103 764	-	15 330 090
Investments	8 969	-	-	-	105 232	114 201
Other financial assets	267 770	184 266	43 789	2 178	-	498 003
Other assets	2 756	123 925	92	21	53 623	180 417
Premises and equipment	-	-	-	-	274 526	274 526
Deferred tax asset	-	-	-	-	62 304	62 304
Total assets	**9 357 113**	**10 025 394**	**2 429 807**	**175 793**	**706 453**	**22 694 560**
Liabilities						
Due to other banks	1 112 834	1 300 070	392 057	44 500	-	2 849 461
Customer accounts	1 973 373	7 234 065	2 874 785	98 169	-	12 180 392
Debt securities issued	1 842 588	838 126	498 222	-	-	3 178 936
Syndicated and other loans	1 354 090	-	-	-	-	1 354 090
Subordinated debt	526 006	-	-	-	-	526 006
Other financial liabilities	276 097	262 807	22 238	4 452	-	565 594
Other liabilities	1 527	112 834	12 537	1 647	-	128 545
Deferred tax liability	-	-	-	-	56 839	56 839
Total liabilities	**7 086 515**	**9 747 902**	**3 799 839**	**148 768**	**56 839**	**20 839 863**
Net balance sheet position	**2 270 598**	**277 492**	**(1 370 032)**	**27 025**	**649 614**	**1 854 697**
Net balance sheet position less fair value of currency derivatives	**2 233 087**	**319 082**	**(1 382 973)**	**27 560**	**649 614**	**1 846 370**
Derivatives (Note 34)	**(759 761)**	**(548 302)**	**1 325 679**	**(9 289)**	**-**	**8 327**
Net balance sheet and derivatives position as at 31 December 2007	**1 473 326**	**(229 220)**	**(57 294)**	**18 271**	**649 614**	**1 854 697**

Derivatives in each column represents the fair value, as at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34. The net total represents fair value of the currency derivatives.

31 Financial Risk Management (Continued)

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation and CIS subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the consolidated statement of income. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group's exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 34), in performing sensitivity analysis the Groups includes its net position in other currencies into the net position in US Dollars. As at 31 December 2008 the Group's net currency position including foreign currency derivatives was as follows:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 700 475	-	232 568
Euro zone	-	(117 034)	459
US Dollar zone	(763 585)	392 904	-
Total exposure	**936 890**	**275 870**	**233 027**

As at 31 December 2008 if USD/RR, USD/EUR and EUR/RR rate changed by +/-30% respectively, this would effect the consolidated statement of income (pre-tax) of the Group in the following way:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 30% change in all foreign exchange rates	281 067	82 761	69 908
- 30% change in all foreign exchange rates	(281 067)	(82 761)	(69 908)

As at 31 December 2007 the Group's net currency position including foreign currency derivatives was as follows:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 167 181	-	(151 930)
Euro zone	-	1 207 211	31 987
US Dollar zone	(226 340)	61	-
Total exposure	**940 841**	**1 207 272**	**(119 943)**

At 31 December 2007 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would effect the consolidated statement of income (pre-tax) of the Group in the following way:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+10% change in all foreign exchange rates	94 084	120 728	(11 994)
-10% change in all foreign exchange rates	(94 084)	(120 728)	11 994

31 Financial Risk Management (Continued)

Interest rate risk. The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2008						
Total financial assets	9 524 255	6 375 319	2 779 908	7 515 521	72 161	26 267 164
Total financial liabilities	(11 728 940)	(7 639 575)	(2 647 923)	(2 724 746)	-	(24 741 184)
Less: Interest rate derivatives	1 262 236	677 838	(129 000)	(1 811 074)	-	-
Net interest sensitivity gap as at 31 December 2008	**(942 449)**	**(586 418)**	**2 985**	**2 979 701**	**72 161**	**1 525 980**
31 December 2007						
Total financial assets	8 117 382	3 905 179	2 131 739	7 706 986	316 027	22 177 313
Total financial liabilities	(12 588 635)	(4 443 207)	(1 399 296)	(2 223 341)	-	(20 654 479)
Less: Interest rate derivatives	(163 328)	182 350	17 500	(36 522)	-	-
Net interest sensitivity gap as at 31 December 2007	**(4 634 581)**	**(355 678)**	**749 943**	**5 447 123**	**316 027**	**1 510 723**

Refer to Note 34 for the information on interest rate derivatives used to manage the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

During 2008 interest rate risk limits have not been changed although ALCO plans to revisit the issue in the beginning of 2009, and having a quarterly review based on the changes in interest rate structure of assets and liabilities.

31 Financial Risk Management (Continued)

As at 31 December 2008, if interest rates at that date had been 300 basis points lower, with all other variables held constant, pre-tax profit for the year would have been USD 39 534 thousand (2007: USD 44 945 thousand based on 100 basis points shift) higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. Other components of equity (also pre-tax) would have been USD 6 967 thousand higher, as a result of a increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 300 basis points higher, with all other variables held constant, pre-tax profit for the year would have been USD 39 534 thousand (2007: USD 44 945 thousand based on 100 basis points shift) lower, mainly as a result of higher interest expense on short-term and variable rate liabilities. Other components of equity (also pre-tax) would have been USD 6 967 thousand lower, as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2008				2007			
In % per annum	**USD**	**RR**	**Euro**	**Other**	**USD**	**RR**	**Euro**	**Other**
Assets								
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Correspondent accounts and overnight placements with other banks	0.0	0.0	1.8	0.0	2.4	3.1	2.6	0.7
Mandatory cash balances with central banks	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Debt trading securities	7.7	10.1	4.4	6.6	9.9	11.1	4.4	6.2
Repurchase receivables relating to trading debt securities	7.2	7.8	-	-	8.2	9.0	9.3	-
Due from other banks	0.9	20.6	1.9	1.4	5.4	5.5	4.5	5.9
Loans and advances to customers	12.3	16.8	9.9	12.4	10.7	14.6	8.8	10.7
Debt investments available for sale	8.1	6.9	-	-	2.9	-	-	-
Repurchase receivables relating to debt securities available for sale	7.5	6.2	-	-	-	-	-	-
Liabilities								
Due to other banks	5.8	10.9	5.3	2.7	5.5	6.8	4.9	2.6
Customer accounts								
- current and settlement accounts	1.4	0.8	4.3	0.0	4.1	0.1	4.9	0.8
- term deposits	7.6	10.5	6.8	8.7	7.5	6.7	4.8	6.4
Debt securities issued	7.5	10.5	6.1	12.0	7.9	7.9	7.2	-
Syndicated and other loans	4.1	6.5	-	-	6.4	-	-	-
Subordinated debt	9.0	-	-	-	9.0	-	-	-

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

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2008 is disclosed in table below:

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	3 128 130	347 777	13 785	369 782	545	3 860 019
Mandatory cash balances with central banks	26 113	49 480	3 720	-	-	79 313
Trading securities	212 580	197 782	161 473	-	16 446	588 281
Repurchase receivables relating to trading securities	136 299	14 522	-	-	-	150 821
Due from other banks	295 924	1 405 408	46 686	89 418	-	1 837 436
Loans and advances to customers	16 582 225	555 643	816 981	12 839	1 973	17 969 661
Investments	288 589	29 187	45 470	8 430	-	371 676
Repurchase receivables relating to investments	215 070	-	-	-	-	215 070
Other financial assets	194 330	723 872	228 273	4 471	43 941	1 194 887
Other assets	359 440	11 595	44	-	65	371 144
Premises and equipment	364 320	18 640	6 631	4	-	389 595
Deferred tax asset	-	24 483	-	-	-	24 483
Total assets	**21 803 020**	**3 378 389**	**1 323 063**	**484 944**	**62 970**	**27 052 386**
Liabilities						
Due to other banks	6 360 998	810 294	186 089	15 307	34 377	7 407 065
Customer accounts	8 406 140	3 714 414	205 655	66 393	190 464	12 583 066
Debt securities issued	395 526	1 979 050	5 784	-	10 190	2 390 550
Syndicated and other loans	271 962	738 564	-	53 322	-	1 063 848
Subordinated debt	-	463 715	-	-	-	463 715
Other financial liabilities	271 491	515 952	32 022	12 402	1 073	832 940
Other liabilities	91 512	18 693	417			110 622
Deferred tax liability	39 135	-	-	-	-	39 135
Total liabilities	**15 836 764**	**8 240 682**	**429 967**	**147 424**	**236 104**	**24 890 941**
Net balance sheet position as at 31 December 2008	**5 966 256**	**(4 862 293)**	**893 096**	**337 520**	**(173 134)**	**2 161 445**

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2007 is disclosed in table below:

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 894 802	577 344	34 447	124 988	2 778	2 634 359
Mandatory cash balances with central banks	239 626	59 347	9 119	-	-	308 092
Trading securities	700 467	50 862	90 128	-	-	841 457
Repurchase receivables relating to trading securities	492 312	-	26 154	-	15 960	534 426
Due from other banks	402 107	1 123 869	272 841	117 868	-	1 916 685
Loans and advances to customers	13 806 135	484 230	1 020 187	19 538	-	15 330 090
Investments	105 232	-	-	8 969	-	114 201
Other financial assets	475 751	20 010	1 292	950	-	498 003
Other assets	180 417	-	-	-	-	180 417
Premises and equipment	263 263	4 681	6 582	-	-	274 526
Deferred tax asset	62 304	-	-	-	-	62 304
Total assets	**18 622 416**	**2 320 343**	**1 460 750**	**272 313**	**18 738**	**22 694 560**
Liabilities						
Due to other banks	1 591 714	1 135 454	64 031	10 374	47 888	2 849 461
Customer accounts	9 654 802	2 201 423	174 538	17 522	132 107	12 180 392
Debt securities issued	775 636	2 392 145	-	133	11 022	3 178 936
Syndicated and other loans	25 396	1 262 666	-	66 028	-	1 354 090
Subordinated debt	-	526 006	-	-	-	526 006
Other financial liabilities	466 243	86 628	911	817	10 995	565 594
Other liabilities	112 624	15 921	-	-	-	128 545
Deferred tax liability	56 839	-	-	-	-	56 839
Total liabilities	**12 683 254**	**7 620 243**	**239 480**	**94 874**	**202 012**	**20 839 863**
Net balance sheet position as at 31 December 2007	**5 939 162**	**(5 299 900)**	**1 221 270**	**177 439**	**(183 274)**	**1 854 697**

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine and Kazakhstan.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2008 and 2007.

Assets and liabilities have generally been allocated based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

Substantially all of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as most of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department and ALCO of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. ALCO approved the increase of the limit for available for sale securities portfolio and liquidity cushion. The crisis liquidity scenario was reviewed to account for the higher probabilities of delays in payments on corporate and retail loans.

31 Financial Risk Management (Continued)

The table below shows liabilities as at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed below is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
2008					
Due to other banks	2 857 911	4 239 632	164 951	356 815	7 619 309
Customer accounts - individuals	4 648 469	829 095	546 336	262 313	6 286 213
Customer accounts - other	3 087 212	1 384 445	1 333 667	1 037 776	6 843 100
Debt securities in issue	105 638	546 193	702 956	1 362 502	2 717 289
Syndicated and other loans	463 019	9 979	315 113	371 556	1 159 667
Subordinated debt	-	19 714	19 714	529 691	569 119
Other financial liabilities	165 020	61 585	318	26 640	253 563
Derivative financial instruments					
- net settled	69 645	178 409	154 478	66 301	468 833
- inflow	(527 889)	(625 779)	(29 850)	(175)	(1 183 693)
- outflow	553 802	661 365	32 039	1 126	1 248 332
Import letters of credit	27 576	41 328	275 896	147 721	492 521
Capital commitments	-	22 554	45 108	-	67 662
Total potential future payments for financial obligations as at 31 December 2008	**11 450 403**	**7 368 520**	**3 560 726**	**4 162 266**	**26 541 915**
2007					
Due to other banks	1 817 983	356 858	173 818	567 206	2 915 865
Customer accounts - individuals	4 260 397	337 053	329 666	59 989	4 987 105
Customer accounts - other	5 098 964	1 715 417	436 259	29 791	7 280 431
Debt securities issued	149 190	777 196	714 097	2 098 832	3 739 315
Syndicated and other loans	27 001	11 787	922 998	461 542	1 423 328
Subordinated debt	-	22 656	22 656	654 480	699 792
Other financial liabilities	250 526	1 949	-	140 830	393 305
Derivative financial instruments					
-net settled	70 629	38 965	12 170	24 666	146 430
-inflow	(1 641 144)	(959 813)	(86 598)	(86 332)	(2 773 887)
-outflow	1 646 031	941 937	91 351	86 637	2 765 956
Import letters of credit	59 906	111 884	44 601	112 305	328 696
Capital commitments	-	34 156	68 311	-	102 467
Total potential future payments for financial obligations as at 31 December 2007	**11 739 483**	**3 390 045**	**2 729 329**	**4 149 946**	**22 008 803**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

31 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

The following table represents analysis of assets and liabilities as at 31 December 2008 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within “demand and less than 1 month” based on the Management’s assessment of the portfolio’s realisability. Part of current/settlement/demand accounts was reallocated from “demand and less than 1 month” category to baskets with the later maturities. On the basis of past experience the Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	3 860 019	-	-	-	-	3 860 019
Mandatory cash balances with central banks	79 313	-	-	-	-	79 313
Trading securities	588 281	-	-	-	-	588 281
Repurchase receivables relating to trading securities	13 363	137 458	-	-	-	150 821
Due from other banks	1 706 052	41 425	5 568	84 391	-	1 837 436
Loans and advances to customers	2 289 444	5 238 903	2 555 553	7 885 761	-	17 969 661
Investments	-	92 054	35 390	189 708	54 524	371 676
Repurchase receivables relating to investments	23 661	191 409	-	-	-	215 070
Other financial assets	388 851	511 903	194 726	99 407	-	1 194 887
Other assets	-	192 967	-	-	178 177	371 144
Premises and equipment	-	-	-	-	389 595	389 595
Deferred tax asset	-	-	-	-	24 483	24 483
Total assets	**8 948 984**	**6 406 119**	**2 791 237**	**8 259 267**	**646 779**	**27 052 386**
Liabilities						
Due to other banks	2 844 738	4 088 538	158 148	315 641	-	7 407 065
Customer accounts	3 658 413	2 497 544	1 962 799	4 464 310		12 583 066
Debt securities issued	105 365	533 247	668 694	1 083 244	-	2 390 550
Syndicated and other loans	462 306	1 422	300 126	299 994	-	1 063 848
Subordinated debt	-	19 198	18 384	426 133	-	463 715
Other financial liabilities	273 484	284 156	162 996	112 304	-	832 940
Other liabilities	11 057	71 035	973	27 557	-	110 622
Deferred tax liability	-	-	-	-	39 135	39 135
Total liabilities	**7 355 363**	**7 495 140**	**3 272 120**	**6 729 183**	**39 135**	**24 890 941**
Net expected liquidity gap as at 31 December 2008	**1 593 621**	**(1 089 021)**	**(480 883)**	**1 530 084**	**607 644**	**2 161 445**
Cumulative expected liquidity gap as at 31 December 2008	**1 593 621**	**504 600**	**23 717**	**1 553 801**	**2 161 445**	

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2007 by their expected maturities as determined by the Group.

In thousands of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	2 634 359	-	-	-	-	2 634 359
Mandatory cash balances with central banks	308 092	-	-	-	-	308 092
Trading securities	841 457	-	-	-	-	841 457
Repurchase receivables relating to trading securities	503 550	8 899	21 977	-	-	534 426
Due from other banks	1 742 978	86 654	6 573	80 480	-	1 916 685
Loans and advances to customers	1 226 517	3 566 670	2 284 635	8 252 268	-	15 330 090
Investments	-	-	-	-	114 201	114 201
Other financial assets	488 290	4 446	718	4 522	27	498 003
Other assets	23 171	103 623	-	-	53 623	180 417
Premises and equipment	-	-	-	-	274 526	274 526
Deferred tax asset	-	-	-	-	62 304	62 304
Total assets	**7 768 414**	**3 770 292**	**2 313 903**	**8 337 270**	**504 681**	**22 694 560**
Liabilities						
Due to other banks	1 813 547	355 729	171 673	508 512	-	2 849 461
Customer accounts	4 901 090	2 865 195	1 328 165	3 085 942	-	12 180 392
Debt securities issued	148 709	761 482	625 304	1 643 441	-	3 178 936
Syndicated and other loans	27 002	11 787	922 997	392 304	-	1 354 090
Subordinated debt	-	22 656	22 656	480 694	-	526 006
Other financial liabilities	345 440	40 610	14 594	164 950	-	565 594
Other liabilities	106 933	21 509	103	-	-	128 545
Deferred tax liability	-	-	-	-	56 839	56 839
Total liabilities	**7 342 721**	**4 078 968**	**3 085 492**	**6 275 843**	**56 839**	**20 839 863**
Net expected liquidity gap as at 31 December 2007	**425 693**	**(308 676)**	**(771 589)**	**2 061 427**	**447 842**	**1 854 697**
Cumulative expected liquidity gap as at 31 December 2007	**425 693**	**117 017**	**(654 572)**	**1 406 855**	**1 854 697**	

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

31 Financial Risk Management (Continued)

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

32 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank and OJSC Bank Severnaya Kazna. Capital adequacy limits for Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan are established and monitored by the central banks of Netherlands and Kazakhstan, respectively. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the central banks' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to minimum capital requirements established by covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

In thousands of US Dollars	2008	2007
Tier 1 capital		
Paid up share capital	944 800	694 800
Retained earnings, cumulative translation reserve and minority interest	1 208 355	1 103 073
Less: Goodwill	(74 838)	-
Total tier 1 capital	**2 078 317**	**1 797 873**
Tier 2 capital		
Asset revaluation reserves	8 290	56 803
Subordinated debt	243 651	381 852
Total tier 2 capital	**251 941**	**438 655**
Total capital	**2 330 258**	**2 236 528**

The Group and Alfa-Bank were in compliance with all externally imposed capital requirements as at 31 December 2008 and 2007.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, other claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been recorded in these consolidated financial statements.

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

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Group conducts some transactions which might be considered to be as transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia which contribute a significant proportion of the Group's operating results. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2008 it had other possible obligations from exposure to other than remote tax risks of up to approximately USD 4 302 thousand (2007: USD 4 724 thousand).

Refer to Note 4 for details of results of the tax audit completed during 2008.

33 Contingencies and Commitments (Continued)

Capital commitments. As at 31 December 2008 the Group had capital commitments of USD 67 662 thousand (2007: USD 102 467 thousand), of which USD 18 860 thousand (2007: USD 47 160 thousand) related to construction expenditure and modernisation of premises and USD 48 802 thousand (2007: USD 55 307 thousand) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

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

In thousands of US Dollars	2008	2007
Not later than 1 year	71 698	43 001
Later than 1 year and not later than 5 years	108 469	92 862
Later than 5 years	8 299	8 389
Total operating lease commitments	**188 466**	**144 252**

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

Outstanding credit related commitments were as follows:

In thousands of US Dollars	Note	2008	2007
Cross guarantees	15	1 847 702	-
Guarantees issued		696 761	985 817
Import letters of credit	16	492 521	328 696
Export letters of credit		217 059	224 573
Total credit related commitments		**3 254 043**	**1 539 086**

Cross guarantees represent guarantees provided by Alfa-Bank to the CBRF in favour of other Russian banks under a special CBR lending programme. OAO Alfa-Bank also received such guarantees for a part of its borrowings from the CBR. Refer to Note 15.

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was USD 45 905 thousand as at 31 December 2008 (2007: USD 21 383 thousand).

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

In thousands of US Dollars	Note	2008	2007
Provision for losses on credit related commitments as at 1 January		**21 383**	**11 986**
Provision for losses on credit related commitments during the year		19 357	8 112
Commitments acquired under business combinations		9 645	-
Effect of translation to presentation currency		(4 480)	1 285
Provision for losses on credit related commitments as at 31 December	**20**	**45 905**	**21 383**

33 Contingencies and Commitments (Continued)

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF (for Alfa-Bank);
- to maintain a ratio of capital to risk-weighted assets as defined by Basel I;
- to maintain a minimum level of net assets;
- to maintain a minimum ratio of aggregated financial indebtedness;
- to maintain certain levels of credit ratings;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term debt securities issued.

The Group was in compliance with these covenants as at 31 December 2008 and 2007.

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In thousands of US Dollars	Notes	2008	2007
Loans and advances to customers pledged to the CBRF	10, 15	837 201	-
Loans and advances to customers pledged to the SDIA	10, 18	395 929	-
Margin call deposits	9	324 474	92 952
Investments available for sale classified as repurchase receivables	11,15	215 070	-
Trading securities classified as repurchase receivables	8, 15	150 821	534 426
Term deposits with other banks placed under the Diversified Payment Rights Secured Debt Issuance Programme	9, 17	84 197	80 480
Total		**2 007 692**	**707 858**

As at 31 December 2008 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or repledge in the absence of default of the counterparty was USD 166 855 thousand (2007: USD 671 743 thousand). As at 31 December 2008 the fair value of such securities sold under sale and repurchase agreements with other banks amounted to USD 43 044 thousand (2007: USD 324 999 thousand).

Mandatory cash balances with central banks in the amount of USD 79 313 thousand (2007: USD 308 092 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

34 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

34 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap and spot contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective balance sheet dates.

	2008			2007		
	Principal or agreed amount	Assets	Liabilities	Principal or agreed amount	Assets	Liabilities
In thousands of US Dollars		Positive fair value	Negative fair value		Positive fair value	Negative fair value
Deliverable forwards						
Securities						
-sale of securities	330 335	101 816	(13 352)	936 911	27 129	(2 030)
-purchase of securities	353	-	(1 264)	1 119	213	-
Non-deliverable forwards						
Securities						
-sale of securities	-	-	-	23 413	-	(17 867)
Futures						
Securities						
-sale of securities	-	-	-	72 373	330	(25)
-purchase of securities	-	-	-	55 437	164	(32)
Interest rate						
-sale of interest rate futures	14 832	-	(293)	50 436	-	(481)
-purchase of interest rate futures	-	-	-	75 556	-	(444)
Call options						
Securities						
-written call options	606	-	(2)	7 920	-	(638)
-purchased call options	481	1	-	1 300	155	-
Foreign currency						
-written call options	162 000	-	(17 614)	162 000	-	(15 815)
-purchased call options	162 000	17 614	-	162 000	15 869	-
Index						
-written call options	129	-	(1)	-	-	-
Put options						
Securities						
-written put options	-	-	-	2 567	-	(124)
-purchased put options	-	-	-	3 408	384	-
	-					
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	2 495 715	152 013	(57 815)	1 055 009	1 067	(6 155)
Total return swaps on securities - pay floating interest, receive total return on securities	-	-	-	74 771	3 801	(1 431)
Credit default swap	10 000	-	(1 918)	-	-	-
Total		**271 444**	**(92 259)**		**49 112**	**(45 042)**

34 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the balance sheet date, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet dates.

	2008		2007	
In thousands of US Dollars	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	80 972	57 829	43 984	49 266
- USD payable on settlement	(988 698)	(1 191 438)	(1 401 194)	(269 645)
- EUR receivable on settlement	1 036 589	828 062	1 176 579	153 856
- EUR payable on settlement	(1 411)	(58 248)	(468)	(82 916)
- RR receivable on settlement	10 721	173 223	293 031	195 843
- RR payable on settlement	(44 758)	-	(71 177)	(52 002)
- Other currencies receivable on settlement	-	140 609	393	-
- Other currencies payable on settlement	(9 673)	-	-	(339)
Non-deliverable forwards				
- USD receivable on settlement	5 041 852	946 158	882 302	5 375 681
- USD payable on settlement	(1 857 677)	(5 351 502)	(4 310 375)	(986 172)
- EUR receivable on settlement	919 656	3 696 484	2 147 197	483 439
- EUR payable on settlement	(2 712 019)	(1 178 912)	(313 611)	(2 394 522)
- RR receivable on settlement	1 261 010	1 209 926	1 219 940	452 229
- RR payable on settlement	(1 708 611)	(88 904)	(241 752)	(2 344 414)
- Other currencies receivable on settlement	86 349	441 382	1 155 811	974 342
- Other currencies payable on settlement	(400 264)	(65 882)	(479 117)	(1 660 379)
Deliverable swaps				
- USD receivable on settlement	-	-	320 216	-
- USD payable on settlement	(94 691)	-	(320 216)	-
- EUR receivable on settlement	99 907	-	325 399	-
- EUR payable on settlement	-	-	(325 399)	-
Non-deliverable swaps				
- USD payable on settlement	-	-	(143 608)	-
- EUR receivable on settlement	-	-	156 125	-
Net fair value of foreign exchange derivatives and derivatives on precious metals	**719 254**	**(441 213)**	**114 060**	**(105 733)**

As at 31 December 2008 derivative financial instruments included currency forwards with the contractual amount of USD 1 231 000 thousand (2007: USD 1 240 000 thousand) which were designated and qualified as a hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains recorded during 2008 on these hedging instruments amounted to USD 248 948 thousand (2007: losses of USD 74 607 thousand). No ineffectiveness was recorded in the consolidated statement of income in respect of the hedge. As at 31 December 2008 the positive fair value of these hedging instruments amounted to USD 229 091 thousand (2007: the negative fair value USD 43 927 thousand). No amounts were withdrawn from equity during the year, as there were no disposals of foreign operations.

34 Derivative Financial Instruments (Continued)

Forward, futures and swaps positions in securities as at 31 December 2008 are summarised below. As at 31 December 2008 and 2007 the majority of respective securities' long balance sheet positions of the Group exceeded the respective securities' short forward, future and swaps positions. Refer to Note 8.

	2008		2007	
	Principal or agreed amount		Principal or agreed amount	
In thousands of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	173 039	-	157 325	-
Corporate bonds	150 748	-	564 419	19 150
Eurobonds of other states	5 513	-	15 409	-
Municipal bonds	682	-	2 970	-
Corporate shares	353	353	153 102	55 621
ADRs and GDRs	-	-	1 096	-
Russian Federation Eurobonds	-	-	66 003	1 119
US Treasury Bills	-	-	72 373	55 437
Total	**330 335**	**353**	**1 032 697**	**131 327**

The information on transactions with related parties is disclosed in Note 36.

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, repurchase receivables, investments at fair value through profit or loss and investments available for sale are carried on the consolidated balance sheet at their fair value. During 2008 total net fair value gains estimated using valuation techniques and related to investments at fair value through profit or loss amounted to USD 3 718 thousand (2007: USD 29 169 thousand).

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. Discount rates used were consistent with the credit risk of the individual entities and ranged from 0.0% per annum to 22.0% per annum (2007: from 6.3% per annum to 10.5% per annum) depending on currency and maturity of the instrument.

Syndicated and other loans. The estimated fair value of syndicated and other loans is based on discounted cash flows using interest rates for new debts with similar remaining maturity ranging from 3.3% per annum to 12.0% per annum (2007: from 6.1% per annum to 8.6% per annum).

35 Fair Value of Financial Instruments (Continued)

Debt securities issued. The fair value of traded debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments ranging from 0.0% p.a. to 12.0% p.a.

Subordinated debt. The fair value of subordinated debt has been determined by reference to published asking quotations.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities. The fair value of derivative financial instruments is disclosed in Note 34.

Change in fair value of derivatives estimated using a valuation technique that was recognised in the consolidated statement of income resulted in a net gain for 2008 of USD 88 092 thousand (2007: net gain of USD 5 158 thousand).

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2008	2007
Due from other banks		
- Term placements	0.0 – 40.0	4.5 - 5.9
- Reverse sale and repurchase agreements	15.0 – 18.0	8.2 - 9.3
Loans and advances to customers		
- Corporate loans, finance lease receivables and advances on lease operations	6.0 - 39.3	8.1 - 23.8
- Loans to small and medium size enterprises	14.5 - 23.5	11.5 - 14.2
- Loans to individuals	10.4 - 32.7	10.9 - 43.9
Due to other banks		
-Correspondent accounts and overnight placements of other banks	0.0 - 11.9	0.0
-Term placements of other banks	0.0 - 22.0	1.0 – 12.0
-Sale and repurchase agreements with other banks	5.5 – 10.0	4.5 – 7.4
Customer accounts		
-Current/settlement accounts of corporates	0.0 - 13.5	0.3 - 8.5
-Term deposits of corporates	0.5 - 16.0	0.3 - 16.5
-Current/settlement accounts of individuals	0.0 - 7.3	3.5 - 6.5
-Term deposits of individuals	0.0 - 15.6	0.3 - 15.6
Syndicated and other loans		
- Syndicated loans	3.3 - 5.1	6.2 - 6.6
- Loan from SDIA	12.0	-
Debt securities issued (excluding quoted instruments)		
-Promissory notes and domestic bonds issued	0.0 - 12.0	0.0 – 8.0
-Notes issued under a DPR Programme	4.1 - 5.8	6.0 - 8.1
-Euro-Commercial Papers	8.2 - 9.0	6.0 - 7.2

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by 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.

ABHH (Note 1) and CTF Holdings Limited and their subsidiaries constitute the Alfa Group. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the tables below.

The most significant related parties of the Group are Alfa Group and TNK-BP Limited, an oil and gas company 25% owned by Alfa Group.

ABH Ukraine Group is a related party under common control of the Alfa Group.

The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

	31 December 2008				
In thousands of US Dollars	**TNK-BP**	**Alfa Group and its shareholders except for ABH Ukraine Group**	**Key management**	**Associates**	**ABH Ukraine Group**
Trading securities as at the year end	**17 322**	**17 797**	**-**	**-**	**121 190**
Investment securities available for sale as at the year end	**7 362**	**3 208**	**-**	**-**	**45 459**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**410**
Term placements with other banks as at the year end	**-**	**4 221**	**-**	**-**	**39 150**
RR, effective contractual rate of 10%-18%	-	4 221	-	-	-
USD, effective contractual rate of 9%-15.03%	-	-	-	-	38 656
EUR, effective contractual rate of 13%	-	-	-	-	494
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**657 518**	**33**	**105 108**	**4 722**
RR, effective contractual rate of 11.5% - 23%	-	217 990	33	-	-
USD, effective contractual rate of 10.5% - 20%	-	439 528	-	31 907	4 722
EUR, effective contractual rate of 9.75% - 23%	-	-	-	73 201	-
Provision for loan impairment as at 1 January	**-**	**-**	**-**	**(10 961)**	**-**
Provision for loan impairment during the year	-	-	-	(94 147)	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(105 108)**	**-**

36 Related Party Transactions (Continued)

In thousands of US Dollars	31 December 2008 TNK-BP	Alfa Group and its shareholders except for ABH Ukraine Group	Key management	Associates	ABH Ukraine Group
Receivables as at the year end	**-**	**34 894**	**-**	**-**	**203 754**
Correspondent accounts of other banks as at the year end	**-**	**-**	**-**	**-**	**88 947**
Customer accounts					
Current/settlement accounts as at the year end	**83 880**	**191 131**	**2 518**	**102**	**3 448**
RR, effective contractual rate of 0.0% - 11.0%	57 708	76 334	328	-	-
USD, effective contractual rate of 0.0% - 2.1%	26 171	102 484	1 985	2	3 251
EUR, effective contractual rate of 0.0% - 4.1%	1	12 167	205	100	197
Other, effective contractual rate of 0.0% - 4.1%	-	146	-	-	-
Term deposits as at the year end	**7 609**	**1 164 052**	**416**	**-**	**3 417**
RR, effective contractual rate of 3.0% - 16.0%	7 609	131 294	3	-	-
USD, effective contractual rate of 3.6% - 12.0%	-	1 019 434	35	-	3 417
EUR, effective contractual rate of 6.3% - 10.3%	-	8 178	378	-	-
GBP, effective contractual rate of 5.0%	-	5 146	-	-	-
Payables as at the year end	**-**	**6 192**	**8 971**	**-**	**19 578**
Interest income for the year (based on effective contractual interest rates)	**998**	**101 321**	**4**	**3 787**	**11 700**
Interest expense for the year (based on effective contractual interest rates)	**4 628**	**50 742**	**130**	**1**	**310**
Fee and commission income for the year	**1 146**	**34 808**	**286**	**255**	**317**
Fee and commission expense for the year	**2**	**2 082**	**-**	**-**	**1**
Gains less losses arising from trading securities and derivatives for the year	**-**	**9 418**	**-**	**-**	**25 101**
Gains less losses arising from trading in foreign currencies for the year	**-**	**(2 642)**	**-**	**-**	**163 281**
Other income for the year	**122**	**63**	**32**	**-**	**2**
Other expenses for the year	**6**	**16 979**	**12 908**	**-**	**-**
Guarantees issued by the Group at the year end	**77 437**	**10 238**	**-**	**-**	**-**
Provision for losses on guarantees issued as at 1 January	**-**	**(96)**	**-**	**-**	**-**
Recovery of provision for losses on guarantees issued during the period	-	96	-	-	-
Provision for losses on guarantees issued as at 31 December	**-**	**-**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**14 070**	**-**	**-**	**-**

36 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2007 and income and expense items as well as other transactions for the year ended 31 December 2007 with related parties were as follows:

	31 December 2007				
In thousands of US Dollars	TNK-BP	Alfa Group and its sharehol-ders except for ABH Ukraine Group	Key manage-ment	Associates	ABH Ukraine Group
Trading securities as at the year end	**37**	**355**	**-**	**700**	**64 199**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**19 003**
Term placements with other banks as at the year end	**-**	**-**	**-**	**-**	**248 789**
USD, effective contractual rate of 5.4% - 10.6%	-	-	-	-	98 318
EUR, effective contractual rate of 4.5% - 7.2%	-	-	-	-	146 902
Other currencies, effective contractual rate of 5.7% - 17.2%	-	-	-	-	3 569
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**450 945**	**2 168**	**73 276**	**5 692**
RR, effective contractual rate of 9.9% - 15.3%	-	69 233	-	-	-
USD, effective contractual rate of 5.2% - 14.5%	-	378 969	2 168	-	5 692
EUR, effective contractual rate of 10.1%- 11.9%	-	2 743	-	73 276	-
Provision for loan impairment as at 1 January	**-**	**(2 556)**	**(70)**	**(11 366)**	**-**
Recovery of provision for loan impairment during the year	-	2 556	70	405	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(10 961)**	**-**
Receivables as at the year end	**9**	**18 554**	**4**	**-**	**15 197**
Correspondent accounts of other banks as at the year end	**-**	**-**	**-**	**-**	**21 885**
Customer accounts					
Current/settlement accounts as at the year end	**59 866**	**186 382**	**1 899**	**-**	**2 015**
RR, effective contractual rate of 0.0%	58 971	90 146	897	-	-
USD, effective contractual rate of 0.0% - 4.0%	894	93 312	903	-	2 008
EUR, effective contractual rate of 0.0% - 3.4%	1	2 924	99	-	7
Term deposits as at the year end	**43 726**	**1 586 517**	**2 759**	**-**	**-**
RR, effective contractual rate of 2.8% - 9.6%	43 726	165 536	1 246	-	-
USD, effective contractual rate of 3.6% - 6.8%	-	863 034	1 513	-	-
EUR, effective contractual rate of 3.8% - 6.8%	-	557 947	-	-	-
Payables as at the year end	**2**	**10 461**	**12 710**	**-**	**1 234**
Interest income for the year (based on effective contractual interest rates)	**1 223**	**52 451**	**68**	**6 531**	**18 926**
Interest expense for the year (based on effective contractual interest rates)	**6 661**	**70 293**	**159**	**-**	**1 489**

36 Related Party Transactions (Continued)

	31 December 2007				
In thousands of US Dollars	TNK-BP	Alfa Group and its sharehol-ders except for ABH Ukraine Group	Key manage-ment	Associates	ABH Ukraine Group
Fee and commission income	**1 973**	**20 231**	**1**	**-**	**118**
Gains less losses arising from trading securities and derivatives	**-**	**(288)**	**-**	**-**	**3 426**
Gains less losses arising from trading in foreign currencies	**-**	**(12 667)**	**-**	**-**	**4 483**
Other income for the year	**1 468**	**1 459**	**18**	**-**	**-**
Other expenses for the year	**-**	**15 319**	**19 920**	**-**	**-**
Guarantees issued by the Group	**116 247**	**2 779**	**-**	**-**	**-**
Provision for losses on credit related commitments as at 1 January	**(493)**	**(259)**	**-**	**-**	**-**
Recovery of provision for losses on credit related commitments during the year	493	163	-	-	-
Provision for losses on credit related commitments as at 31 December	**-**	**(96)**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**25 360**	**-**	**-**	**24 817**

Key management of the Group represents members of the Board of Directors and Executive Board of the Group and Alfa-Bank. Key management compensation is presented below:

In thousands of US Dollars	2008	2007
Key management compensation accrued as at the balance sheet date	**8 971**	**12 610**
Salaries	-	-
Bonuses	**8 971**	**12 610**
- short-term bonuses	3 064	7 230
- long-term bonuses	5 907	5 380

In thousands of US Dollars	2008	2007
Key management compensation expense for the period	**12 908**	**24 303**
Salaries	8 775	7 087
Bonuses	**4 133**	**17 216**
- short-term bonuses	3 133	11 896
- long-term bonuses	1 000	5 320

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable more than 12 months after the end of the year in which the employee rendered service.

37 Business Combinations

On 28 November 2008 the Group acquired for cash 85.02% of the share capital of OJSC Bank Severnaya Kazna. In relation to the acquisition the Group received a loan from the State Deposit Insurance Agency (Note 18). The acquired subsidiary did not contribute any significant revenue or profit to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, revenue for 2008 would have been higher by USD 231 128 thousand and profit for 2008 would have been lower by USD 118 403 thousand (excluding impact of amortisation of fair value adjustments).

The consideration paid by the Group was based on a valuation of the acquiree's business taken as a whole. In accordance with IFRS 3 "Business Combinations", the Group accounted for the acquisition based on provisionally estimated fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The details of the assets and liabilities acquired and goodwill arising were as follows:

In thousands of US Dollars	**IFRS carrying amount immediately before business combination**	**Attributed provisional fair value**
Cash and cash equivalents	82 387	82 387
Loans and advances to customers	835 574	818 981
Customer relationship	-	84 751
Premises and equipment	170 548	170 548
Other assets	151 643	155 363
Due to banks	(175 149)	(175 149)
Customer accounts	(869 023)	(890 211)
Other liabilities	(135 217)	(135 217)
Deferred tax liability	(2 310)	(12 448)
Fair value of net assets of subsidiary		**99 005**
Less: Minority interest		(14 831)
Fair value of acquired interest in net assets of subsidiary		**84 174**
Goodwill arising from the acquisition		101 612
Total purchase consideration		**185 786**
Less: Cash and cash equivalents of subsidiary acquired		(82 387)
Outflow of cash and cash equivalents on acquisition		**103 399**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings that are expected to arise. The fair value of assets and liabilities acquired is based on discounted cash flow models and comparable sales information.

38 Subsequent Events

On 29 January 2009 Alfa-Bank received a subordinated loan from Vnesheconombank in the amount of RR 10 201 455 thousand bearing a fixed interest rate of 8% p.a. and maturing on 25 December 2019. Among other conditions Alfa-Bank agreed (i) to obtain consent of Vnesheconombank in respect of significant transactions and (ii) to include representatives of Vnesheconombank in the management of Alfa-Bank.