Egidaco Investments PLC Group

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

31 December 2008

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Board of Directors and other officers

Board of Directors

Constantinos Economides (appointed 21 November 2008)
Maria Demetriou (appointed 21November 2008)
Alexis Ioannides (appointed 21 November 2008)
Stig Filip George Engelbert (appointed 21 November 2008)
Julian Charles Salisbury (appointed 9 February 2009)
Marios Vardas (resigned 21 November 2008)
Jean-Pierre Haroutounian (resigned 21 November 2008)
Ion Dimitris Dagtoglou de Carteret (resigned 9 February 2009)

Company Secretary

Altruco Secretarial Limited

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

Registered office

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited consolidated financial statements of the Egidaco Investments PLC (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2008.

Principal activities

2 The Group's principal activity is commercial and retail banking operations within the Russian Federation through the subsidiary CJSC "Tinkoff. Credit Systems" Bank.

3 The loss of the Group for the year ended 31 December 2008 was USD 44 747 thousand (2007: USD 2 680 thousand). On 31 December 2008 the total assets of the Group were USD 193 942 thousand (2007: USD 102 018 thousand) and the net assets were USD 16 468 thousand (2007: USD 31 189 thousand). Management considers that the financial position, development and performance of the Group as presented in these consolidated financial statements are considered satisfactory given the start up nature of the business and developing financial crisis in the world.

Principal risks and uncertainties

4 The Group has activities in Russia through its subsidiaries; therefore it is affected by the uncertainties of the Russian economic environment, and global credit crunch that would have an exceptional impact on the Group's business and its financial position. Effect of credit crunch will cover all balance sheet accounts and might significantly decrease revenue of the Group. However Management of the Group is unable to determine the exact amount of the credit crunch effect.

5 The other risks and uncertainties which affect the Group are presented in Notes 2, 24 and 26 of the consolidated financial statements.

Future developments

6 The Board of Directors does not expect any significant changes or developments in the operations, financial position, and performance of the Group in the near future.

Results

7 The Group's results for the year are set out on page 7 of the consolidated financial statements.

Share capital

8 In June 2008 the Group issued 332 314 ordinary shares of nominal value USD 1 and USD 23.07 share premium each. The authorized share capital increased due to exercise of share options by minority shareholders.

9 In September 2008 the authorized share capital of the Group increased by 15% due to conversion of loan facility amounting USD 30 000 given by the minority shareholder. The Group issued 885 934 ordinary shares of nominal value USD 1 and USD 32.86 share premium each.

Board of Directors

10 The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1. Mr Ion Dimitris Dagtoglou de Carteret resigned on 9 February 2009. Mr Jean-Pierre Haroutounian resigned on 21 November 2008, and Mr Constantinos Demetriou, Maria Demetriou, Alexis Ioannides, Stig FIlip George Engelbert were appointed as Directors on the same date. Mr Julian Charles Salisburg was appointed as Director on 9 February 2009.

11 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Report of the Board of Directors (Continued)

Events after the balance sheet date

12 The Group repurchased some of Euro denominated bonds with the total nominal amount of EUR 6 000 thousand with discount from 40.2% to 65% in the period from March – April 2009.

13 In April 2009 the financial covenants on debt securities in issue and syndicated loan were revised. Refer to Note 30.

Change of name

14 The Company's name was changed from Egidaco Investments Limited to Egidaco Investments PLC on 10 December 2008.

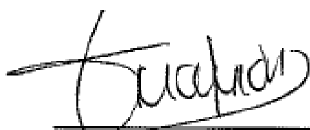
Branches

15 The Group did not operate through any branches during the year.

Auditors

16 The auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Constantinos Economides
Director
Limassol
7 July 2009

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World Finance - 2009
International Tax Review - 2008
European CEO - 2008
Legal Awards

INVESTOR IN PEOPLE

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Independent Auditors' Report
To the Members of Egidaco Investments PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Egidaco Investments PLC (the "Company") and its subsidiaries (the "Group") on pages 6 to 55, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Board Members: Phidias K Pilides (CEO), Dinos N Papadopoulos (Deputy CEO), Panikos N Tsiailis, Christakis Santis, Stephos D Stephanides, Costas L Hadjiconstantinou, George Foradaris, Costas M Nicolaides, Angelos M Loizou, Vasilis Hadjivassiliou, Androulla S Pittas, Savvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panicos Kaouris, Nicos A Neophytou, George M Loizou, Pantelis G Evangelou, Liakos M Theodorou, Stelios Constantinou, Tassos Procopiou, Andreas T Constantinides, Theo Parperis, Constantinos Constantinou, Petros C Petrakis, Philippos C Soseilos, Evgenios C Evgeniou, Christos Tsolakis, Nicos A Theodoulou, Nikos T Nikolaides, Cleo A Papadopoulou, Marios S Andreou, Nicos P Chimarides, Aram Tavitian, Constantinos Taliotis, Stavros A Kattamis, Yiangos A Kaponides, Tasos N Nolas, Chrysilios K Pelekanos, Eftychios Eftychiou, George C Lambrou, Chris Odysseos, Constantinos L Kapsalis, Stelios A Violaris, Antonis Hadjiloucas, Petros N Maroudias
Directors of Operations: Androulla Aristidou, Achilleas Chrysanthou, George Skapoullaros, Demetris V Psaltis, George A Ioannou, George C Kazamias, Michael Kliriotis, Marios G Melanides, Sophie A Solomonidou, Yiannis Televantides, Antonis C Christodoulides, Anna G Loizou

Offices: Nicosia, Limassol, Larnaca, Paphos

PricewaterhouseCoopers Ltd is a private company, Registered in Cyprus (Reg. No. 143594)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 3 is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

PricewaterhouseCoopers

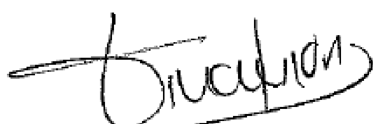
PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 7 July 2009

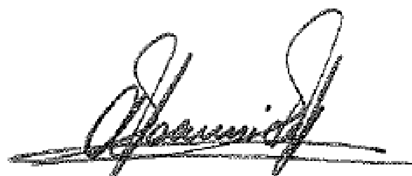
Egidaco Investments PLC Group
Consolidated Balance Sheet

In thousands of USD	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	30 907	23 238
Mandatory cash balances with the CBRF		276	987
Loans and advances to customers	8	140 112	64 890
Deferred income tax assets	22	4 349	739
Other financial assets	10	6 400	3 050
Other non-financial assets	10	2 652	2 311
Fixed assets	9	4 618	3 296
Intangible assets	9	4 628	3 507
TOTAL ASSETS		**193 942**	**102 018**
LIABILITIES			
Customer accounts	11	8 436	2 252
Debt securities in issue	12	105 710	41 382
Syndicated loan	13	50 236	20 437
Provisions for liabilities and charges	14	5 711	1 556
Current income tax liability		1 562	-
Other financial liabilities	15	3 832	2 417
Other non-financial liabilities	15	1 781	1 015
Net assets attributable to participant	16	206	1 770
TOTAL LIABILITIES		**177 474**	**70 829**
EQUITY			
Share capital	17	5 905	4 687
Share premium	17	65 148	28 366
Obligation under warrants	17	1 871	-
Accumulated deficit		(47 727)	(2 980)
Translation reserve		(8 729)	1 116
TOTAL EQUITY		**16 468**	**31 189**
TOTAL LIABILITIES AND EQUITY		**193 942**	**102 018**

Approved for issue and signed on behalf of the Board of Directors on 3 July 2009.



Constantinos Economides
Director



Alexis Ioannides
Director

The notes set out on pages 10 to 55 form an integral part of these standalone financial statements.

Egidaco Investments PLC Group
Consolidated Income Statement

In thousands of USD	Note	2008	2007
Interest income	18	71 514	4 877
Interest expense	18	(24 876)	(1 232)
Net interest income		**46 638**	**3 645**
Provision for loan impairment	8	(30 333)	(4 245)
Net interest income / (expense) after provision for loan impairment		**16 305**	**(600)**
Gains less losses from trading in foreign currencies		327	123
Foreign exchange translation losses less gains		(13 062)	(128)
Fee and commission income		-	79
Fee and commission expenses	19	(970)	(516)
Income on transactions with Mastercard		-	2 730
Customer acquisition expenses	20	(13 379)	(4 185)
Other operating income		567	528
Remeasurement of net assets attributable to minority participant	16	1 504	5 776
Net operating (loss)/income		**(8 708)**	**3 807**
Administrative and other operating expenses	21	(35 346)	(7 098)
Loss before tax		**(44 054)**	**(3 291)**
Income tax (expense) / credit	22	(693)	611
Loss for the year		**(44 747)**	**(2 680)**

The notes set out on pages 10 to 55 form an integral part of these standalone financial statements.

In thousands of USD	Note	Share capital	Share premium	Obligation under warrants	Accumula-ted deficit	Transla-tion reserve	Total
Balance at 1 January 2007		**2 619**	**10 434**	**-**	**(300)**	**-**	**12 753**
Loss for the year		-	-	-	(2 680)	-	(2 680)
Currency translation differences		-	-	-	-	1 116	1 116
Share issue		2 068	17 932	-	-	-	20 000
Balance at 31 December 2007		**4 687**	**28 366**	**-**	**(2 980)**	**1 116**	**31 189**
Loss for the year		-	-	-	(44 747)	-	(44 747)
Currency translation differences		-	-	-	-	(9 845)	(9 845)
Share issue	17	1 218	36 782	-	-	-	38 000
Obligation under warrants	17	-	-	1 871	-	-	1 871
Balance at 31 December 2008		**5 905**	**65 148**	**1 871**	**(47 727)**	**(8 729)**	**16 468**

In thousands of USD	Note	2008	2007
Cash flows from operating activities			
Interest received		62 589	3 656
Interest paid		(12 463)	(64)
Income received from trading in foreign currencies		327	123
Fees and commissions paid		(970)	(516)
Other operating income received		500	607
Administrative and other operating expenses paid		(28 130)	(4 992)
Customers acquisition expenses paid		(12 286)	(4 185)
Compensation of operating expenses received		-	2 730
Income tax paid		(2 886)	(25)
Cash flows used in operating activities before changes in operating assets and liabilities		**6 681**	**(2 666)**
Changes in operating assets and liabilities			
Net decrease/(increase) in Central Bank mandatory reserves		648	(802)
Net increase in loans and advances to customers		(135 029)	(61 480)
Net increase in other financial assets		(3 350)	(1 862)
Net increase in other non-financial assets		(854)	(2 271)
Net increase/(decrease) in customer accounts		6 184	(2 705)
Net increase in other financial liabilities		1 415	2 323
Net (decrease)/increase in other non-financial liabilities		(60)	1 015
Net cash used in operating activities		**(124 365)**	**(68 448)**
Cash flows from investing activities			
Acquisition of fixed assets		(3 364)	(2 381)
Acquisition of intangible assets		(3 393)	(3 879)
Net cash used in investing activities		**(6 757)**	**(6 260)**
Cash flows from financing activities			
Issue of ordinary shares		8 000	20 000
Proceeds from convertible loan subsequently converted into shares	17	30 000	-
Proceeds from syndicated loan		37 901	20 407
Cash contribution of participant		-	4 908
Proceeds from debt securities in issue		109 309	40 043
Repayment of debt securities in issue		(49 309)	-
Net cash from financing activities		**135 901**	**85 358**
Effect of exchange rate changes on cash and cash equivalents		2 890	854
Net increase in cash and cash equivalents		**7 669**	**11 504**
Cash and cash equivalents at the beginning of the year	7	**23 238**	**11 734**
Cash and cash equivalents at the end of the period	7	**30 907**	**23 238**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Egidaco Investments PLC (the "Company") and its subsidiaries (together referred to as the "Group" or "Egidaco Investments PLC Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

Egidaco Investments PLC became a public company on 16 December 2008 and changed its name from Egidaco Investments Limited on 10 December 2008.

The Company was incorporated and is domiciled in Cyprus in accordance with the provisions of the Companies Law, Cap.113.

Board of Directors of the Company: Constantinos Economides, Maria Demetriou, Alexis Ioannides, Stig Filip George Engelbert, Julian Charles Salisbury.

Company Secretary: A.J.K. Management Services Limited, 1 Naousis Street, Karapatakis Building, P.C. 6018 Larnaca, Cyprus (up to 21 November 2008). Altruco Secretarial Limited, G. Pavlides Court, 5th Floor 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus, Mail: P.O.Box 50734, 3609, Limassol, Cyprus (starting from 21 November 2008).

As at 31 December 2008 and 31 December 2007 the shareholders of the Company were:

	31 December 2008	31 December 2007	Country of incorporation
TADEC Holding and Finance S.A.	64%	81%	British Virgin Islands
Vostok Komi (Cyprus) Limited	15%	-	Cyprus
ELQ Investors Limited	14%	10%	United Kingdom
TASOS Invest and Finance Inc.	7%	9%	British Virgin Islands
Total	**100%**	**100%**	

The ultimate parent company of the Group as at 31 December 2008 and 31 December 2007 is Tadasos Foundation, incorporated and domiciled in Liechtenshtein.

As at 31 December 2008 and 31 December 2007 the ultimate beneficiaries of the Group are the Russian entrepreneur Oleg Tinkov (2008: 71%, 2007: 90%), the global investment firm Goldman Sachs (2008: 14%, 2007: 10%) and investment fund Vostok Nafta (2008: 15%, 2007: 0%)

Subsidiaries included in these consolidated financial statements are listed below:

Name	Nature of business	Percentage of ownership	Percentage of control	Country of registration
CJSC "Tinkoff. Credit Systems" Bank	Bank operations	100%	100%	Russian Federation
LLC "TCS"	Consulting	-	100%	Russian Federation
LLC "T-Finance"	Consulting	-	100%	Russian Federation

LLC "TCS" and LLC "T-Finance" are companies registered in the Russian Federation, owned by a related party and in substance are controlled by the Group. The only activity of these companies is provision of services related to attraction of new clients for the Bank. Refer to Note 20 and Note 30.

Principal activity. The Group's principal business activity is retail banking operations within the Russian Federation through the subsidiary CJSC "Tinkoff. Credit Systems" Bank (the "Bank").The Bank has operated under a full banking license N. 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. Before that date and back to 28 January 1994 the Bank operated under the name of CJSC "Khimmashbank" under a full banking license N. 2673 issued by the CBRF since 28 January 1994. The Bank was acquired by the Company on 17 November 2006 and was subsequently renamed to CJSC "Tinkoff. Credit Systems" Bank.

1 Introduction (Continued)

The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law N. 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.

Registered address and place of business. The Company's registered address is Arch. Kyprianou & Ag. Andreou, 2 G. Pavlides Court, 5th floor P.C. 3036, Limassol, Cyprus. The Bank's registered address is 1-st Volokolamsk passage, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of USD.

2 Operating Environment of the Group

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 (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 30.9843 at 1 June 2009.

Due to increased market volatility, one-day MosPrime rate fluctuated between 4.75% p.a. and 25.17% p.a. during the period from 30 September 2008 to 1 June 2009.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 427 080 000 thousand at 31 December 2008 to USD 404 171 000 thousand at 1 June 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 66.89 at 1 June 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 scheme to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

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.

2 Operating Environment of the Group (Continued)

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 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 large 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 financial crisis is proving to be difficult to anticipate or completely guard against.

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

Borrowers 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 (where applicable). 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.

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 growth 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") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113.

The consolidated financial statements have been prepared under the historical cost convention. 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. As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2008 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of (a) certain provisions of IAS39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and (b) the amendment to IAS 39 and IFRS7 on the effective date and transition of the "Reclassification of financial assets".

In addition, the following two interpretations have been endorsed, however their effective date is not the same, although an entity may chose to early adopt them:

(a) IFRIC 12 "Service Concession Arrangements" is effective for annual periods beginning on or after 1 January 2008 but the EU-endorsed version is applicable for financial periods beginning on or after 30 March 2009.

(b) IFRIC 14 "IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" is effective for annual periods beginning on or after 1 January 2008 but the EU endorsed version is applicable for use from 1 January 2009.

3 Summary of Significant Accounting Policies (Continued)

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

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Any part of minority interest relating to a Russian OOO subsidiary will generally form a liability called e.g. "net assets attributable to minority participants in subsidiaries" in the balance sheet rather than equity, and movements in the liability will be recorded in non-operating profit e.g. as "remeasurement of net assets attributable to minority participants in subsidiaries".

Financial instruments - 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.

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

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) 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.

Initial recognition of financial instruments. 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.

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.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits 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 cash flow statement.

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. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the 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. 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 with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is 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.

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

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 the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the 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.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always 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 original 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 profit or loss.

Uncollectible assets 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.

Credit related commitments. The Group enters into credit related commitments. Commitments to provide a loan 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 remaining 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.

Fixed assets. Fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of fixed assets items are capitalised and the replaced part is retired.

At each reporting date Management assesses whether there is any indication of impairment of fixed assets. If any such indication exists, Management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation of each item of fixed asset item is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

Useful lives in years:

Bank equipment	3-15 years
Computer equipment	3-5 years
Office equipment	3-5 years
Vehicles	5-7 years
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. The Group's intangible assets have definite useful life and include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 5 years.

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.

Customer accounts. Customer accounts are non-derivative liabilities to corporate entities and individuals and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Syndicated loans. Syndicated loans are non-derivative instruments which are stated at amortised cost.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and Cyprus legislation enacted or substantively enacted by the balance sheet date. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

3 Summary of Significant Accounting Policies (Continued)

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 financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other 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 for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management’s best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They 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.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Net assets attributable to subsidiaries' participant. The equity participant of subsidiaries not owned by equity holders of the Company has a right to request redemption of its interest in subsidiaries in cash. The subsidiaries' obligation to redeem gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company. As a practical expedient, the Company measures the liability presented as ‘Net assets attributable to subsidiaries’ participant' at the IFRS carrying value of the subsidiaries consolidated net assets. Remeasurement of net assets attributable to subsidiaries’ participant is recorded in the income statement.

3 Summary of Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note.

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

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

When loans and other debt instruments become doubtful of collection, they are written down to 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.

Customer acquisition costs represented by the expenses paid by the Group on services related to attraction of the credit card borrowers (mailing of advertising materials, processing of the responses etc) and are expensed on the basis of the actual services provided.

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.

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.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the Russian Rouble ("RR"), which is the currency of the primary economic environment in which each entity operates. The Group's presentation currency, selected for management purposes, is the national currency of the United States of America, US Dollars ("USD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

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

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

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

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised as a separate component of equity.

3 Summary of Significant Accounting Policies (Continued)

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 profit or loss.

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).

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

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 the year in which the associated services are rendered by the employees of the Group.

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, based on economic risk rather than legal risk of the counterparty.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. 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 the 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 losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments 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. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. Given the nature of borrowers and loans the time lag between possible loss event and underpayment of monthly installment is minimal. 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. In accordance with internal methodology the Group uses last seven months of losses statistics, thus implementing the latest trends in assessment of impairment provision.

Management considers the impact of economic conditions in the Russian Federation (Note 2) on assessment of impairment losses on loans and advances. In estimating the recoverability of loans Management concluded that existing level of provisioning is sufficient considering current level of recoverability of credit card loans.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

A 10% (2007: 5%) increase or decrease in actual loss experience compared to the loss estimates used would result in an increase of USD 1 192 thousand (2007: USD 359 thousand) or decrease in loan impairment losses of USD 2 085 thousand (2007: USD 248 thousand) respectively.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Entities controlled in substance, but not in form. Judgement is applied in determining that certain entities, though not legally owned, are controlled by the Group in substance, and are therefore consolidated, as described in Note 1. Management considers that, although the Group has no legal title to the entities' assets, the substance of the relationships between the Group and the entities, is such that the Group has the power to govern the financial and operating policies of the entities.

Net assets attributable to subsidiaries' participant. The liability for the redemption right held by the subsidiaries' equity participant is classified as 'at fair value through profit or loss' under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and if the participant will withdraw from the subsidiaries. The Group's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 3. The subsidiaries' standalone net assets determined in accordance with the Russian Accounting Regulations are USD 343 thousand at 31 December 2008 (2007: USD 5 968 thousand). This amount would have been payable if all participants had exercised their redemption rights at the balance sheet date.

Critical judgement on share-based payment. The key management personnel are entitled to an additional bonus equal to 7% of the fair value of the Bank's equity. This bonus is payable in cash by the ultimate beneficiary of the Group and depends on the timing of services provided by the Management.

Management considered whether this arrangement should be accounted for by the Group as expenses recognised in the income statement, with a corresponding capital contribution in equity. Management concluded that this arrangement does not constitute transfer of a parent entity's equity instruments and, therefore no capital contribution has been recognised in equity in respect of this arrangement between the ultimate beneficiary and Management.

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgment Management considered the Group's financial position, current intentions, profitability of operations and access to financial resources and analyzed the impact of the recent financial crisis on future operations of the Group. In particular, Management considered the impact of economic deteriorations in the Russian Federation since fourth quarter 2008 on the financial position of the Group, its liquidity position and ability to meet its regulatory requirements.

The Group reported a loss in 2008 of USD 44 747 thousand (2007: USD 2 680 thousand). Net assets as at 31 December 2008 were USD 16 468 thousand (2007: USD 31 189 thousand). Management considers that the financial position, development and performance of the Group as presented in these consolidated financial statements are considered satisfactory given the start up nature of the business and developing financial crisis in the world. The Management expects the operating results to improve in 2009 due to the end of the start-up phase of the development of the Group and decrease of acquisition costs.

Based on the outcome of the above assessments and continued access to the sources of liquidity, Management is of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Special Purpose Entities (SPEs). Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances.

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); and
- ***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 effect 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. The amendment did not have any significant effect on the Group's consolidated financial statements.

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 2009 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. The Group is currently assessing what impact the new Standard will have on segment disclosures in its consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009***).*** The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its financial statements.

IAS 23, Borrowing Costs (revised March 2007; 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 the standard to have a material effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; 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 financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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. Management does not believe that the revised Standard will have any material impact on the 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. Management does not believe that the amendment will have any material impact on the consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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 does not believe that the revised Standard will have any material impact on the 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 is currently assessing the impact of the interpretation on its 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. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

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. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

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 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. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

6 New Accounting Pronouncements (Continued)

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. Effective dates for these amendments vary from 1 January to 1 July 2009. 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, with earlier application permitted). 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. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (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 financial statements.

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 financial statements.

6 New Accounting Pronouncements (Continued)

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents

In thousands of USD	**2008**	**2007**
Cash on hand	93	175
Cash balances with the CBRF (other than mandatory reserve deposits)	2 612	5 785
Placements with other banks with original maturities of less than three months, including:		
Rated by Fitch agency from A- to AA-	79	14 619
Rated by Fitch agency BBB+	19 779	2 605
Other	8 344	54
Total Cash and Cash Equivalents	**30 907**	**23 238**

7 Cash and Cash Equivalents (Continued)

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

In thousands of USD	2008	2007
Non-cash investing activities		
Acquisition of fixed assets in the form of contribution of computer equipment from subsidiaries' participant	-	1 259
Non-cash investing activities	**-**	**1 259**
Non-cash financing activities		
Contribution from subsidiaries' participant	-	1 259
Non-cash financing activities	**-**	**1 259**

Interest rate analysis of cash and cash equivalents is disclosed in Note 24.

8 Loans and Advances to Customers

In thousands of USD	2008	2007
Loans to individuals:	**160 776**	**27 057**
Credit card loans	160 541	26 752
Other loans to individuals	235	305
Corporate loans, broken down by creditors' activity classes:	**12 429**	**42 326**
Trading	8 945	7 357
Development	2 397	2 806
Finance	655	27 620
Leasehold operations	289	4 132
Other	143	411
Total loans and advances to customers before impairment:	**173 205**	**69 383**
Less: Provision for loan impairment	(33 093)	(4 493)
Total loans and advances to customers	**140 112**	**64 890**

Credit card loans are issued to clients using credit cards for cash withdrawals or payment for goods or services, in the range of limits established by the Group.

Presented below is an analysis of credit card limits on issued utilized cards:

Credit card limits	**2008**	**2007**
Up to 10 RR thousand	44 981	2 530
10-20 RR thousand	57 167	7 070
20-30 RR thousand	67 901	11 629
30-40 RR thousand	35 225	8 765
40-50 RR thousand	6 611	5 429
50-60 RR thousand	8 531	4 540
60-80 RR thousand	2 924	3 320
80-100 RR thousand	1 650	2 300
100-200 RR thousand	1 128	1 126
More than 200 RR thousand	114	95
Total Borrowers	**226 232**	**46 804**

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

In thousands of USD	As at 31 December 2006	Effect of translation	Provision for impairment during the period	As at 31 December 2007	Effect of translation	Write-off	Provision for impairment during the period	As at 31 December 2008
Loans to individuals:								
Credit card loans	-	-	2 206	2 206	(363)	-	19 011	20 854
Other loans to individuals	-	-	305	305	(60)	(310)	300	235
Corporate loans, broken down by creditors' activity classes:								
Trading	-	-	1 571	1 571	(309)	-	7 683	8 945
Development	130	5	(135)	-	-	(280)	2 677	2 397
Finance	-	-	-		-	-	655	655
Leasehold operations	-	-	-	-	-	-	-	-
Other corporate entities	110	3	298	411	(81)	(330)	7	7
Total provision for loan impairment	**240**	**8**	**4 245**	**4 493**	**(813)**	**(920)**	**30 333**	**33 093**

At 31 December 2007 the Group had seven borrowers with aggregated loan amounts above USD 4 270 thousand. The total aggregate amount of these loans was USD 31 173 thousand or 45% of the gross loan portfolio and was included in corporate loans to financial companies.

At 31 December 2007 six of the above mentioned borrowers were related parties of the Group, and used cash received from the Group in the amount of USD 26 900 thousand for purchase of the Group's debt securities in issue (refer to Note 12). In January 2008 these six loans were repaid via legal offset of the debt securities issued by the Group.

Information on collateral held in respect of loans to individuals was as follows:

	2008		2007	
In thousands of USD	Credit card loans	Other loans to individuals	Credit card loans	Other loans to individuals
Unsecured loans	160 541	-	26 752	-
Loans collateralised by:				
- goods	-	-	-	229
- guarantee of payment from other parties	-	-	-	76
- other assets	-	235	-	-
Total loans to individuals	**160 541**	**235**	**26 752**	**305**

8 Loans and Advances to Customers (Continued)

Information on collateral held in respect of corporate loans at 31 December 2008:

In thousands of USD	Trading	Develop-ment	Finance	Leasehold operations	Other	Total
Unsecured loans	7 604	-		289	143	8 036
Loans collateralised by:						
- land plots	-	2 397	655	-	-	3 052
- equipment	1 341	-	-	-	-	1 341
Total corporate loans	**8 945**	**2 397**	**655**	**289**	**143**	**12 429**

Information on collateral held in respect of corporate loans at 31 December 2007:

In thousands of USD	Finance	Trading	Leasehold operations	Develop-ment	Other	Total
Unsecured loans	-	5 294	3 320	-	-	8 614
Loans collateralised by:						
- securities	26 900	-	64	-	-	26 964
- land plots	720	-	-	2 806	-	3 526
- equipment	-	1 620	-	-	361	1 981
- guarantee of payment from other parties	-	-	748	-	-	748
- goods	-	443	-	-	50	493
Total corporate loans	**27 620**	**7 357**	**4 132**	**2 806**	**411**	**42 326**

Analysis by credit quality of loans to individuals outstanding is as follows:

	2008		**2007**	
In thousands of USD	**Credit card loans**	**Other loans to individuals**	**Credit card loans**	**Other loans to individuals**
Current and not impaired	-	-	4 364	-
Loans collectively asessed as impaired:				
- current	127 788	-	17 853	-
- less than 30 days overdue	12 380	-	2 786	-
- 30 to 90 days overdue	8 212	-	1 646	-
- 90 to 180 days overdue	5 412	235	103	-
- over 360 days overdue	6 749	-	-	305
Less: Provision for loan impairment	(20 854)	(235)	(2 206)	(305)
Total loans to individuals	**139 687**	**-**	**24 546**	**-**

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of corporate loans outstanding at 31 December 2008 is as follows:

In thousands of USD	Trading	Develop-ment	Finance	Leasehold operations	Other	Total
Current and not impaired	-	-	-	289	-	289
Loans individually determined to be impaired:						-
- current and impaired	8 570	-	-	-	143	8 713
- less than 30 days overdue	375	-	-	-	-	375
- 180 to 360 days overdue	-	758	655	-	-	1 413
- over 360 days overdue	-	1 639	-	-	-	1 639
Corporate loans before impairment:	**8 945**	**2 397**	**655**	**289**	**143**	**12 429**
Less: Provision for loan impairment	(8 945)	(2 397)	(655)	-	(7)	(12 004)
Total corporate loans	**-**	**-**	**-**	**289**	**136**	**425**

Analysis by credit quality of corporate loans outstanding at 31 December 2007 is as follows:

In thousands of USD	Finance	Trading	Leasehold operations	Develop-ment	Other	Total
Current and not impaired	27 620	5 737	4 132	942	-	38 431
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	-	1 864	-	1 864
- 180 to 360 days overdue	-	1 620	-	-	361	1 981
- over 360 days overdue	-	-	-	-	50	50
Corporate loans before impairment	**27 620**	**7 357**	**4 132**	**2 806**	**411**	**42 326**
Less: Provision for loan impairment	-	(1 571)	-	-	(411)	(1 982)
Total corporate loans	**27 620**	**5 786**	**4 132**	**2 806**	**-**	**40 344**

The primary factors that the Group considers in assessing whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually and collectively determined to be impaired.

The fair value of collateral in respect of corporate loans at 31 December 2008 was as follows:

In thousands of USD	Finance	Total
Fair value of collateral - individually impaired loans:		
- land plots and real estate	539	539
Total	**539**	**539**

8 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of corporate loans at 31 December 2007 was as follows:

In thousands of USD	**Finance**	**Trading**	**Development**	**Other**	**Total**
Fair value of collateral - loan past due but not impaired					
- *securities*	27 677	-	-	-	27 677
- *land plots*	1 276	-	2 552	-	3 828
- *other assets*	-	942	-	-	942
Fair value of collateral - individually impaired loans					
- *land plots*	-	-	2 400	1 200	3 600
- *equipment*	-	2 037	631	-	2 668
- *other assets*	-	-	-	338	338
Total	**28 953**	**2 979**	**5 583**	**1 538**	**39 053**

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers.

Interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 29.

9 Fixed and Intangible Assets

In thousands of USD	Equipment	Leasehold improvements	Vehicles	Total fixed assets	Intangible assets
Cost					
At 1 January 2007	**8**	**-**	**6**	**14**	**-**
Acquisitions	2 328	1 209	104	3 641	3 879
Disposals	(123)	-	-	(123)	-
Translation reserve	40	40	5	85	138
At 31 December 2007	**2 253**	**1 249**	**115**	**3 617**	**4 017**
Acquisitions	3 343	-	21	3 364	3 393
Disposals	(38)	-	(6)	(44)	-
Translation reserve	(911)	(246)	(27)	(1 184)	(1 156)
At 31 December 2008	**4 647**	**1 003**	**103**	**5 753**	**6 254**
Depreciation					
At 1 January 2007	**-**	**-**	**-**	**-**	**-**
Charge in the period	(251)	(161)	(10)	(422)	(510)
Disposals	122	-	-	122	-
Translation reserve	(13)	(7)	(1)	(21)	-
At 31 December 2007	**(142)**	**(168)**	**(11)**	**(321)**	**(510)**
Charge in the period	(458)	(210)	(20)	(688)	(883)
Depreciation of disposed objects	44	-	-	44	-
Translation reserve	(97)	(65)	(8)	(170)	(233)
At 31 December 2008	**(653)**	**(443)**	**(39)**	**(1 135)**	**(1 626)**
Net book value					
At 31 December 2007	**2 111**	**1 081**	**104**	**3 296**	**3 507**
At 31 December 2008	**3 994**	**560**	**64**	**4 618**	**4 628**

Leasehold improvements are capital expenditures on a rented office and are depreciated over the term of lease, which is 5 years.

Intangible assets acquired during the year ended 31 December 2008 mainly represent accounting software, retail banking software, licences and development of software.

10 Other Financial and Non-financial Assets

In thousands of USD	2008	2007
Other Financial Assets		
Mastercard guarantee deposit	3 754	1 496
Settlement of operations with plastic cards	2 570	560
Trade and other receivables	76	994
Total Financial Assets	**6 400**	**3 050**
Other Non-Financial Assets		
Prepaid expenses	1 997	347
Materials	644	1 067
Other	11	897
Total Non-Financial Assets	**2 652**	**2 311**

Materials include application forms, advertising booklets, letters to customers, envelopes.

Prepaid expenses are represented by prepaid expenses for minor office repairments, post services, software.

Other financial and non-financial assets are not impaired and not past due.

Refer to Note 27 for the disclosure of the fair value of other financial assets.

11 Customer Accounts

In thousands of USD	2008	2007
Legal entities		
-Current/settlement accounts of corporate entities	534	1 217
-Term deposits of corporate entities	6 344	1 028
Individuals		
-Current/settlement accounts of individuals	14	7
-Term deposits of individuals	1 544	-
Total Customer Accounts	**8 436**	**2 252**

At December 2008 the Group had one customer, related party, having the deposit in the amount of USD 4 300 thousand or 51% of the total customer accounts (2007: no concentration).

Refer to Note 27 for the disclosure of the fair value of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 29.

12 Debt Securities in Issue

In thousands of USD	2008	2007
Euro denominated bonds	105 411	-
Bonds issued on domestic market	299	41 382
Total Debt Securities in Issue	**105 710**	**41 382**

Euro denominated bonds were placed publicly on 24 June 2008 at nominal amount of EUR 70 000 thousand with contractual maturity on June 2011 and have a coupon rate of 18% p.a. payable annually. In May 2009 the Group has repurchased some of these bonds from market with a nominal value of EUR 6 000 thousand and with discount from 40.2% to 65%. Refer to Note 30.

RR denominated bonds in issue in the amount of USD 299 thousand represent RR denominated bonds issued by the Group in the period from 23 October 2007 to 7 November 2007. These bonds mature on 23 October 2010 and have a coupon rate of 18% p.a. payable semi-annually.

In 2007 six of the Group's corporate borrowers used cash received from the Group in the amount of USD 26 900 thousand for purchase of the Group's RR denominated debt securities in issue (Note 8). In January 2008 these six loans were settled simultaneously with the debt securities issued by the Group.

In April 2009 the financial covenants on debt securities in issue, Euro denominated bonds, effective as at 31 December 2008, were revised (Note 30).

Refer to Note 27 for the disclosure of the fair value of debt securities in issue. Interest rate analysis of debt securities in issue is disclosed in Note 24.

13 Syndicated Loan

In December 2007 the Group obtained from several large international institutions a RR denominated syndicated loan facility with a total limit of USD 61 109 thousand (equivalent of RR 1 500 000 thousand). In accordance with the initial terms of the agreement, the facility matures on 24 June 2011 and bears an interest rate of 16.5% till December 2008, 18.5% from January 2009 till December 2009 and 20.5% from 2010 until maturity date.

The initial terms of the agreement were revised in May 2009, and in accordance with the revised terms of the agreement the facility matures on 24 September 2011 and bears an interest rate of 16.5% till 23 December 2008, 18.5% from 23 December 2008 till 29 December 2008, 24.5% from 30 December 2008 till 31 December 2009, and 26.5% from January 2010 till maturity date. Refer to Note 30.

On 19 March 2008 the Group issued warrants to lenders of RR denominated syndicated loan facility representing 6% of the authorized share capital of the Group (Refer to Note 17).

In May 2009 the financial covenants on the syndicated loan, effective as at 31 December 2008, were revised together with maturity and interest rate terms of the agreement (Note 30).

The carrying value of the syndicated loan at 31 December 2008 was USD 50 236 thousand (2007: USD 20 437 thousand).

Refer to Note 27 for the disclosure of the fair value of debt syndicated loan. Interest rate analysis is disclosed in Note 24.

14 Provisions for Liabilities and Charges

The Group has recorded provisions of USD 5 711 thousand (2007: USD 1 556 thousand) in respect of uncertain taxes including related penalties and interest, mostly in relation to certain administrative expenses. The balance at 31 December 2008 is expected to be either fully utilised or released by the end of 2011 (for Contingencies and Commitments disclosure refer to Note 26).

In thousands of USD	**Note**	**Provision for tax risks**
Carrying amount at 31 December 2006		**381**
Additions charged to profit or loss		1 102
Currency translation differences		73
Carrying amount at 31 December 2007		**1 556**
Additions charged to profit or loss	21	4 411
Currency translation differences		(256)
Carrying amount at 31 December 2008		**5 711**

15 Other Financial and Non-financial Liabilities

In thousands of USD	**2008**	**2007**
Other Financial Liabilities		
Trade payables	1 918	1 121
Settlement of operations with plastic cards	1 425	1 296
Other	489	-
Total Other Financial Liabilities	**3 832**	**2 417**
Other Non-financial Liabilities		
Accrued administrative expenses	1 069	243
Performance fee received in advance	697	690
Other	15	82
Total Other Non-financial Liabilities	**1 781**	**1 015**

16 Net Assets Attributable to Subsidiaries' Participant

The owner of the consolidated subsidiaries LLC "TCS" and LLC "T-Finance" is a related party of the Group. The operations of these companies are fully controlled by the Group. These companies bear the expenses of the Group related to the issue of the credit card loans and certain administrative expenses.

Movement in net assets attributable to subsidiaries' participant is as follows:

In thousands of USD	**Net assets attributable to subsidiaries' participants**
As at 1 January 2007	**1 285**
Loss for the year	(5 776)
Currency translation differences	94
Capital contribution	6 167
As at 31 December 2007	**1 770**
Loss for the year	(1 504)
Currency translation differences	(60)
As at 31 December 2008	**206**

17 Share Capital

In thousands of USD except for number of shares	**Number of authorized shares**	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Total**
At 31 December 2007	**7 619 180**	**4 687 977**	**4 687**	**28 366**	**33 053**
Shares issued in June 2008	-	332 314	332	7 668	8 000
Shares issued in September 2008	-	885 934	886	29 114	30 000
At 31 December 2008	**7 619 180**	**5 906 225**	**5 905**	**65 148**	**71 053**

In May 2008 the Group obtained from European investor, minority shareholder, a convertible loan facility in the amount of USD 30 000 thousand. In accordance with the terms of the agreement the loan was converted into 15% of the Group's share capital on 26 June 2008. The Group issued 885 934 ordinary shares.

In June 2008 the Group issued 332 314 ordinary shares in the authorized share capital to existing minority shareholder.

In 2008 the Group issued warrants, which give to lenders of the syndicated loan (Note 13) an opportunity to buy 6% of warrant shares. The warrants are exercisable at any time till maturity of the syndicated loan. The Company's obligation under warrants as at 31 December 2008 were recorded in equity in the amount of USD 1 871 thousand.

18 Interest Income and Expense

In thousands of USD	2008	2007
Interest income		
Loans and advances to customers, including:		
Credit card loans	67 340	2 479
Corporate loans	1 376	2 218
Other loans to individuals	34	-
Placements with other banks	1 824	10
Other interest income	940	170
Total interest income	**71 514**	**4 877**
Interest expense		
Syndicated loan	9 958	64
Euro denominated bonds	11 047	-
RR denominated bonds	2 696	1 115
Other interest expense	1 175	53
Total interest expense	**24 876**	**1 232**
Net interest income	**46 638**	**3 645**

19 Fee and Commission Expense

In thousands of USD	2008	2007
Service fees	902	379
Banking and other fees	68	36
Other	-	101
Total fee and commission expense	**970**	**516**

20 Customer acquisition expenses

Customer acquisition expenses represent expenses paid by the Group on services related to attraction of the credit card borrowers (mailing of advertising materials, processing of the responses etc). Group use different channels for acquisition of new clients. The majority of these expenses were born by LLC TCS and LLC T-Finance (Note 1).

21 Administrative and Other Operating Expenses

In thousands of USD	Note	2008	2007
Staff costs		15 516	1 171
Taxes other than on income		4 736	590
Provision for tax risks	14	4 411	1 102
Communication services		3 334	954
Information services		1 457	650
Operating lease expense for premises and equipment		1 139	481
Professional services		1 075	168
Amortization of intangible assets	9	883	510
Depreciation of fixed assets	9	688	422
Repair of premises and equipment		333	33
Stationery		331	224
Office expenses		276	105
Advertising expenses		239	103
Other administrative expenses		928	585
Total		**35 346**	**7 098**

In 2007 certain Group operating expenses in the amount of USD 1 574 thousand were incurred by a related party on behalf of the Group.

22 Income Taxes

Income tax expense comprises the following:

In thousands of USD	2008	2007
Current tax	(4 448)	(80)
Deferred tax	3 755	691
Income tax (expenses) /credit for the year	**(693)**	**611**

The income tax rate applicable to the majority of the Group's income is 24% (2007: 24%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 24%. The income tax rate applicable to the Company is 10%.

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of USD	2008	2007
Loss before tax	**(44 054)**	**(3 291)**
Theoretical tax credit at statutory rate of 24%	10 573	790
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(2 512)	(197)
- Non-taxable financial result of parent entity	(4 542)	-
- Other	(3 342)	18
- Impact of changes in tax rate to 20% effective from 1 January 2009	(870)	-
Income tax (expenses) /credit for the year	**(693)**	**611**

22 Income Taxes (Continued)

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 above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2007: 24%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In thousands of USD	**31 December 2007**	**Charged/ (credited) to profit or loss**	**Effect of translation**	**31 December 2008**
Tax effect of deductible and taxable temporary differences and tax loss carry forwards				
Loans and advances to customers	743	2 593	(146)	3 190
Fixed assets	29	(14)	(6)	9
Intangible assets	(596)	226	117	(253)
Other assets	99	(80)	(19)	-
Syndicated loan	-	201	-	201
Accrued expenses	58	432	(11)	479
Tax loss carryforward	425	(46)	(84)	295
Prepaid expenses	(14)	439	3	428
Debt securities in issue	(32)	26	6	-
Other financial assets	27	(22)	(5)	-
Net deferred tax asset	**739**	**3 755**	**(145)**	**4 349**

In thousands of USD	**31 December 2006**	**Credited/ (charged) to profit or loss**	**Effect of translation**	**31 December 2007**
Tax effect of deductible and taxable temporary differences and tax loss carry forwards				
Loans and advances to customers	40	701	2	743
Tax loss carryforward	-	425	-	425
Intangible assets	-	(596)	-	(596)
Debt securities in issue	-	(32)	-	(32)
Prepaid expenses	-	(14)	-	(14)
Other financial assets	-	27	-	27
Fixed assets	6	23	-	29
Accrued expenses	-	58	-	58
Other assets	5	93	1	99
Customer accounts	(6)	6	-	-
Net deferred tax asset	**45**	**691**	**3**	**739**

23 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 two main business segments:

- Retail banking – representing credit cards, other loans to individuals and current accounts of individuals.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities.

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 USD	**Retail banking**	**Corporate banking**	**Unallocated**	**Total**
External revenues	67 429	4 085	567	72 081
Total revenues	**67 429**	**4 085**	**567**	**72 081**
Total revenues comprise:				
- Interest income	67 429	4 085		71 514
- Other operating income		-	567	567
Total revenues	**67 429**	**4 085**	**567**	**72 081**
Provision for loan impairment	(19 311)	(11 022)	-	(30 333)
Fee and commission expense	(970)			(970)
Interest expense	(24 876)	-	-	(24 876)
Customer acquisition expenses	(13 379)	-	-	(13 379)
Administrative and other expenses	(35 346)	-	-	(35 346)
Segment result	**(26 453)**	**(6 937)**	**567**	**(32 823)**
Remeasuarement of net assets attributable to minority participant				1 504
Other unallocated items				(12 735)
Loss before tax				**(44 054)**
Income tax expenses				(693)
Loss for the year				**(44 747)**
Segment assets	**176 918**	**425**	**12 250**	**189 593**
Deferred tax assets				4 349
Total assets				**193 942**
Segment liabilities	**159 832**	**6 879**	**10 557**	**177 268**
Net assets attributable to minority participant			206	206
Total liabilities				**177 474**
Other segment items				
Capital expenditure	6 757			6 757
Depreciation and amortisation expense	(1 571)			(1 571)

23 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 USD	Retail banking	Corporate banking	Unallocated	Total
External revenues	5 112	3 096	6	8 214
Total revenues	**5 112**	**3 096**	**6**	**8 214**
Total revenues comprise:				
- Interest income	2 382	2 489	6	4 877
- Fee and commission income	-	79	-	79
- Compensation of operating expenses	2 730	-	-	2 730
- Other operating income	-	528	-	528
Total revenues	**5 112**	**3 096**	**6**	**8 214**
Provision for loan impairment	(2 511)	(1 734)	-	(4 245)
Fee and commission expense	(348)	(168)	-	(516)
Interest expense	(1 232)	-	-	(1 232)
Income on transactions with Mastercard	(4 185)	-	-	(4 185)
Administrative and other expenses	(7 098)	-	-	(7 098)
Segment result	**(10 262)**	**1 194**	**6**	**(9 062)**
Remeasurement of net assets attributable to subsidiaries' participant				5 776
Other unallocated items				(5)
Loss before tax				**(3 291)**
Income tax credit				611
Loss for the year				**(2 680)**
Segment assets	**53 990**	**40 344**	**6 945**	**101 279**
Deferred tax assets				739
Total assets				**102 018**
Segment liabilities	**2 245**	**63 812**	**3 002**	**69 059**
Net assets attributable to minority participant				1 770
Total liabilities				**70 829**
Other segment items				
Capital expenditure	4 767	-	2 753	7 520
Depreciation and amortisation expense	(640)	-	(292)	(932)

23 Segment Analysis (Continued)

Geographical Segments. Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2008.

In thousands of USD	Russian Federation	OECD	Total
2008			
External revenues	71 097	984	72 081
Capital expenditure	6 757	-	6 757
31 December 2008			
Assets	178 902	15 040	193 942
Liabilities	21 528	155 946	177 474
Credit related commitments	60 901	-	60 901

All operations of the Group for the year ended 31 December 2007 are held in Russian Federation.

24 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group uses transition matrix approach for calculation of the credit risk. Refer to Note 4.

The group grants credit card loans to customers across all regions of Russia therefore credit risk is broadly diversified.

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

The Group established a credit committee which is responsible for approving credit limits for individual borrowers and deciding whether to provide a loan to a customer.

The decision to provide a credit card loan to a potential customer is made by the credit committee in two stages.

The first stage includes acquiring information about the potential customer, about its social and property status, information from workplace and, by approbation of a potential client, information from credit bureau.

The Bank has minimum requirements for potential customers at this stage, which are listed below:

- Citizenship of Russian Federation
- Age from 21 to 70 inclusive
- Monthly income above RR 5 thousand
- Availability of cell-phone, and
- Permanent job.

24 Financial Risk Management (Continued)

The first stage also includes the decision on the credit limit available to the potential customer pending the approval of the client. This includes analysis of the personal income of the client using the average statistics for the relevant social group.

The limit is approved by two members of the credit committee. In rare cases the limit may exceed RR 300 thousand and in such cases should be approved by the whole credit committee.

The second stage of the client approval process includes the final decision made by the Bank and issue of a credit card to the client.

For internal risk management purposes the Management of the Bank divides potential retail customers into specific categories, e.g. based on information received from credit bureau the Bank breaks down customers to the following categories:

- White – no information about the client in the credit bureau,
- Green – customer has credit history of more than 6 months and never had delinquency of a minimum payment over a month,
- Red – customer had delinquency of a minimum payment over 180 days at least once, or one delinquency of a minimum payment over 90 days during the recent 6 months, or two delinquencies of a minimum payment over 60 days during the recent 12 months, and
- Yellow – other clients.

Credit limit on a credit card loan is closed in case the delinquency reaches 7 days.

Customers included in ”Green” category are usually accepted by the Bank and potential customers included in “Red“ category are rejected. Customers included in ”White“ and ”Yellow“ categories are analyzed additionally.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group’s exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008			**At 31 December 2007**		
In thousands of USD	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Russian roubles	148 776	53 006	95 770	89 169	65 760	23 409
US Dollars	9 215	10 817	(1 602)	2 767	688	2 079
Euros	19 704	104 391	(84 687)	229	40	189
Total	**177 695**	**168 214**	**9 481**	**92 165**	**66 488**	**25 677**

24 Financial Risk Management (Continued)

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2008		At 31 December 2007	
In thousands of USD	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 40% (2007: by 5%)	(641)	(641)	104	104
US Dollars weakening by 40% (2007: by 5%)	641	641	(104)	(104)
Euro strengthening by 40% (2007: by 5%)	(33 875)	(33 875)	9	9
Euro weakening by 40% (2007: by 5%)	33 875	33 875	(9)	(9)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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 USD	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2008						
Total financial assets	171 019	6	6 400	270	-	177 695
Total financial liabilities	-	(3 832)	-	(164 382)	-	(168 214)
Net interest sensitivity gap at 31 December 2008	**171 019**	**(3 826)**	**6 400**	**(164 112)**	**-**	**9 481**
31 December 2007						
Total financial assets	26 905	38 069	9 730	12 177	5 284	92 165
Total financial liabilities	(1 042)	(2 417)	(41 382)	(21 647)	-	(66 488)
Net interest sensitivity gap at 31 December 2007	**25 863**	**35 652**	**(31 652)**	**(9 470)**	**5 284**	**25 677**

24 Financial Risk Management (Continued)

The Group has no significant risk associated with variable % rates on credit and advances provided to customers or loans received.

All of the Group's debt instruments reprice within 5 years (2007: all reprice within 5 years).

At 31 December 2008, if interest rates at that date had been 200 basis points lower (2007: 100 basis points lower) with all other variables held constant, loss for the year would have been RR 3 482 thousand (2007: RR 205 thousand) lower, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2007: 100 basis points higher), with all other variables held constant, loss would have been RR 4 178 thousand (2007: RR 246 thousand) higher, mainly as a result of higher interest expense on variable interest liabilities.

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 % p.a.	**RR**	**USD**	**EURO**	**RR**	**USD**	**EURO**
Assets						
Cash and cash equivalents	-	-	3.6	1.1	-	-
Loans and advances to customers	-	-	-		-	-
Corporate loans	18.7	-	-	19.6	6.9	-
Credit card loans	62.6	-	-	39.5	-	-
Other loans to individuals	20.0	-	-	19.0	12.0	-
Other financial assets	-	-	-	-	1.9	-
Liabilities						
Customer accounts	14.0	12.0		9.2	-	-
Debt securities in issue	19.8	-	19.8	18.9	-	-
Syndicated loan	19.9	-	-	18.6	-	-
Other financial liabilities	-	-	-	-	-	-

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

Other price risk. The Group has no exposure to equity price risk as no transactions in equity products are performed.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2007: no material impact).

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Note 8. The Group did not have any such significant risk concentrations at 31 December 2008 and 2007.

24 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is 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 drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Chief Financial Officer (CFO) of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in 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. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 410.46% at 31 December 2008 (2007: 321.3%). The statutory ratio limit is a minimum of 15%.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 428.73% at 31 December 2008 (2007: 852.1%). The statutory ratio limit is a minimum of 50%.

- 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 ratio was 3% at 31 December 2008 (2007: 5.4%). The statutory ratio limit is a maximum of 120%.

CFO receives information about the liquidity profile of the financial assets and liabilities. CFO then provides for 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 CFO.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows 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.

In thousands of USD	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 3 years**	**Total**
Liabilities						
Customer accounts	4 950	738	110	220	3 324	9 342
Debt securities in issue	-	-	17 772	-	134 280	152 052
Syndicated loan	-	2 251	2 381	4 744	66 682	76 058
Other financial liabilities	1425	2 407	-	-	-	3 832
Undrawn credit lines	60 901	-	-	-	-	60 901
Total potential future payments for financial obligations	**67 276**	**5 396**	**20 263**	**4 964**	**204 286**	**302 185**

24 Financial Risk Management (Continued)

Expected maturities of financial liabilities may be summarised as follows at 31 December 2007:

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	Total
Liabilities						
Customer accounts	1 035	56	48	98	1 587	2 824
Debt securities in issue	-	-	3 838	45 099	-	48 937
Syndicated loan	-	902	838	1 702	24 066	27 508
Other financial liabilities	-	2 473	48	98	377	2 996
Undrawn credit lines	41 095	-	-	-	-	41 095
Total potential future payments for financial obligations	**42 130**	**3 431**	**4 772**	**46 997**	**26 030**	**123 360**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest

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. The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period.

The Group monitors expected maturities, which may be summarised as follows at 31 December 2008:

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	Total
Assets						
Cash and cash equivalents	30 907	-	-	-	-	30 907
Mandatory cash balances with the CBRF	276		-	-		276
Loans and advances to customers	12 066	23 281	34 922	69 843	-	140 112
Other financial assets	4 403	-	-	1 997	-	6 400
Total financial assets	**47 652**	**23 281**	**34 922**	**71 840**	**-**	**177 695**
Liabilities						
Customer accounts	4 849	719	104	198	2 566	8 436
Debt securities in issue	-	-	16 381	-	89 329	105 710
Syndicated loan	-	2 142	2 156	3 893	42 045	50 236
Other financial liabilities	3 346	486	-	-	-	3 832
Total financial liabilities	**8 195**	**3 347**	**18 641**	**4 091**	**133 940**	**168 214**
Net liquidity gap at 31 December 2008	**39 457**	**19 934**	**16 281**	**67 749**	**(133 940)**	**9 481**
Cumulative liquidity gap at 31 December 2008	**39 457**	**59 391**	**75 672**	**143 421**	**9 481**	

24 Financial Risk Management (Continued)

The expected maturity analysis of financial assets and financial liabilities at 31 December 2007 is as follows:

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Assets							
Cash and cash equivalents	23 238	-	-	-	-	-	23 238
Mandatory cash balances with the CBRF	15	36	-	615	321	-	987
Loans and advances to customers	3 092	30 704	4 839	9 115	11 856	5 284	64 890
Other financial assets	560	2 490	-	-	-	-	3 050
Total financial assets	**26 905**	**33 230**	**4 839**	**9 730**	**12 177**	**5 284**	**92 165**
Liabilities							
Customer accounts	1 042	-	-	-	1 210	-	2 252
Debt securities in issue	-	-	-	41 382	-	-	41 382
Syndicated loan	-	-	-	-	20 437	-	20 437
Other financial liabilities	-	2 417	-		-	-	2 417
Total financial liabilities	**1 042**	**2 417**	**-**	**41 382**	**21 647**	**-**	**66 488**
Net liquidity gap at 31 December 2007	**25 863**	**30 813**	**4 839**	**(31 652)**	**(9 470)**	**5 284**	**25 677**
Cumulative liquidity gap at 31 December 2007	**25 863**	**56 676**	**61 515**	**29 863**	**20 393**	**25 677**	

When the amount payable is not fixed, the amount disclosed 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.

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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment 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.

25 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity as shown in the consolidated balance sheet. The amount of capital that the Group managed as of 31 December 2008 was USD 16 468 thousand (2007: USD 31 189 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and as at 31 December 2008 amounts to USD 23 978 thousand (2007: USD 15 596 thousand). The Group and the Bank have complied with all externally imposed capital requirements throughout 2008 and 2007.

26 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made 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 in this respect has been contradictory.

Tax liabilities arising from transactions between companies 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 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 position and/or the overall operations of the entity.

26 Contingencies and Commitments (Continued)

The Group includes companies incorporated outside of Russia. 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 the overall operations of the entity.

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 position and/or the overall operations of the entity.

In additions to the above transfer pricing matters, Management estimates that the Group has other possible obligations from exposure to other than remote tax risks of USD 7 004 thousand (2007: USD 1 002 thousand). These exposures primarily relate to the operating expenses and to acquisitions of intangible assets.

As at 31 December 2008 the Group has recorded provisions in respect of uncertain taxes in the amount of USD 5 711 thousand (2007: USD 1 556 thousand). Refer to Note 14.

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

In thousands of USD	**2008**	**2007**
Not later than 1 year	114	101
Later than 1 year and not later than 5 years	-	
Later than 5 years	-	-
Total operating lease commitments	**114**	**101**

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt securities in issue. Non-compliance with such covenants may result in negative consequences for the Group. Management believes the Group was in compliance with the covenants during 2008.

In April 2009 the financial covenants on debt securities in issue, effective as at 31 December 2008, were revised. Refer to Note 30

Credit related commitments. The primary purpose of these commitments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. If loans were extended in respect of total unused commitments, the Group would become exposed to credit risk in respect of the additional loans provided. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

26 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of USD	2008	2007
Unused limits on credit cards loans	60 901	41 095
Total credit related commitments	**60 901**	**41 095**

The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded and therefore its fair value is close to zero. Credit related commitments are denominated in Russian Rubles.

27 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.

Assets and liabilities 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.

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 fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

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

In % p.a.	2008	2007
Assets		
Cash and cash equivalents	3.6	1.1
Loans and advances to customers	-	-
Corporate loans	14.9	13.3
Credit card loans	69	39.5
Other loans to individuals	19.8	15.5
Other financial assets	-	1.9
Liabilities		
Customer accounts	8.3	9.2
Debt securities in issue	20	18.9
Syndicated loan	20	18.6
Other financial liabilities	-	-

27 Fair Value of Financial Instruments (Continued)

The fair value of financial instruments as at 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008		31 December 2007	
	Fair value	Carrying value	Fair value	Carrying value
In thousands of USD	Valuation technique with inputs observable in markets		Valuation technique with inputs observable in markets	
FINANCIAL ASSETS				
Cash and cash equivalents				
-Cash on hand	93	93	175	175
- Cash balances with the CBRF (other than mandatory reserve deposits)	2 612	2 612	5 785	5 785
- Placements with other banks with original maturities of less than three months	28 202	28 202	17 278	17 278
Mandatory cash balances with the CBRF	276	276	987	987
Loans and advances to customers				
- Loans to individuals:				
Credit card loans	139 687	139 687	24 546	24 546
Other loans to individuals	-	-	-	-
- Corporate loans:				
Development	-	-	2 806	2 806
Consulting	-	-	27 620	27 620
Trading	-	-	5 786	5 786
Leasehold operations	289	289	4 132	4 132
Other	136	136	-	-
Other financial assets				
- Mastercard guarantee deposit	3 754	3 754	1 496	1 496
- Settlement of operations with plastic cards receivable	2 570	2 570	560	560
- Other financial assets	76	76	994	994
TOTAL FINANCIAL ASSETS	**177 695**	**177 695**	**92 165**	**92 165**

27 Fair Value of Financial Instruments (Continued)

In thousands of USD	**31 December 2008**		**31 December 2007**	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
	Valuation technique with inputs observable in markets		**Valuation technique with inputs observable in markets**	
FINANCIAL LIABILITIES				
Customer accounts				
Legal entities				
-Current/settlement accounts of corporate entities	534	534	1 217	1 217
-Term deposits of corporate entities	6 344	6 344	1 028	1 028
Individuals				
-Current/settlement accounts of individuals	14	14	7	7
-Term deposits of individuals	1 544	1 544	-	-
Debt securities in issue				
Euro denominated bonds	105 411	98 278	-	-
Bonds issued on domestic market	299	299	41 382	41 382
Syndicated loan	50 236	45 089	20 437	20 437
Other financial liabilities				
Trade payables	1 918	1 918	1 121	1 121
Settlement of operations with plastic cards	1 425	1 425	1 296	1 296
Other	489	489	-	-
TOTAL FINANCIAL LIABILITIES	**168 214**	**155 934**	**66 488**	**66 488**

28 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories:

	At 31 December 2008			At 31 December 2007		
In thousands of USD	**Loans and receivables**	**Non-financial assets**	**Total**	**Loans and receivables**	**Non-financial assets**	**Total**
Cash and cash equivalents						
-Cash on hand	93	-	93	175	-	175
- Cash balances with the CBRF (other than mandatory reserve deposits)	2 612	-	2 612	5 785	-	5 785
- Placements with other banks with original maturities of less than three months	28 202	-	28 202	17 278	-	17 278
Mandatory cash balances with the CBRF	276	-	276	987	-	987
Loans and advances to customers						
- Loans to individual:						
Credit card loans	139 687	-	139 687	24 546	-	24 546
Other loans to individuals	-	-	-	-	-	-
- Corporate loans:						
Development	-	-	-	2 806	-	2 806
Consulting	-	-	-	27 620	-	27 620
Trading	-	-	-	5 786	-	5 786
Leasehold operations	289	-	289	4 132	-	4 132
Other	136	-	136	-	-	-
Other financial assets						
- Mastercard guarantee deposit	3 754	-	3 754	1 496	-	1 496
- Settlement of operations with plastic cards receivable	2 570	-	2 570	560	-	560
- Other financial assets	76	-	76	994	-	994
Total financial assets	**177 695**	-	**177 695**	**92 165**	-	**92 165**
Non-financial assets	-	**16 247**	**16 247**	-	**9 853**	**9 853**
Total assets	**177 695**	**16 247**	**193 942**	**92 165**	**9 853**	**102 018**

As of 31 December 2008 and 31 December 2007 all of the Group's financial liabilities were carried at amortised cost.

29 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

	31 December 2008			31 December 2007		
In thousands of USD	Parent company	Key management personnel	Other related parties	Parent company	Key management personnel	Other related parties
ASSETS						
Gross amounts of loans and advances to customers (contractual interest rate: 2008: 1% - 22.8% p.a.; 2007: 1%- 22.8% p.a.)	-	66	7 835	-	51	36 257
Impairment provisions for loans and advances to customers	-	-	(7 403)	-	-	(1 571)
LIABILITIES						
Customer accounts (contractual interest rate: 2008: 1.5%.; 2007: 0% - 17% p.a)	-	-	4 300	-	-	1 256
Debt securities in issue (contractual interest rate: 2007:18% p.a.)	-	-	-	-	-	26 900
Other financial liabilities	-	-	-	11	-	-

In 2008 the total remuneration of key management comprised only short-term benefits and amounted to USD 2 405 thousand (2007: USD 542 thousand).

	2008			2007		
In thousands of USD	Parent company	Key management personnel	Other related parties	Parent company	Key management personnel	Other related parties
Interest income	-	19	1 027	-	3	967
Interest expense	-	-	(64)	-	(13)	(854)

Key management personnel are entitled to the additional bonus equal to 7% of the fair value of the Bank's equity, payable by the ultimate beneficiary who has controlling stake. The fair value will be calculated based upon report of the independent appraisal or price of the placements of the Bank's shares as at 31 December 2012.

30 Subsequent event

In March - April 2009 the Group has repurchased some of its Euro denominated bonds from the market with nominal value of EUR 6 000 thousand at a discount from 40.2% to 65% (Note 12).

In April 2009 the financial covenants on debt securities in issue, effective as at 31 December 2008, were revised (Note 12). Changes were introduced to the capital requirements and to the methodology of the calculation of certain covenants.

In May 2009 the financial covenants on the syndicated loan, effective as at 31 December 2008, were revised together with the initial terms of the syndicated loan agreement. In accordance with the revised terms of the syndicated agreement the facility in the amount of RR 1 245 000 thousand maturing on 24 September 2011 and bears an interest rate of 16.5% till 23 December 2008, 18.5% from 23 December 2008 till 29 December 2008, 24.5% from 30 December 2008 till 31 December 2009, and 26.5% from January 2010 till maturity date. The maturity and interest rate terms for the facility in the amount of RR 255 000 thousand remains the same (Note 13). Changes were introduced to the methodology of calculation of the certain covenants.

On 8 June 2009 the Company purchased 100% ownership over consolidated subsidiary LLC “T - Finance” (Note 1) from a related party.

Independent Auditor’s report is on pages 4 to 5.