

OJSC URSA Bank

**Interim Consolidated Condensed
Financial Statements
for the six-month period ended 30
June 2008
(Unaudited)**

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Independent Auditors' Report

To the Board of Directors of OJSC URSA Bank

Report on Review of the Interim Financial Information

Introduction

We have reviewed the accompanying interim consolidated condensed balance sheet of OJSC URSA Bank (the "Company") and its subsidiaries (the "Group") as at 30 June 2008, and the related interim consolidated condensed statements of income, changes in shareholders' equity and cash flows for the six-month period then ended (the interim consolidated financial information). Management is responsible for the preparation and presentation of this interim consolidated financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial information of the Group as at 30 June 2008 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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17 October 2008

		30 June 2008	31 December 2007
		Unaudited	(restated)
	Note	RUR'000	RUR'000
Assets			
Cash and cash equivalents		14 930 122	5 770 143
Mandatory cash balances with the Central Bank of the Russian Federation		2 238 346	1 561 664
Placements with banks and other financial institutions		6 036 027	14 590 760
Financial instruments at fair value through profit or loss			
- Unpledged		10 555 738	5 807 675
- Pledged under sale and repurchase agreements		1 439 852	-
Amounts receivable under sale and repurchase agreements		20 239 767	47 506
Loans to customers	5	123 235 964	127 000 340
Financial instruments available-for-sale		533	110 521
Property and equipment		4 231 816	3 672 629
Other assets		1 505 122	775 666
Goodwill		6 494 241	6 494 241
Total assets		190 907 528	165 831 145
Liabilities			
Financial instruments at fair value through profit or loss		1 739 138	707 146
Deposits and balances from banks and other financial institutions		19 157 001	19 304 877
Amounts payable under sale and repurchase agreements		10 251 346	-
Current accounts and deposits from customers	6	62 804 860	53 932 761
Debt securities in issue	7	60 487 053	57 373 111
Subordinated debt	8	4 960 361	5 189 328
Other liabilities		991 914	527 606
Deferred tax liability		264 220	83 683
Total liabilities		160 655 893	137 118 512
Shareholders' equity			
Share capital		1 629 083	1 629 083
Share premium		21 439 785	21 439 785
Hedge reserve		(239 182)	-
Retained earnings		7 421 949	5 643 765
Total shareholders' equity		30 251 635	28 712 633
Total liabilities and shareholders' equity		190 907 528	165 831 145

	Note	Six-month period ended 30 June 2008 Unaudited RUR'000	Six-month period ended 30 June 2007 Unaudited RUR'000 (restated)
Cash flows from operating activities			
Interest received		12 773 764	8 255 606
Interest paid		(5 722 430)	(3 450 271)
Fees and commissions received		1 772 016	1 182 807
Fees and commissions paid		(182 550)	(108 819)
Net realized (loss)/gain from financial instruments at fair value through profit or loss		(39 307)	162 857
Net realized gain/(loss) from foreign exchange		28 829	(476 277)
Other operating income received		115 155	187 782
Staff costs paid		(1 676 747)	(1 704 018)
Operating expenses paid		(1 607 426)	(984 021)
Proceeds from sale of loans		287 215	-
Income tax paid		(1 026 253)	(388 163)
Cash flows from operating activities before changes in operating assets and liabilities		4 722 266	2 677 483
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(676 682)	(77 023)
Net decrease in placements with banks and other financial institutions		8 522 731	11 905 921
Net increase in financial instruments at fair value through profit or loss		(5 217 880)	(8 126 534)
Amounts receivable under sale and repurchase agreements		(20 177 344)	1 379 765
Net decrease/(increase) in loans to customers		952 165	(31 663 033)
Net decrease in financial instruments available-for-sale		110 011	-
Net increase in other assets		(730 038)	(526 879)
Net increase/(decrease) in deposits and balances from banks and other financial institutions		921 823	(4 039 517)
Amounts payable under sale and repurchase agreements		10 249 375	2 098 643
Net increase in current accounts and deposits from customers		8 858 100	6 037 397
Net decrease in promissory notes and deposit certificates		(481 730)	(1 368 577)
Net (decrease)/increase in other liabilities		(64 484)	586 200
Net cash from/(used in) operating activities		6 988 313	(21 116 154)
Cash flows from investing activities			
Purchases of property and equipment		(796 005)	(714 560)
Proceeds from disposal of property and equipment		10 728	-
Net cash used in investing activities		(785 277)	(714 560)
Cash flows from financing activities			
Proceeds from issuance of share capital		-	10 137 448
Dividends paid		(75)	(178 309)
Repayment of subordinated debt		-	(11 545)
Net proceeds from issue of long-term loan participation notes and domestic bonds		3 100 192	17 449 348
Net cash from financing activities		3 100 117	27 396 942
Effect of exchange rate changes on cash and cash equivalents		(143 174)	(125 964)
Net increase in cash and cash equivalents		9 159 979	5 440 264
Cash and cash equivalents at the beginning of the period		5 770 143	7 880 645
Cash and cash equivalents at the end of the period		14 930 122	13 320 909

	Share capital	Share premium	Hedge reserve	Retained earnings	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 1 January 2007 (restated)	1 434 920	11 496 500	-	2 051 789	14 983 209
Net income for the period (unaudited)	-	-	-	1 433 992	1 433 992
Total recognised income and expense for the period (unaudited)					1 433 992
Shares issued (unaudited)	194 163	9 943 285	-	-	10 137 448
Dividends declared on preference shares (unaudited)	-	-	-	(178 559)	(178 559)
Balance at 30 June 2007 (unaudited)	1 629 083	21 439 785	-	3 307 222	26 376 090
Balance at 1 January 2008	1 629 083	21 439 785	-	5 643 765	28 712 633
Net income for the period (unaudited)	-	-	-	2 315 373	2 315 373
Change in net unrealized gains (losses) on derivatives hedging variability of cash flows, net of tax (unaudited)	-	-	310 410	-	310 410
Foreign currency translation, net of tax (unaudited)	-	-	(549 592)	-	(549 592)
Total recognised income and expense for the period (unaudited)					2 076 191
Dividends declared on preference shares (unaudited)	-	-	-	(537 189)	(537 189)
Balance at 30 June 2008 (unaudited)	1 629 083	21 439 785	(239 182)	7 421 949	30 251 635

The notes set out on pages 8 to 41 form an integral part of these interim consolidated condensed financial statements.

1 Background

Principal activities

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

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

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

The Group’s principal business activity is commercial and retail banking operations within the Russian Federation. The Group is headquartered in Novosibirsk and has a network of branches in the Ural and Siberian Federal Districts. The Group has 19 regional headquarters and 238 branches, 3 representative offices and 8 028 employees as of 30 June 2008 (as at 31 December 2007: 8 229).

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

The Bank’s subsidiaries are as follows:

Name	Country of Incorporation	Main Activity	% Owned as at 30 June 2008	% Owned as at 31 December 2007
ZS JASO	Russian	Insurance	-	57,8%
Stroyfinance DV	Russian	Construction	100%	100%
URSA Finance Plc	Ireland	Investment	-	-
URSA Mortgage Finance S.A.	Luxemburg	Investment	-	-

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

During the six months ended 30 June 2008 the Group disposed of ZS JASO for an amount of RUR 185 630 thousand.

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

Russian Business Environment

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

2 Basis of preparation

Statement of compliance

The accompanying interim consolidated condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and all applicable International Financial Reporting Standards (“IFRS”). They do not include all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007, as these interim consolidated condensed financial statements provide an update of previously reported financial information.

Basis of measurement

The interim consolidated condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available for sale are stated at fair value. Financial assets and liabilities which have fair value hedges are stated at fair value in respect of the risk component being hedged.

Functional and presentation currency

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

Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

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

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

Loan impairment estimates - Note 5

3 Significant accounting policies

The accounting policies applied by the Group in these interim consolidated condensed financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2007, except for the application of hedge accounting which it has applied from the date of inception of hedges and qualification for hedge accounting.

Hedge accounting

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

The Group uses cross-currency swaps and forwards to hedge the foreign currency risk arising from its issuance of debt securities in foreign currency. The Group uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate liabilities.

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

Cash flow hedges

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

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

Fair value hedges

Derivative hedging instruments designated as fair value hedges are measured at fair value with changes in fair value recognized in profit or loss. The hedged item is remeasured to fair value in respect of the hedged risk with such changes in fair value recognized in profit or loss.

Qualification for hedge accounting

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met.

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

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

Comparative information

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

Interest income and interest expenses on sale and repurchase agreements, for the period ended 30 June 2007, were presented in *Net income/(loss) on securities trading* (net amount of RUR 21 993 thousand). Interest income of RUR 79 875 thousand and interest expense of RUR 57 882 thousand have been included within interest income and interest expense in these interim consolidated condensed financial statements.

Amounts receivable under sale and repurchase agreements of RUR 47 506 thousand were recorded in the financial statements for the year ended 31 December 2007 as placements with banks and other financial institutions. In 2008 the Bank has decided to disclose this separately.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2008, and have not been applied in preparing these interim consolidated condensed financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- IAS 1 *Presentation of Financial Statements* (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible hedged Items*, which is effective for annual periods beginning on or after 1 July 2009, which introduce additional application guidance which clarifies that changes in the cash flows or fair value of a hedged item above or below a specified price or variable can be designated.
- Amendment to IAS 18 *Revenue*, which is effective for annual periods beginning on or after 1 January 2009, provides guidance on transaction costs related to originating a financial asset, which is aligned with the definition of transaction costs as included in IAS 39.

- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 *Operating Segments* will replace International Financial Reporting Standard IAS 14 *Segment Reporting*.
- IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements (Revised)*, which is effective for annual periods beginning on or after 1 July 2009. The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to account for effects of transactions with non-controlling interest directly in equity.

4 Interest Income and Expense

	Six-month period ended 30 June 2008 RUR'000	Six-month period ended 30 June 2007 RUR'000
Interest income		
Loans to customers	12 270 379	7 646 073
Financial instruments at fair value through profit or loss	316 346	663 833
Placements with banks and other financial institutions	226 434	153 865
	12 813 159	8 463 771
Interest expense		
Debt securities in issue	(2 576 439)	(1 784 754)
Current accounts and deposits from customers	(2 441 588)	(1 539 873)
Deposits and balances from banks and other financial institutions	(529 972)	(422 627)
Subordinated debt	(297 623)	(325 497)
	(5 845 622)	(4 072 751)
Net interest income	6 967 537	4 391 020

5 Loans to customers

	30 June 2008 RUR'000	31 December 2007 RUR'000
Loans to legal entities		
Commercial loans	24 893 612	28 631 461
Loans to small and medium size companies	5 229 502	6 029 785
Project financing	13 203 965	13 362 889
Leasing	7 258 924	6 730 870
Total loans to legal entities	50 586 003	54 755 005
Loans to individuals originated by the Group		
Consumer finance loans	37 418 737	35 007 844
Mortgage finance loans	18 864 644	19 986 556
Auto finance loans	9 527 478	11 706 019
Other	5 814 489	4 061 836
Total loans to individuals originated by the Group	71 625 348	70 762 255
Loans to individuals purchased by the Group		
Consumer finance loans	5 604 625	6 325 359
Mortgage finance loans	1 055 598	1 143 672
Auto finance loans	119	1 449
Total loans to individuals purchased by the Group	6 660 342	7 470 480
Gross loans to customers	128 871 693	132 987 740
Less: provision for loan impairment	(5 635 729)	(5 987 400)
Net loans to customers	123 235 964	127 000 340

Movements in the loan impairment allowance for the period ended 30 June 2008 are as follows:

	30 June 2008	30 June 2007
	RUR'000	RUR'000
Provision for loan impairment as at the beginning of the period	5 987 400	2 927 343
Provision for loan impairment for the period	1 745 042	1 032 351
Reversal of provision on sold loans	(2 096 198)	-
Loans written off during the year as uncollectible	(515)	(4 807)
Provision for loan impairment as at the end of the period	5 635 729	3 954 887

As at 30 June 2008, interest accrued on impaired loans amounted to RUR 126 530 thousand (31 December 2007: RUR 101 138 thousand).

Credit quality of loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities portfolio as at 30 June 2008.

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Commercial loans				
Loans for which no specific impairment has been identified:				
- Standard loans	22 222 930	(100 702)	22 122 228	0,45%
- Watch list loans	1 073 758	(4 829)	1 068 929	0,45%
Total loans for which no specific impairment has been identified:	23 296 688	(105 531)	23 191 157	0,45%
Impaired loans:				
Overdue loans less than 30 days	869 761	(4 495)	865 266	0,52%
Overdue loans for the period 30-60 days	35 459	(160)	35 299	0,45%
Overdue loans for the period 61-90 days	141 741	(638)	141 103	0,45%
Overdue loans for the period 91-180 days	125 088	(23 498)	101 590	18,78%
Overdue loans for the period 181-360 days	210 509	(185 642)	24 867	88,19%
Overdue loans for the period more than 360 days	214 366	(194 467)	19 899	90,72%
Total impaired loans	1 596 924	(408 900)	1 188 024	25,61%
Total commercial loans	24 893 612	(514 431)	24 379 181	2,07%
Loans to small and medium size companies				
Loans for which no specific impairment has been identified:				
- Standard loans	4 865 738	(22 063)	4 843 675	0,45%
- Watch list loans	25 137	(113)	25 024	0,45%
Total loans for which no specific impairment has been identified:	4 890 875	(22 176)	4 868 699	0,45%
Impaired loans:				
Overdue loans less than 30 days	88 496	(726)	87 770	0,82%
Overdue loans for the period 30-60 days	32 435	(146)	32 289	0,45%
Overdue loans for the period 61-90 days	19 211	(86)	19 125	0,45%
Overdue loans for the period 91-180 days	57 129	(54 726)	2 403	95,79%
Overdue loans for the period 181-360 days	82 446	(38 321)	44 125	46,48%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Overdue loans for the period more than 360 days	58 910	(58 910)	-	100,00%
Total impaired loans	338 627	(152 915)	185 712	45,16%
Total loans to small and medium size companies	5 229 502	(175 091)	5 054 411	3,35%
Project financing				
Loans for which no specific impairment has been identified:				
- Standard loans	13 074 982	(58 838)	13 016 144	0,45%
Total loans for which no specific impairment has been identified	13 074 982	(58 838)	13 016 144	0,45%
Impaired loans:				
Overdue loans for the period 91-180 days	128 983	(580)	128 403	0,45%
Total impaired loans	128 983	(580)	128 403	0,45%
Total project financing	13 203 965	(59 418)	13 144 547	0,45%
Leasing				
Loans for which no specific impairment has been identified:				
- Standard loans	7 204 501	(32 420)	7 172 081	0,45%
- Watch list loans	54 423	(245)	54 178	0,45%
Total loans for which no specific impairment has been identified	7 258 924	(32 665)	7 226 259	0,45%
Total leasing	7 258 924	(32 665)	7 226 259	0,45%
Total loans to legal entities	50 586 003	(781 605)	49 804 398	1,55%

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2007.

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Commercial loans				
Loans for which no specific impairment has been identified:				
- Standard loans	27 837 920	(99 800)	27 738 120	0,36%
- Watch list loans	352 330	(1 268)	351 062	0,36%
Total loans for which no specific impairment has been identified:	28 190 250	(101 068)	28 089 182	0,36%
Impaired loans:				
Overdue loans less than 30 days	22 531	(82)	22 449	0,36%
Overdue loans for the period 30-60 days	16 290	(59)	16 231	0,36%
Overdue loans for the period 61-90 days	19 802	(71)	19 731	0,36%
Overdue loans for the period 91-180 days	17 642	(17 642)	-	100,00%
Overdue loans for the period 181-360 days	281 146	(281 146)	-	100,00%
Overdue loans for the period more than 360 days	83 800	(83 800)	-	100,00%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Total impaired loans	441 211	(382 800)	58 411	86,76%
Total commercial loans	28 631 461	(483 868)	28 147 593	1,69%
Loans to small and medium size companies				
Loans for which no specific impairment has been identified:				
- Standard loans	5 832 147	(20 996)	5 811 151	0,36%
Total loans for which no specific impairment has been identified:	5 832 147	(20 996)	5 811 151	0,36%
Impaired loans:				
Overdue loans less than 30 days	59 621	(215)	59 406	0,36%
Overdue loans for the period 30-60 days	32 709	(118)	32 591	0,36%
Overdue loans for the period 61-90 days	665	(2)	663	0,36%
Overdue loans for the period 91-180 days	40 121	(13 965)	26 156	34,81%
Overdue loans for the period 181-360 days	39 589	(39 589)	-	100,00%
Overdue loans for the period more than 360 days	24 933	(24 933)	-	100,00%
Total impaired loans	197 638	(78 822)	118 816	39,88%
Total loans to small and medium size companies	6 029 785	(99 818)	5 929 967	1,66%
Project financing				
Loans for which no specific impairment has been identified:				
- Standard loans	13 301 043	(47 884)	13 253 159	0,36%
- Watch list loans	29 687	(107)	29 580	0,36%
Total loans for which no specific impairment has been identified	13 330 730	(47 991)	13 282 739	0,36%
Impaired loans:				
Overdue loans less than 30 days	27 007	(97)	26 910	0,36%
Overdue loans for the period 91-180 days	5 152	(5 152)	-	100,00%
Total impaired loans	32 159	(5 249)	26 910	16,32%
Total project financing	13 362 889	(53 240)	13 309 649	0,40%
Leasing				
Loans for which no specific impairment has been identified:				
- Standard loans	6 730 870	(24 231)	6 706 639	0,36%
Total loans for which no specific impairment has been identified	6 730 870	(24 231)	6 706 639	0,36%
Total leasing	6 730 870	(24 231)	6 706 639	0,36%
Total loans to legal entities	54 755 005	(661 157)	54 093 848	1,21%

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the portfolio impairment allowance for loans to legal entities at 30 June 2008, the key assumption was a historic loss rate of 0.45%, which is based on the average losses for five years.

Changes in this estimate could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment on loans to legal entities as at 30 June 2008 would be RUR 498 044 thousand lower/higher (31 December 2007: RUR 540 938 thousand lower/higher).

During the 6 months ended 30 June 2008 the Bank renegotiated loans to legal entities that would otherwise be past due or impaired of RUR 531 888 thousand (31 December 2007: RUR 258 832 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. These loans are included in standard loans in these interim consolidated condensed financial statements.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to legal entities for the 6 months ended 30 June 2008 are as follows:

RUR'000	Commercial loans	Loans to small and medium size companies	Project financing	Leasing	Total
Loan impairment allowance as at 1 January 2008	483 868	99 818	53 240	24 231	661 157
Loan impairment losses during the period	30 563	75 273	6 178	8 434	120 448
Loan impairment allowance as at 30 June 2008	514 431	175 091	59 418	32 665	781 605

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 30 June 2007 are as follows:

RUR'000	Commercial loans	Loans to small and medium size companies	Project financing	Leasing	Total
Loan impairment allowance as at 1 January 2007	344 300	59 590	78 946	53 646	536 482
Loans written off during the year as uncollectible	(4 807)	-	-	-	(4 807)
Loan impairment losses during the year	(8 515)	(25 451)	6 198	16 047	(11 721)
Loan impairment allowance as at 30 June 2007	330 978	34 139	85 144	69 693	519 954

Credit quality of loans to individuals

The following table provides information on the credit quality of the retail loan portfolios as at 30 June 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans issued to individuals				
Consumer loans				
- Not past due	31 287 339	(298 972)	30 988 367	1,0%
- Overdue less than 30 days	1 781 359	(345 346)	1 436 013	19,4%
- Overdue 30-60 days	611 501	(265 766)	345 735	43,5%
- Overdue 61-90 days	434 170	(224 807)	209 363	51,8%
- Overdue 91-180 days	1 044 143	(707 269)	336 874	67,7%
- Overdue 181-360 days	1 293 553	(982 673)	310 880	76,0%
- Overdue more than 360 days	966 672	(841 343)	125 329	87,0%
Total consumer loans	37 418 737	(3 666 176)	33 752 561	9,8%
Mortgage loans				
- Not past due	17 065 319	(13 949)	17 051 370	0,1%
- Overdue less than 30 days	740 631	(14 822)	725 809	2,0%
- Overdue 30-60 days	160 121	(10 202)	149 919	6,4%
- Overdue 61-90 days	95 330	(9 236)	86 094	9,7%
- Overdue 91-180 days	271 734	(37 634)	234 100	13,8%
- Overdue 181-360 days	359 365	(54 820)	304 545	15,3%
- Overdue more than 360 days	172 144	(26 260)	145 884	15,3%
Total mortgage loans	18 864 644	(166 923)	18 697 721	0,9%
Auto loans				
- Not past due	7 574 235	(35 349)	7 538 886	0,5%
- Overdue less than 30 days	525 654	(58 107)	467 547	11,1%
- Overdue 30-60 days	157 174	(40 506)	116 668	25,8%
- Overdue 61-90 days	119 401	(38 013)	81 388	31,8%
- Overdue 91-180 days	313 111	(127 186)	185 925	40,6%
- Overdue 181-360 days	583 141	(249 588)	333 553	42,8%
- Overdue more than 360 days	254 762	(109 823)	144 939	43,1%
Total auto loans	9 527 478	(658 572)	8 868 906	6,9%
Other loans to individuals				
- Not past due	5 351 083	(37 392)	5 313 691	0,7%
- Overdue less than 30 days	150 114	(34 797)	115 317	23,2%
- Overdue 30-60 days	17 695	(9 114)	8 581	51,5%
- Overdue 61-90 days	60 028	(41 570)	18 458	69,3%
- Overdue 91-180 days	107 780	(84 979)	22 801	78,8%
- Overdue 181-360 days	92 359	(84 302)	8 057	91,3%
- Overdue more than 360 days	35 430	(33 507)	1 923	94,6%
Total other loans to individuals	5 814 489	(325 661)	5 488 828	5,6%
Total retail loans	71 625 348	(4 817 332)	66 808 016	6,7%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans purchased by the Bank				
Consumer loans				
- Not past due	5 595 917	(11)	5 595 906	0,0%
- Overdue less than 30 days	-	-	-	-
- Overdue 61-90 days	-	-	-	-
- Overdue 181-360 days	6 710	(6 710)	-	100,0%
- Overdue more than 360 days	1 998	(1 799)	199	90,0%
Total consumer loans	5 604 625	(8 520)	5 596 105	0,2%
Mortgage loans				
- Not past due	669 512	(585)	668 927	0,1%
- Overdue less than 30 days	223 646	(4 476)	219 170	2,0%
- Overdue 30-60 days	4 446	(284)	4 162	6,4%
- Overdue 61-90 days	14 177	(1 374)	12 803	9,7%
- Overdue 91-180 days	41 755	(5 878)	35 877	14,1%
- Overdue 181-360 days	60 289	(9 197)	51 092	15,3%
- Overdue more than 360 days	41 773	(6 372)	35 401	15,3%
Total mortgage loans	1 055 598	(28 166)	1 027 432	2,7%
Auto loans				
- Not past due	2	-	2	0%
- Overdue more than 360 days	117	(106)	11	90,6%
Total auto loans	119	(106)	13	89,1%
Loans purchased by the Bank	6 660 342	(36 792)	6 623 550	0,6%

The following table provides information on the credit quality of the retail loan portfolios as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans issued to individuals				
Consumer loans				
- Not past due	29 355 940	(643 383)	28 712 557	2,19%
- Overdue less than 30 days	958 257	(190 069)	768 188	19,83%
- Overdue 30-60 days	464 422	(223 308)	241 114	48,08%
- Overdue 61-90 days	348 750	(204 093)	144 657	58,52%
- Overdue 91-180 days	656 453	(471 319)	185 134	71,80%
- Overdue 181-360 days	840 797	(692 441)	148 356	82,36%
- Overdue more than 360 days	2 383 225	(2 227 704)	155 521	93,47%
Total consumer loans	35 007 844	(4 652 317)	30 355 527	13,29%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Mortgage loans				
- Not past due	18 883 987	(16 611)	18 867 376	0,09%
- Overdue less than 30 days	432 925	(8 409)	424 516	1,94%
- Overdue 30-60 days	155 509	(9 473)	146 036	6,09%
- Overdue 61-90 days	114 899	(11 115)	103 784	9,67%
- Overdue 91-180 days	185 220	(25 690)	159 530	13,87%
- Overdue 181-360 days	181 561	(27 806)	153 755	15,31%
- Overdue more than 360 days	32 455	(4 970)	27 485	15,31%
Total mortgage loans	19 986 556	(104 074)	19 882 482	0,52%
Auto loans				
- Not past due	10 442 193	(68 607)	10 373 586	0,66%
- Overdue less than 30 days	384 685	(40 465)	344 220	10,52%
- Overdue 30-60 days	187 168	(49 084)	138 084	26,22%
- Overdue 61-90 days	155 551	(49 276)	106 275	31,68%
- Overdue 91-180 days	285 361	(110 096)	175 265	38,58%
- Overdue 181-360 days	192 479	(78 720)	113 759	40,90%
- Overdue more than 360 days	58 582	(25 039)	33 543	42,74%
Total auto loans	11 706 019	(421 287)	11 284 732	3,60%
Other loans to individuals				
- Not past due	3 874 219	(14 715)	3 859 504	0,38%
- Overdue less than 30 days	55 296	(4 010)	51 286	7,25%
- Overdue 30-60 days	28 128	(5 012)	23 116	17,82%
- Overdue 61-90 days	8 620	(4 422)	4 198	51,30%
- Overdue 91-180 days	27 186	(23 872)	3 314	87,81%
- Overdue 181-360 days	54 280	(52 092)	2 188	95,97%
- Overdue more than 360 days	14 107	(12 878)	1 229	91,29%
Total other loans to individuals	4 061 836	(117 001)	3 944 835	2,88%
Total retail loans	70 762 255	(5 294 679)	65 467 576	7,48%
Loans purchased by the Bank				
Consumer loans				
- Not past due	6 323 640	(6 747)	6 316 893	0,11%
- Overdue less than 30 days	46	(39)	7	84,78%
- Overdue 61-90 days	800	(686)	114	85,75%
- Overdue 181-360 days	221	(192)	29	86,88%
- Overdue more than 360 days	652	(588)	64	90,18%
Total consumer loans	6 325 359	(8 252)	6 317 107	0,13%
Mortgage loans				
- Not past due	949 591	(775)	948 816	0,08%
- Overdue less than 30 days	19 417	(377)	19 040	1,94%
- Overdue 30-60 days	41 496	(2 557)	38 939	6,16%
- Overdue 61-90 days	17 566	(1 700)	15 866	9,68%
- Overdue 91-180 days	63 060	(8 650)	54 410	13,72%
- Overdue 181-360 days	52 542	(8 029)	44 513	15,28%
Total mortgage loans	1 143 672	(22 088)	1 121 584	1,93%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	70	(1)	69	1,43%
- Overdue 181-360 days	303	(259)	44	85,48%
- Overdue more than 360 days	1 076	(964)	112	89,59%
Total auto loans	1 449	(1 224)	225	84,47%
Loans purchased by the Bank	7 470 480	(31 564)	7 438 916	0,42%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The key assumptions at 30 June 2008 are:

- loss migration rates are constant and can be estimated based on historic loss migration pattern for the last 24 months or since inception of the product, for new products.
- The value the collateral can be sold for on unpaid mortgage and auto loans is 85% and 56% respectively.

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying vehicles. Credit card overdrafts and consumer loans are not secured.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the period ended 30 June 2008 are as follows:

RUR'000	Consumer loans	Mortgage loans	Auto loans	Other loans	Total
Loan impairment allowance as at 1 January 2008	4 660 569	126 162	422 511	117 001	5 326 243
Loans written off during the year as uncollectible	(276)	-	(239)	-	(515)
Recovery of impairment allowance on sold loans	(2 096 198)	-	-	-	(2 096 198)
Loan impairment losses during the year	1 110 601	68 927	236 406	208 660	1 624 594
Loan impairment allowance as at 30 June 2008	3 674 696	195 089	658 678	325 661	4 854 124

Movements in the loan impairment allowance by classes of retail loans for the year ended 30 June 2007 are as follows:

RUR'000	Consumer loans	Mortgage loans	Auto loans	Other loans	Total
Loan impairment allowance as at 1 January 2007	2 295 640	22 656	65 407	7 158	2 390 861
Loan impairment losses during the year	701 573	157 753	179 184	5 562	1 044 072
Loan impairment allowance as at 30 June 2007	2 997 213	180 409	244 591	12 720	3 434 933

Securitisation of assets

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

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

The group did not securitize any assets during the six-month period ended 30 June 2008.

Sale of consumer loans

During the 6 months ended 30 June 2008 the Group sold to a related party consumer loans overdue more than 180 days with a gross amount of RUR 2 354 229 thousand (net of provision: RUR 258 031 thousand) for RUR 286 989 thousand resulting in a gain of RUR 28 958 thousand.

Industry and geographical analysis of the loan portfolio

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

	30 June 2008		31 December 2007	
	RUR'000	%	RUR'000	%
Individuals	78 285 690	61	78 232 735	59
Trade	21 081 214	16	18 882 224	14
Production	8 782 167	7	8 664 749	7
Financial services	8 469 716	7	7 930 947	6
Construction	3 476 726	3	4 184 313	3
Services	2 850 147	2	6 974 768	5
Mining	2 655 687	2	3 290 044	2
Farming	289 103	-	2 209 122	2
Transport	335 264	-	914 109	1
Trade finance	167 497	-	1 057 645	1
Energy	10 296	-	301 780	-
Other	2 468 186	2	345 304	-
Total loans to customers (gross of provisions)	128 871 693	100	132 987 740	100

Loan maturities

The maturity of the Group's loan portfolio is presented in Note 10, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

6 Current accounts and deposits from customers

	30 June 2008	31 December 2007
	RUR'000	RUR'000
Current accounts and demand deposits		
-Retail	4 537 086	4 545 373
-Corporate	8 102 117	7 546 659
Term deposits		
-Retail	35 976 403	31 407 928
-Corporate	14 189 254	10 432 801
	62 804 860	53 932 761

Concentrations of current accounts and customer deposits

As of 30 June 2008 and 31 December 2007, the Bank did not have any customers, whose balances exceeded 10% of total customer accounts.

7 Debt securities in issue

	30 June 2008	31 December 2007
	RUR'000	RUR'000
Long-term loan participation notes	40 187 453	41 766 235
Domestic bonds	19 059 685	14 180 625
Promissory notes	1 239 915	1 415 228
Deposit certificates	-	11 023
	60 487 053	57 373 111

As at 30 June 2008 and 31 December 2007, the Group had the following long-term loan participation notes outstanding:

Principal amount as at 30 June 2008 (in thousand)	Principal amount as at 31 December 2007 (in thousand)	Interest rate	Issue date	Maturity date	30 June 2008	31 December 2007
350 933 USD	350 933 USD	9,00%	12 May 2006	12 May 2009	8 285 384	8 635 945
-	62 948 USD	9,75%	13 December 2005	19 May 2008	-	1 558 403
4 384 575 HUF	4 384 575 HUF	11,66%	21 September 2006	21 September 2009	748 248	636 085
300 000 EUR	300 000 EUR	8,30%	16 November 2006	16 November 2011	11 225 941	10 855 022
5 000 000 RUR	5 000 000 RUR	9,13%	26 February 2007	26 February 2010	5 143 041	5 138 843
400 000 EUR	400 000 EUR	7,00%	21 May 2007	21 May 2010	14 784 839	14 941 937
Total long-term loan participation notes					40 187 453	41 766 235

As at 30 June 2008 and 31 December 2007, the Group had the following domestic bonds outstanding:

Principal amount as at 30 June 2008 (in RUR thousand)	Principal amount as at 31 December 2007 (in RUR thousand)	Interest rate	Issue date	Maturity date	30 June 2008	31 December 2007
3 000 000	3 000 000	9,60%	8 June 2006	4 June 2009	3 012 823	3 003 964
1 500 000	1 500 000	7,60%	12 December 2005	12 December 2008	1 491 506	1 446 010
3 000 000	3 000 000	10,05%	24 October 2006	18 October 2011	3 044 929	3 042 468
1 500 000	1 500 000	7,65%	27 April 2006	27 April 2008	-	1 521 060
5 000 000	5 000 000	8,40%	26 July 2007	19 July 2012	5 166 681	5 167 123
6 203 000	-	11,19%	17 April 2008	9 April 2015	6 343 746	-
Total domestic bonds					19 059 685	14 180 625

8 Subordinated Debt

Principal (in thousands)	Interest rate	Issue date	Maturity date	30 June 2008	31 December 2007
130 000 USD	12,00%	30 June 2006	30 December 2011	3 059 777	3 198 798
30 000 USD	12,25%	29 June 2005	6 July 2010	736 269	769 116
7 500 USD	LIBOR +6,75%	15 August 2006	15 October 2013	178 502	187 793
6 000 USD	LIBOR+ 8,00%	30 September 2005	30 September 2010	139 393	145 757
5 000 USD	LIBOR+ 6,75%	15 August 2006	15 October 2013	118 873	125 058
15 000 RUR	11,00%	16 June 2005	16 June 2010	15 000	15 000
7 000 RUR	12,00%	20 April 2004	20 April 2009	7 000	7 000
10 000 USD	LIBOR + 6,50%	28 November 2006	15 September 2013	238 300	251 266
20 000 USD	LIBOR+ 6,00%	25 October 2006	25 October 2013	467 247	489 540
Total subordinated loans				4 960 361	5 189 328

9 Analysis by segment

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

The Bank is organised into three main business segments:

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

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

	30 June 2008 RUR'000	31 December 2007 RUR'000
Assets		
Commercial banking	55 263 378	59 481 759
Retail banking	77 561 169	77 693 971
Treasury and investments	50 107 697	21 882 109
Unallocated assets	7 975 284	6 773 306
Total assets	190 907 528	165 831 145
Liabilities		
Commercial banking	21 768 520	18 518 596
Retail banking	40 515 871	35 953 663
Treasury and investments	97 115 368	82 034 964
Unallocated liabilities	1 256 134	611 289
Total liabilities	160 655 893	137 118 512

Income statement segment information for the main reportable business segments of the Group for the period ended 30 June 2008 is set out below.

RUR'000	Commercial banking	Retail Banking	Treasury and investments	Total
External revenue	4 928 180	9 195 324	668 360	14 791 864
Net revenue from other segments	(2 174 262)	(1 612 160)	3 786 422	-
Revenue	2 753 918	7 583 164	4 454 782	14 791 864
Impairment losses	(120 449)	(1 628 332)	-	(1 748 781)
Interest expense	(633 663)	(1 807 924)	(3 404 035)	(5 845 622)
Fee and commission expense	(24 428)	(29 868)	(128 254)	(182 550)
Staff costs and operating expenses	(792 200)	(2 869 578)	(37 635)	(3 699 413)
Gain from sale of loans	-	28 958	-	28 958
Segment result	1 183 178	1 276 420	884 858	3 344 456
Income tax expense				(1 029 083)
Net income				2 315 373
Other segment items				
Capital expenditure	170 458	617 450	8 098	796 006
Depreciation charge	48 415	175 375	2 300	226 090

Income statement segment information for the main reportable business segments of the Group for the period ended 30 June 2007 is set out below.

RUR'000	Commercial banking	Retail Banking	Treasury and Investments	Total
External revenue	3 521 178	5 533 958	1 013 987	10 069 123
Net revenue from other segments	(1 804 987)	(465 908)	2 270 895	-
Revenue	1 716 191	5 068 050	3 284 882	10 069 123
Impairment losses	9 773	(1 042 124)	-	(1 032 351)
Interest expense	(230 284)	(1 275 221)	(2 567 246)	(4 072 751)
Fee and commission expense	(77 508)	(11 543)	(19 768)	(108 819)
Staff costs and operating expenses	(597 464)	(2 347 160)	(28 261)	(2 972 885)
Segment result	820 708	392 002	669 607	1 882 317
Income tax expense				(448 325)
Net income				1 433 992
Other segment items				
Capital expenditure	143 606	564 161	6 793	714 560
Depreciation charge	26 758	105 118	1 265	133 141

10 Risk management

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

Risk management system

The Bank's risk management system includes:

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

(i) Risk management organizational structure

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

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

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

(ii) Risk identification, assessment and control framework

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

(iii) System of internal risk controls

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

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

Credit risk

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

(i) Credit risk management organizational structure

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

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

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

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

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

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

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

(ii) Assessment and control of credit risk

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

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

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

(iii) Loan administration

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

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

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

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

Market risk

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

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

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

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

Value-at-risk

The Bank applies the Value-at-Risk (VaR) method to estimate exposure to price and currency risks. VaR is the amount of losses on positions which will not be exceeded over a specified time horizon in the future with a given level of confidence. The Bank uses the following parameters to estimate VaR:

- level of confidence: 99%;
- calculation method: historical;
- number of observations used for calculation– 12 months.

Although VaR is a valuable tool in measuring market risk exposure, it has a number of limitations, especially in low-liquidity markets:

- The use of historical data as a basis for forecasting future events may not encompass all possible scenarios, particularly those which are of an extreme nature.
- The use of a confidence level of 99% does not take into account losses that may occur beyond this level. There is one percent chance that the loss could exceed the VaR level.
- Since VaR is calculated at the end of a trading day, it does not necessarily reflect exposure to risk that may arise during the trading day.

Due to the aforementioned limitations of VaR, the Bank also applies other instruments to assess market risk: stress-testing, gap analysis of interest rate risk, analysis of sensitivity of security portfolio value and net interest income of the Bank to changes in interest rates. When performing stress-testing, the Bank uses a wide range of sensitivity tests and scenario stress-tests to model the impact of extreme market scenarios on the Bank's financial result.

A summary of VAR estimates as at 30 June 2008 in respect of the Banks' currency and fixed income securities positions is as follows:

RUR'000	<u>30 June 2008</u>	<u>31 December 2007</u>
Currency risk	204 383	30 387
Interest rate risk on securities with fixed income	291 923	139 680

Hedging

To mitigate the potential impact of external factors on the fair value of the Bank's financial instruments value and it's cash flows the Group undertakes hedging for some of its risks.

The Group hedges the following risks:

- currency risk
- interest rate risk

The Group uses the following financial instruments for hedging purposes:

- forward contracts
- swaps

The Group makes use of two types of hedging models:

- *Fair value hedge* – hedging of changes in the fair value of a hedged item that is attributable to a particular risk that may affect profit or loss of the Group for the period.
- *Cash flow hedge* – hedging of the exposure to variability in cash flows (e.g. debt and interest repayment) that is attributable to a particular risk associated with the bank's financial instruments.

Currency risk

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

As at 30 June 2008 the Bank had the following foreign currency positions:

	Roubles	USD dollars	Other currencies	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Assets				
Cash and cash equivalents	6 454 701	6 862 281	1 613 140	14 930 122
Mandatory cash balances with the Central Bank of the Russian Federation	2 238 346	-	-	2 238 346
Placements with banks and other financial institutions	3 347 492	2 688 467	68	6 036 027
Financial instruments at fair value through profit or loss	10 726 764	530 606	738 220	11 995 590
Amounts receivable under sale and repurchase agreements	20 239 767	-	-	20 239 767
Loans to customers	113 849 078	7 672 846	1 714 040	123 235 964
Financial instruments available-for-sale	101	-	432	533
Property and equipment	4 231 816	-	-	4 231 816
Other assets	1 418 489	73 961	12 672	1 505 122
Goodwill	6 494 241	-	-	6 494 241
Total assets	169 000 795	17 828 161	4 078 572	190 907 528
Liabilities				
Financial instruments at fair value through profit or loss	1 739 138	-	-	1 739 138
Deposits and balances from banks and other financial institutions	2 299 508	15 725 730	1 131 763	19 157 001
Amounts payable under sale and repurchase agreements	10 251 346	-	-	10 251 346
Current accounts and deposits from customers	53 670 865	5 226 076	3 907 919	62 804 860
Debt securities in issue	25 221 882	8 128 343	27 136 828	60 487 053
Subordinated debt	22 000	4 938 361	-	4 960 361
Other liabilities	442 867	547 706	1 341	991 914
Deferred tax liability	264 220	-	-	264 220
Total liabilities	93 911 826	34 566 216	32 177 851	160 655 893
Net balance sheet position as of 30 June 2008	75 088 969	(16 738 055)	(28 099 279)	30 251 635
Net off-balance sheet position as of 30 June 2008	(45 899 191)	17 888 754	28 010 437	-
Net position as of 30 June 2008	29 189 778	1 150 699	(88 842)	30 251 635
Net position as of 31 December 2007	28 475 365	222 976	14 292	28 712 633

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

Interest rate risk

Interest rate risk is the risk of changes in income or the value of financial instrument portfolio due to changes in interest rates. A change in interest rate levels may either increase or reduce the Bank's net interest income and the value of its interest-sensitive portfolios.

The Bank's exposure to interest rate risk is caused by the mismatching of interest re-pricing dates of balance sheet and off-balance-sheet assets and liabilities.

The table below shows the interest bearing assets and liabilities of the Bank and the corresponding average effective interest rates as at 30 June 2008 and 31 December 2007.

	30 June 2008		31 December 2007	
	Value	Average	Value	Average
	RUR'000	Effective	RUR'000	Effective
		Interest Rate		Interest Rate
Interest Bearing Assets				
Cash and cash equivalents				
<i>Correspondent accounts and overnight placements with other Banks</i>				
- RUR	3 682 501	3,4%	1 036 432	2,4%
- foreign currency	8 158 489	3,4%	211 889	5,4%
Placements with banks and other financial institutions				
- RUR	3 347 492	5,3%	9 266 167	4,5%
- foreign currency	2 688 535	2,2%	5 324 593	3,7%
Financial instruments at fair value through profit or loss				
- RUR	9 670 831	9,3%	4 508 188	8,2%
- foreign currency	530 606	8,7%	552 696	7,2%
Amounts receivable under repurchase agreements				
- RUR	20 239 767	5,1%	-	-
- foreign currency	-	-	47 506	2,8%
Loans to customers				
<i>Loans to corporate entities</i>				
- RUR	40 494 768	14,7%	45 398 060	14,3%
- foreign currency	9 309 630	12,7%	8 695 788	12,4%
<i>Loans to individuals</i>				
<i>Originated by the Group</i>				
- RUR	66 730 760	24,4%	65 367 274	24,9%
- foreign currency	77 256	12,0%	100 302	12,0%
<i>Purchased by the Group</i>				
- RUR	6 623 550	17,3%	7 438 916	17,4%

Interest Bearing Liabilities

Deposits and balances from banks and other financial institutions

Vostro accounts

- RUR	93 252	0,0%	63 446	0,1%
- foreign currency	22 555	0,0%	18 317	0,0%

Term deposits and syndicated debt

- RUR	2 206 256	4,3%	2 608 784	6,9%
- foreign currency	16 834 938	4,6%	16 614 330	6,8%

Amounts payable under repurchase agreements

- RUR	10 251 346	3,8%	-	-
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Current accounts and deposits from customers

- RUR	41 945 452	10,0%	37 127 421	10,2%
- foreign currency	8 783 971	6,6%	5 086 620	7,9%

Debt securities in issue

- RUR	25 221 882	9,6%	20 769 937	8,9%
- foreign currency	35 265 171	8,0%	36 603 174	8,1%

Subordinated loans

- RUR	22 000	11,3%	22 000	11,3%
- foreign currency	4 938 361	11,6%	5 167 328	12,0%

The following table shows information on the Group's exposure to interest rate risks as at 30 June 2008. The table includes assets and liabilities at their carrying value, as at the earlier of the following two dates: maturity or the date of repricing of interest rates.

Assets	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 5 years RUR'000	More than 5 years RUR'000	Non-interest bearing RUR'000	Overdue RUR'000	Total RUR'000
Cash and cash equivalents	11 840 990	-	-	-	-	3 089 132	-	14 930 122
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	2 238 346	-	2 238 346
Placements with banks and other financial institutions	5 955 440	79 998	-	589	-	-	-	6 036 027
Financial instruments at fair value through profit or loss	214 032	556 952	3 403 917	5 612 350	414 186	1 794 153	-	11 995 590
Amounts receivable under sale and repurchase agreements	20 239 767							20 239 767
Loans to customers	7 957 530	17 583 823	15 808 472	54 482 266	19 627 317	-	7 776 556	123 235 964
Financial instruments available-for-sale	-	-	-	-	-	533	-	533
Property and equipment	-	-	-	-	-	4 231 816	-	4 231 816
Other assets	-	-	-	-	-	1 505 122	-	1 505 122
Goodwill	-	-	-	-	-	6 494 241	-	6 494 241
Total assets	46 207 759	18 220 773	19 212 389	60 095 205	20 041 503	19 353 343	7 776 556	190 907 528

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

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	Less than 1 month	1 to 6 months	6 months to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Overdue	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Liabilities								
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 739 138	-	1 739 138
Deposits and balances from banks and other financial institutions	3 040 685	12 551 888	2 533 529	1 030 899	-	-	-	19 157 001
Amounts payable under sale and repurchase agreements	10 251 346	-	-	-	-	-	-	10 251 346
Current accounts and deposits from customers	10 533 925	15 032 344	9 422 807	15 715 571	24 776	12 075 437	-	62 804 860
Debt securities in issue	426 913	2 930 187	18 090 007	39 039 946	-	-	-	60 487 053
Subordinated debt	51 292	1 134 390	7 000	3 767 679	-	-	-	4 960 361
Other liabilities	-	-	-	-	-	991 914	-	991 914
Deferred tax liability	-	-	-	-	-	264 220	-	264 220
Total liabilities	24 304 161	31 648 809	30 053 343	59 554 095	24 776	15 070 709	-	160 655 893
Net balance sheet position on interest bearing assets and liabilities as of 30 June 2008	21 903 598	(13 428 036)	(10 840 954)	541 110	20 016 727	4 282 634	7 776 556	30 251 635
Net off-balance sheet position on interest bearing assets and liabilities as of 30 June 2008	22 000 000	(27 140 943)	(22 000 000)	27 140 943	-	-	-	-
Net position on interest bearing assets and liabilities as of 30 June 2008	43 903 598	(40 568 979)	(32 840 954)	27 682 053	20 016 727	4 282 634	7 776 556	30 251 635
Net position on interest bearing assets and liabilities as of 31 December 2007	15 116 741	(31 737 376)	(4 892 493)	21 478 634	19 889 129	4 826 170	4 031 828	28 712 633

The results of the analysis of the sensitivity of the Bank's net interest income and equity for the year to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position):

RUR'000	30 June 2008		31 December 2007	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
100 bp parallel rise	38 970	38 970	(93 853)	(93 853)
100 bp parallel fall	(38 970)	(38 970)	93 853	93 853

Equity price risk

Equity price risk is the risk of changes in income or the value of financial instruments portfolio due to changes in equity securities prices.

The results of the analysis of the sensitivity of the Bank's trading income and equity for the year to changes in equity securities prices on a simplified scenario of 5% symmetrical increase or decrease in all equity securities prices are given in the table below:

RUR'000	30 June 2008		31 December 2007	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
5% increase in equity securities prices	22 185	22 185	16 009	16 009
5% decrease in equity securities prices	(22 185)	(22 185)	(16 009)	(16 009)

Liquidity risk

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

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

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

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

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

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with requirements of the Central Bank of Russia. The Bank was in compliance with these ratios during the year ended 31 December 2007 and during the six-months period ended 30 June 2008.

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

The following tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Gross nominal (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

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

The gross undiscounted cash flows of the Bank as at 30 June 2008 was as follows:

	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross nominal outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	2 507 075	7 483 305	3 266 916	6 363 690	504 698	20 125 684	19 157 001
Amounts payable under repurchase agreements	10 251 346	-	-	-	-	10 251 346	10 251 346
Current accounts and deposits from customers	22 896 752	13 023 877	11 863 171	20 272 243	26 715	68 082 758	62 804 860
Debt securities in issue	454 998	4 126 519	14 277 250	48 385 627	7 586 480	74 830 874	60 487 053
Subordinated debt	52 222	242 921	302 224	5 614 668	851 845	7 063 880	4 960 361
Other liabilities	818 910	63 835	3 582	21 164	84 423	991 914	991 914
Derivatives							
Inflow	(1 250 849)	(31 265 727)	(40 574 771)	(44 131 736)	(262 782)	(117 485 865)	(1 210 381)
Outflow	1 351 621	31 826 435	41 462 264	45 092 107	310 464	120 042 891	1 739 138
Total	37 082 075	25 501 165	30 600 636	81 617 763	9 101 843	183 903 482	159 181 292
Credit related commitments	6 992 572	1 111 980	835 107	1 150 290	699 871	10 789 820	10 789 820

The gross undiscounted cash flows of the Bank as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross nominal outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1 210 734	6 918 117	6 293 281	5 335 512	513 476	20 271 120	19 304 877
Current accounts and deposits from customers	18 933 859	15 337 163	7 744 853	15 404 735	93 277	57 513 887	53 932 761
Debt securities in issue	600 911	4 431 653	5 519 124	58 834 069	-	69 385 757	57 373 111
Subordinated debt	52 931	255 719	314 461	6 103 954	1 008 332	7 735 397	5 189 328
Other liabilities	465 979	9 168	26 414	1 593	24 452	527 606	527 606
Derivatives							
Inflow	(12 822 327)	(19 939 641)	(17 553 864)	(37 864 941)	-	(88 180 773)	(822 115)
Outflow	12 815 446	19 862 439	18 150 338	38 109 866	-	88 938 089	707 146
Total	21 257 533	26 874 618	20 494 607	85 924 788	1 639 537	156 191 083	136 212 714
Credit related commitments	7 385 750	771 093	1 274 391	2 361 208	876 652	12 669 094	12 669 094

The table below shows the contractual maturities of the Bank's assets and liabilities excluding interest receipts and payments, as at 30 June 2008. Overdue amounts represent the full balances of overdue customers after provisions.

Despite the significant share of current accounts and deposits of clients on demand, diversification of these deposits by number and type of depositor and the experience accumulated by the Group over previous periods indicate that these obligations form a stable source of financing of the Group's operations. According to current legislation individuals can withdraw their deposits placed before contractual maturity but will incur a penalty.

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	Less than 1 month RUR'000	1 to 6 months RUR'000	6 to 12 months RUR'000	1 to 5 years RUR'000	More than 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
Assets								
Cash and cash equivalents	14 930 122	-	-	-	-	-	-	14 930 122
Mandatory cash balances with the Central Bank of the Russian Federation	511 770	310 994	362 176	947 839	105 567	-	-	2 238 346
Placements with banks and other financial institutions	5 955 440	79 998	-	589	-	-	-	6 036 027
Financial instruments at fair value through profit or loss	1 833	122 409	403 479	10 237 421	646 617	583 831	-	11 995 590
Amounts receivable under sale and repurchase agreements	20 239 767	-	-	-	-	-	-	20 239 767
Loans to customers	7 957 530	17 583 823	15 808 472	54 482 266	19 627 317	-	7 776 556	123 235 964
Financial instruments available-for-sale	-	-	-	-	-	533	-	533
Property and equipment	-	-	-	-	-	4 231 816	-	4 231 816
Other assets	934 615	144 159	224 937	28 468	5 931	109 709	57 303	1 505 122
Goodwill	-	-	-	-	-	6 494 241	-	6 494 241
Total assets	50 531 077	18 241 383	16 799 064	65 696 583	20 385 432	11 420 130	7 833 859	190 907 528
Liabilities								
Financial instruments at fair value through profit or loss	16 773	247 773	464 058	1 010 534	-	-	-	1 739 138
Deposits and balances from banks and other financial institutions	2 496 961	7 378 015	2 983 626	5 856 246	442 153	-	-	19 157 001
Amounts payable under sale and repurchase agreements	10 251 346	-	-	-	-	-	-	10 251 346
Current accounts and deposits from customers	22 609 362	11 653 909	10 606 958	17 909 855	24 776	-	-	62 804 860
Debt securities in issue	426 913	2 930 187	11 887 007	39 039 946	6 203 000	-	-	60 487 053
Subordinated debt	51 292	10 971	7 000	4 080 932	810 166	-	-	4 960 361
Other liabilities	818 910	63 835	3 582	21 164	84 423	-	-	991 914
Deferred tax liability	-	-	-	-	-	264 220	-	264 220
Total liabilities	36 671 557	22 284 690	25 952 231	67 918 677	7 564 518	264 220	-	160 655 893
Net gap	13 859 520	(4 043 307)	(9 153 167)	(2 222 094)	12 820 914	11 155 910	7 833 859	30 251 635
Cumulative gap as at 30 June 2008	13 859 520	9 816 213	663 046	(1 559 048)	11 261 866	22 417 776	30 251 635	
Cumulative gap as at 31 December 2007	9 701 140	5 063 139	5 728 476	(4 859 332)	13 862 288	24 663 059	28 712 633	

Operational risk

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

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

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

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

The Bank uses the following methods for identifying operational risk:

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

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

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

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

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

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

- procedures for control over key operational risks;
- monitoring of the quality of business processes;
- control over increasing operational loss limits pursuant to the Bank's internal documents;
- regular formation of operational risk cards;
- preparation of reports for Bank management.

11 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

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

12 Related party transactions

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

The shareholders' structure of the Group is as follows:

Name of shareholder	Share in the share capital
	30 June 2008
Kim Igor Vladimirovich	28,06%
EBRD	13,82%
AVINDALE INVESTMENTS S.A.	8,68%
Bekarev Andrey Alexandrovich	6,51%
Taranov Alexandr Alexandrovich	6,51%
DEG	5,01%
ZAO DKK (nominal shareholder)	14,03%
Other	17,38%

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

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

RUR'000	30 June 2008				Total
	Shareholders	Key management personnel	Companies with significant shareholders in common	Other	
Cash and cash equivalents					
Correspondent accounts	-	-	172	-	172
Placements with banks and other financial institutions					
Term deposits	-	-	125 000	-	125 000
Financial instruments available-for-sale					
Equities/ Shares in authorized capital	-	-	-	8	8
Loans to customers					
Loans outstanding (gross)	10 083	73 910	-	675	84 668
Loan impairment	-	(341)	-	(21)	(362)
Other assets					
Investments in unconsolidated subsidiary	-	-	-	162	162
Deposits and balances from banks and other financial institutions					
Term placements of other banks	2 382 105	-	104 556	-	2 486 661
Correspondent accounts of other banks	-	-	90 186	-	90 186
Current accounts and deposits from customers					
Term deposits	448 145	39 797	93 967	50 205	632 114
Current/demand accounts	3 916	5 071	179 206	2 130	190 323
Subordinated debt	471 587	-	22 000	-	493 587
Credit related commitments	10 055	4 661	1 500	102	16 318
Guarantees received	20 343	38 958	688 376	46	747 723

As at 30 June 2008 the Group purchased consumer finance loans to individuals from a related party at their book value which have an outstanding balance of RUR 5 595 843 thousand (31 December 2007: RUR 6 315 211 thousand). Loans continue to be serviced by this related party. The Group pays a service commission per month to this related party.

The sellers of the loans retain a certain portion of the interest paid by the borrowers, in return for which they have provided renewable guarantees to the Group in respect of principal and interest amounts. As at 30 June 2008, guarantees received comprise a guarantee of RUR 115 000 thousand (31 December 2007: RUR 115 000 thousand) from a related party in respect of consumer finance loans.

In respect of the guarantee from the related party, should the full amount of the guarantee be required to be called on, the seller is obligated to either provide further guarantees, in increments of RUR 115 000 thousand (31 December 2007: RUR 115 000 thousand), as required up to the full value of the outstanding loans, or to pay a penalty of 2% of the outstanding balance of the loan portfolio and accrued interest.

As at 30 June 2008 the average effective interest rates on major related parties balances were as follows:

	30 June 2008	
	Roubles	Foreign Currency
Assets		
Loans to customers	11,58%	11,00%
Placements with banks and other financial institutions	10,90%	-
Liabilities		
Deposits and balances from banks and other financial institutions	3,25%	5,71%
Current accounts and deposits from customers	10,85%	1,43%
Subordinated debt	11,32%	8,92%

As of 30 June 2008 the results of transactions with related parties are as follows:

RUR'000	30 June 2008				
	Shareholders	Key management personnel	Companies with significant shareholders in common	Other	Total
Interest income on loans to customers	464	4 589	9 796	57	14 906
Interest income on placements with banks and other financial institutions	-	-	1 175	-	1 175
Interest expense on deposits and balances from banks and other financial institutions	(86 533)	-	(298)	-	(86 831)
Interest expense on current accounts and deposits from customers	(12 803)	(1 700)	(6 829)	(2 289)	(23 621)
Interest expense on subordinated debt	(25 569)	-	(1 238)	-	(26 807)
Impairment losses	-	3 701	1 537	86	5 324
Net fee and commission income	17	-	57 111	35	57 163
Other income	-	-	2 414	-	2 414
Operating expenses	(49)	-	(152 034)	(5 176)	(157 259)
Occupancy	-	-	(11 655)	-	(11 655)

As of 30 June 2008 the total remuneration of the key management personnel, including discretionary compensation, amounted to RUR 261 733 thousand (30 June 2007: RUR 210 901 thousand).

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

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

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

RUR'000	31 December 2007				
	Shareholders	Key management personnel	Companies with significant shareholders in common	Other	Total
Cash and cash equivalents					
Correspondent accounts	-	-	6	-	6
Financial instruments available-for-sale					
Equities/ Shares in authorized capital	-	-	-	8	8
Loans to customers					
Loans outstanding (gross)	10 460	102 773	722 284	8 533	844 050
Loan impairment	-	(4 042)	(1 537)	(107)	(5 686)
Other assets					
Investments in unconsolidated subsidiary	-	-	-	70 246	70 246
Deposits and balances from banks and other financial institutions					
Term placements of other banks	2 440 308	-	-	-	2 440 308
Correspondent accounts of other banks	-	-	53 057	-	53 057
Current accounts and deposits from customers					
Term deposits	14 450	70 647	1 361 771	34 104	1 480 972
Current/demand accounts	591	-	31 716	215 546	247 853
Subordinated debt	494 187	-	-	22 000	516 187
Credit related commitments	10 230	3 559	87 876	109	101 774
Guarantees received	20 268	31 031	861 455	31 563	944 317

As at 31 December 2007 effective interest rates on major related parties balances were as follows:

	31 December 2007	
	Roubles	Foreign Currency
Assets		
Loans to customers	14,5%	11,0%
Liabilities		
Deposits and balances from banks and other financial institutions	-	7,52%
Current accounts and deposits from customers	8,79%	7,20%
Subordinated debt	11,32%	11,40%

As at 30 June 2007 the results of transactions with related parties for are as follows:

RUR'000	30 June 2007				Total
	Shareholders	Key management personnel	Companies with significant shareholders in common	Other	
Interest income on loans to customers	1 504	1 728	117 060	215	120 507
Interest income on deposits and balances from banks and other financial institutions	-	-	2 495	-	2 495
Interest expense on due to other banks	(84 026)	-	-	-	(84 026)
Interest expense on term deposits	(347)	(689)	(464)	(1 931)	(3 431)
Interest expense on subordinated debt	(29 527)	-	-	(1 235)	(30 762)
Provision for loan impairment	357	(239)	(5 262)	(13)	(5 157)
Net fee and commission income	-	24	31 828	3 267	35 119
Other income	56	888	1 440	3 607	5 991
Operating expenses	(5 733)	-	(43 112)	(9 057)	(57 902)

13 Subsequent events

Subsequent to 30 June 2008 there has been a significant decrease in Russian securities prices. The volume of Eurobond issues and similar wholesale financing by Russian banks has also significantly reduced. Such circumstances may affect the ability of the Group and banks in Russia to obtain new borrowings and refinance existing borrowings at terms and conditions that applied to similar transactions in recent periods. Borrowers of the Bank may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed.