

ORIENT EXPRESS BANK

**Consolidated Interim Financial Statements
and Review Report**

**For the 6 months ended
30 June 2008**

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the consolidated financial statements and related notes of open joint-stock bank Orient express bank and its subsidiary ("the Group"). They have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and necessarily include amounts based on judgements and estimates by Management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with Management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow Management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

S.N. Vlasov,
President

L. S. Proskurina,
Chief Accountant

01 October 2008

**Review report to Management and
the Board of Directors of
Orient express bank**

Introduction

We have reviewed the accompanying balance sheet of the Group as at 30 June 2008 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended and other explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim 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 accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Group at 30 June 2008 and of its financial performance and its cash flows for the six months then ended in accordance with IAS 34.

OOO Moore Stephens
18A Verkhneportovaya St.
Vladivostok, Russia

01 October 2008

Orient express bank
Consolidated Interim Balance Sheet as at 30 June 2008
(in thousands of Russian Roubles)

	Notes	30 June 2008	31 December 2007
Assets			
Cash and cash equivalents	5	2,139,356	1,619,702
Mandatory balances with the CBRF		598,521	281,134
Securities	6	97,295	46,723
Due from other banks	7	3,422,243	1,795,849
Loans and advances to customers	8	24,253,760	18,377,085
Accrued interest income and other assets	9	1,050,550	573,742
Service fee asset		1,681,901	1,702,019
Premises and equipment	10	1,410,577	1,070,346
Intangible assets	11	534	567
Total assets		34,654,737	25,467,167
Liabilities			
Due to other banks	12	1,620,690	1,406,515
Customer accounts	13	16,988,120	11,828,309
Debt securities issued	14	2,030,883	1,761,883
Bonds issued by OEFL	15	6,363,192	6,409,260
Warranty on loans sold	16	183,752	131,636
Accrued interest expense and other liabilities	17	957,286	696,431
Other borrowings	18	316,500	220,500
Finance lease liability	19	21,283	44,624
Deferred tax liability	20	432,241	297,317
Total liabilities		28,913,947	22,796,475
Equity			
Share capital	21	567,837	399,837
Share premium		2,036,708	4,697
Accumulated profit	22	3,136,245	2,266,158
Total equity		5,740,790	2,670,692
Total liabilities and equity		34,654,737	25,467,167
Credit related commitments	30	87,446	67,226

Approved on behalf of the Management Board on 01 October 2008

S.N. Vlasov, President

L. S. Proskurina, Chief Accountant

Orient Express bank
Consolidated Interim Statement of Income for the 6 months ended 30 June 2008
(in thousands of Russian Roubles)

	Notes	30 June 2008	30 June 2007
Interest income	24	3,054,326	1,411,027
Interest expense	24	(1,302,313)	(514,025)
Net interest income		1,752,013	897,002
Net allowance for impairment losses on loans and advances	25	(458,982)	(202,210)
Net interest income after allowance for impairment loss		1,293,031	694,792
Result on sale of loans	23	668,162	365,460
Gains less losses arising from securities		24,381	-
Gains less losses arising from dealing in foreign currencies		11,012	9,390
Net foreign exchange translation gain / (loss)		43,794	(7)
Net fee and commission income	26	1,380,148	421,897
Release of warranty	16	23,742	87,510
Other operating income		326,841	1,295
Allowance for impairment losses against loans resold to URSA Bank and EtalonBank		(249,827)	(204,231)
Operating income		3,521,284	1,376,106
Operating expenses	27	(2,222,900)	(991,070)
Profit before taxation		1,298,384	385,036
Taxation	28	(428,297)	(102,157)
Net profit for the period		870,087	282,879

Orient express bank
Consolidated Interim Statement of Cash Flows for the 6 months ended 30 June 2008
(in thousands of Russian Roubles)

	Notes	30 June 2008	30 June 2007
Cash flows from operating activities			
Interest received on loans		2,887,739	1,355,092
Interest paid		(1,088,790)	(432,827)
Interest paid under finance lease		(2,968)	(6,405)
Net gains arising from dealing in securities		26,025	327
Income received from dealing in foreign currencies		11,012	9,390
Net fees and commissions received		2,048,310	913,316
Other operating income received		349,021	86,638
Operating expenses paid		(1,748,768)	(976,402)
Income tax paid		(293,373)	(154,629)
Cash flows from operating activities before changes in operating assets and liabilities		2,188,208	794,500
Net cash increase / (decrease) from changes in operating assets and liabilities			
Net increase in mandatory cash balances with the CBRF		(317,387)	(128,659)
Net increase in due from other banks		(1,626,394)	423,899
Net increase in loans and advances to customers		(6,335,657)	(5,534,123)
Net increase in due to other banks		214,175	726,860
Net increase in customer accounts		5,159,811	2,398,257
Net increase in promissory notes		269,000	1,581,202
Net change in other assets and liabilities		(754,811)	(291,515)
Net cash used in operating activities		(1,203,055)	(29,579)
Cash flows from investing activities			
Purchase of premises and equipment		(390,369)	(296,206)
Proceeds from sale of premises and equipment		3,124	4,334
Purchase of securities		(61,609)	(26,032)
Purchase of bonds		11,037	-
Net cash used in investing activities		(437,817)	(317,904)
Cash flows from financing activities			
Finance lease capital repayments		(23,341)	(35,854)
Proceeds from borrowings		96,000	1,091,546
Interest paid on bonds issued		(104,313)	-
Bonds issued by OEFL		(46,068)	-
Interest paid on bonds issued by OEFL		(5,557)	-
Proceeds of Share issue		2,200,011	-
Net cash received from financing activities		2,116,732	1,055,692
Effect of changes in exchange rates		43,794	(7)
Net change in cash and cash equivalents		519,654	708,202
Cash and cash equivalents, beginning of the year		1,619,702	730,748
Cash and cash equivalents at the end of the year	5	2,139,356	1,438,950

Non-cash transactions: none (2007: premises and equipment with fair values of RUB 24,739 were acquired under conditions of finance lease).

Orient express bank
Consolidated Interim Statement of Changes in Equity for the 6 months ended 30 June 2008
(in thousands of Russian Roubles)

	<u>Share Capital</u>	<u>Share premium</u>	<u>Accumulated profit</u>	<u>Total Equity</u>
1 January 2007	399,837	4,697	1,113,680	1,518,214
Net profit for the period	-	-	282,879	282,879
30 June 2007	399,837	4,697	1,396,559	1,801,093
1 January 2008	399,837	4,697	2,266,158	2,670,692
Net profit for the period	-	-	870,087	870,087
Proceeds of Share issue	168,000	2,032,011	-	2,200,011
30 June 2008	567,837	2,036,708	3,136,245	5,740,790

The availability of the Bank's retained earnings for distribution to shareholders is determined by Russian regulations and by shareholders' decisions and does not correspond to the figures presented above (Note 22).

A reconciliation of equity and net profit per Russian Accounting Standards ("RAS") and International Financial Reporting Standards ("IFRS") is set out in Note 3 (c).

1. Principal Activities

The consolidated financial statements include financial statements of open joint stock bank "Orient express bank" (formerly Vostochny express bank, the "Bank") and its subsidiary – Orient Express Finance Limited ("OEFL").

The Bank is a commercial bank owned by shareholders whose liability is limited. It is constituted as a Russian open joint stock company ("OJSC"). The Bank was granted a license to conduct banking operations by the Central Bank of Russian Federation ("CBRF") on 12 May 1991. It holds a license to carry out transactions with individuals and a license to make loans. These were last renewed 22 June 2006. At 30 June 2008 the Bank operated a head office in Blagoveshensk, ten branches and over 275 offices located in the Russian Far East, Siberia and North-western Federal District, in Moscow and Saint-Petersburg.

OEFL was established purely for issuing bonds listed on the Irish Stock Exchange and remitting funds to the Bank by the way of loans.

The Bank's registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 30 June 2008 the Bank had 5,174 employees (at 31 December 2007: 4,952).

A list of major shareholders is set out in Note 21.

The Bank does not have any immediate parent entity. Mr. Igor Kim is considered to be the Bank's ultimate controlling party.

2. Operating Environment of the Bank

The Russian economy, although essentially transformed to market status, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Effects of recent events in global capital markets have yet to become completely clear and are changing day by day. Until September 2008 the Russian banking sector was not short of liquidity, in comparison to other global markets, and since then CBR has injected large amounts of liquidity into the banking system. They have also taken other measures such as reducing mandatory reserve ratios temporarily. If any further large scale events occur in the global markets the Russian banking system will continue to be impacted also and it is possible that continued actions by CBR of a similar nature will be necessary. It is likely that the situation will become clearer towards the end of 2008 or early 2009.

3. Basis of Presentation

a) General

These financial statements have been prepared on a consolidated basis.

The interim financial information for the Group has been prepared in accordance with International Financial Reporting Standards including International Accounting Standard 34 *Interim Financial Reporting* ('IAS 34'). The Group maintains its records in accordance with accordance with RAS. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International Financial Reporting Standards.

Under IAS 34, it is envisaged that interim financial information will often present condensed primary statements and less detailed accounting policies and additional notes than a complete set of general purpose financial statements prepared in accordance with International Financial Reporting Standards. These financial statements present full primary statements but have fewer disclosures than would be required in a complete set of general purpose financial statements most notably in respect of disclosures on financial instruments and related parties.

Notes to the Consolidated Interim Financial Statements - 30 June 2008
(in thousands of Russian Roubles)

3. Basis of Presentation (continued)**a) General (continued)**

The accompanying consolidated financial statement have been prepared using the Russian Rouble ("RUB") as the unit of measurement and adjusted for the impact of inflation during periods of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". Adjustments have been made for periods up to 31 December 2002.

b) Functional and Presentation Currency

Accounting records of the Bank are maintained in RUB and the RUB is also considered to be the Group's functional currency for the purpose of IFRS financial statements as Management believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Group. Management also believes the RUB to be the most appropriate currency for presentation of the Group's IFRS financial statements.

Actual exchange rates applied in translation of transactions and balances denominated in currencies other than the RUB are detailed in Note 4(n).

c) Reconciliation of Equity and Net Profit between RAS and IFRS

	30 June 2008	30 June 2008	31 December 2007	31 December 2007
	Equity	Net profit	Equity	Net profit
RAS	4,673,937	723,403	1,750,523	855,762
Depreciation and other expenses related to fixed assets	(46,790)	(8,848)	(37,942)	(25,831)
Tax liabilities, including profit tax	(355,319)	21,981	(377,300)	(132,613)
Effect of accrued interest	125,598	(8,304)	133,902	103,210
Allowance for loans and fair value adjustment	93,697	62,722	30,975	(31,749)
Result on sales of loans	4,296,908	668,162	3,628,746	1,756,178
Reserve against resold loans	79,577	78,020	1,557	(16,585)
Amortisation of service asset	(3,137,973)	(764,138)	(2,373,835)	(1,351,843)
Value of warranty issued	339,214	23,742	315,472	181,168
Other operating accruals	31,749	226,589	(194,840)	(63,253)
Unused holidays	(116,580)	(43,516)	(73,064)	(40,288)
Low value items written off	(65,005)	25,391	(90,396)	(66,430)
Other	(178,223)	(135,117)	(43,106)	(15,248)
IFRS	5,740,790	870,087	2,670,692	1,152,478

d) Consolidation

The Bank has subsidiaries and associates whose operations, singly and in aggregate are immaterial in the context of the Bank, with the exception of one subsidiary, OEFL, which it exerts effective control over. There are also several related parties which are under common control with the Bank (see Note 31). Management has considered whether or not IFRS require the Bank to produce consolidated financial statements consolidating the balances and results of any of these entities and has concluded that consolidation is required only in respect of OEFL.

Where necessary, adjustments are made to the financial statements of OEFL to bring the accounting policies used into line with those used by the Bank.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

3. Basis of Presentation (continued)

e) Changes in Accounting Policies

On 1 January 2007 the Bank adopted IFRS 7 'Financial Instruments: Disclosures' and the amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'. The application of the Standard and the amendment resulted in increased disclosure in respect of the Group's financial instruments and the nature and extent of risks arising from such financial instruments, and increased disclosure in respect of the Group's objectives, policies and processes for managing capital.

f) Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. Further information concerning the most significant estimates and assumptions made by Management are set out below:

Impairment losses on loans to customers

The Bank reviews loans to customers on a monthly basis for evidence of potential impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis by counterparty industry type and geographical location. When an impairment is required to be recognised it is based for individually material loans on Management's estimate of the future cash-flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on statistical data about repayment of loans specifying time-frames and reasons for overdue amount.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Impairment losses on receivable other than loans

The Group reviews all its receivables to assess potential impairment on a monthly basis. 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 an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows.

Fair values

For assets and liabilities carried at fair value the Group applies market bid prices where these are available. Where they are not available it uses valuation techniques or, as a last resort, estimates.

Depreciation

The Group charges depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

Financial Assets

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets and provisions in future periods.

3. Basis of Presentation (continued)

g) Standards, Interpretations and Amendments that are not yet Effective

IAS 1 Presentation of Financial Statements (Revised) is effective for annual periods beginning on or after 1 January 2009 and 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 within the financial statements.

IFRS 8 replaces IAS 14 "Segment Reporting" and requires an entity to report financial and descriptive information about its reportable segments. IFRS 8 is effective for annual periods beginning on or after 1 January 2009. As IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent) whose debt or equity instruments are traded in a public market; or that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. It will therefore have an impact in terms of the level of disclosure required for the Group.

The Group will adopt these standards when they become effective.

4. Significant Accounting Policies

a) Cash and Cash Equivalents

Cash and cash equivalents are items that can be converted into cash within a day. All short term interbank placements, beyond overnight deposits, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

b) Mandatory Balances with CBRF

Mandatory balances with CBRF represent 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 cash flow statement.

c) Securities Available for Sale ("AFS")

AFS securities are securities that Management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this classification is regularly reviewed. Securities available for sale are initially recognised at cost (which includes transaction costs). Securities AFS are subsequently valued at market value with gains and losses taken through the statement of changes in equity except for losses arising from impairment.

When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

In exceptional cases when market value is not available they are carried at fair value as assessed by Management. All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

d) Loans and Advances and Allowance for Impairment

Loans are stated at underlying amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the

4. Significant Accounting Policies (continued)

d) Loans and Advances and Allowance for Impairment (continued)

estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated.

Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

e) Discount on Loans at Below Commercial Rates

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the statement of income. Any subsequent upward revaluation passes through the statement of income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

f) Other Credit Related Commitments

In the normal course of business, the Group enters into other credit related commitments comprising loan commitments, letters of credit and guarantees. These operations are initially recognised at fair value and are subsequently re-measured at the higher of the amount that would be recognised should a call be made against the guarantee and the amount initially recognised less, when appropriate, cumulative amortisation recognised.

g) Premises and Equipment

Equipment and other fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset's potential net sales proceeds and its value in use.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

h) Depreciation

Depreciation is applied on the straight line basis over the estimated useful lives of the assets as follows, in years:

Buildings	50
Leasehold improvements	10
Vehicles and other assets	3–5

4. Significant Accounting Policies (continued)

i) Debt Securities Issued

Debt securities issued represent bonds and promissory notes issued by the Group. These are initially stated at fair value, which represent amounts received on issue (fair value) less expenses incurred in respect of the transaction. Subsequently debt securities issued are stated at amortised cost and the difference between initial value and the value at the date of repayment is reflected in the income statement over the period using the method of effective interest rate. Interest accrued on debt securities issued is accounted for as other liabilities.

j) Share Premium

Share premium represents the excess of shareholders' contributions to share capital over the nominal value of the issued shares.

k) Dividends

Dividends payable are not accounted for until they have been ratified at the Bank's Annual Shareholders' Meeting. They are accounted for in the year they are ratified. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. No dividends were declared during the current period or in 2007.

l) Income Taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

m) Income and Expense Recognition

Interest income and expense are recognised in the statement of income on the accrual basis. Overdue interest or accrued interest which the Management considers doubtful is included in interest income and an impairment allowance is recognized when required. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. Fees, commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Certain fees and commissions may be charged in place of applying a higher interest rate to the relevant loan. Where it is possible to identify fees and commissions as being similar in nature to interest they are recognised in equal instalments over the life of the loan and are shown as interest income. Where this is not possible they are treated in a manner similar to other fees and commissions.

n) Foreign Currency Translation

Transactions denominated in currencies other than RUB ("foreign currencies") are recorded in RUB at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into RUB at the official exchange rate of the CBRF at the balance sheet date.

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 30 June 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 23.4573 (not thousands) (at 31 December 2007: USD 1 = RUB 24.5462 (not thousands)).

Notes to the Consolidated Interim Financial Statements - 30 June 2008
(in thousands of Russian Roubles)

4. Significant Accounting Policies (continued)**n) Foreign Currency Translation (continued)**

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a fully convertible currency outside the Russian Federation.

o) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

p) Pension Costs

The Group contributes to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions amount to 20% of employees' gross salaries, and are expensed as incurred. The contributions are included in staff costs. The Group has no liability or obligation other than for the annual contribution.

q) Leases

Leases of fixed assets where the Group obtains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligation, net of finance charges, is included in payables. The interest element is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining lease liability. Fixed assets acquired under finance lease are depreciated similar to assets owned by the Group.

Where the Group is a lessee under operating lease agreements, the total payments made under operating leases are charged against income in equal instalments over the period of the lease.

r) Comparative Information

Certain comparative information was restated to comply with current presentation. These restatements have had no effect on profit or equity for either year.

5. Cash and Cash Equivalents

	30 June 2008	31 December 2007
Cash on hand	782,859	521,420
Cash balances with the CBRF (other than mandatory reserves)	755,955	501,630
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	348,858	571,235
Other countries	251,684	25,417
	2,139,356	1,619,702

6. Securities

	30 June 2008	31 December 2007
Securities AFS		
Investments in Companies	26,138	26,143
Bonds of the Federal Loan ("OFZ")	9,543	20,580
Bonds of other banks	61,614	-
	97,295	46,723

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6. Securities (continued)

Investments in Companies represent the Bank's shareholdings in the following subsidiaries and associates:

Name	% Held	Activity	Country of incorporation	30 June 2008	31 December 2007
"TPC Gamma" Ltd.	100	Commerce	Russia	26,032	26,032
"VEB-Finance" Ltd.	100	Commerce	Russia	100	100
"Vostochnoye Bureau of Credit Histories" Ltd.	50	Commerce	Russia	-	5
CJSC "Sibirskoye Bureau of Credit Histories"	20	Commerce	Russia	6	6
				26,138	26,143

The Bank exercises control or exerts significant influence over the subsidiaries and associates mentioned above. It also exercises effective control over OEFL.

The Securities are held at fair value which equates to original cost as there are no market values for the Securities. Management believes that this is the best representation of fair value at the present time and no allowance for impairment of the Securities is required as at the period end (2007: nil).

During the first 6 months of 2008 the Group purchased bonds of other banks, which are quoted in the active market and are reflected at fair value based on market quotations.

7. Due from Other Banks

	30 June 2008	31 December 2007
Short term loans and deposits with Russian banks	3,422,243	1,795,849
	3,422,243	1,795,849

Short term unsecured loans were provided to various Russian banks at fixed rates varying from 2.75% to 12.5% p.a. and with maturity in July-August 2008.

8. Loans and Advances to Customers

	30 June 2008	31 December 2007
Current loans	22,683,042	17,492,168
Overdue loans:		
instalments overdue as per loan schedule	786,248	564,991
portion not yet due on loans with overdue repayments	2,229,564	1,306,038
	3,015,812	1,871,029
	25,698,854	19,363,197
Less: Allowance for impairment	(1,445,094)	(986,112)
	24,253,760	18,377,085

The amount above best represents the maximum exposure of the Group to the credit risk at the reporting date without taking into account any collateral held or credit enhancements.

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8. Loans and Advances to Customers (continued)

The estimated fair value of collateral taken to secure the Group's loan portfolio amounted to RUB 3,985,655 (at 31 December 2007: RUB 2,817,860). The Group also accepted personal guarantees with nominal value of RUB 2,381,051 (at 31 December 2007: RUB 1,479,822) to secure loans issued. These are not included in the fair value of collateral quoted above as Management believes the fair value of such guarantees is very difficult to estimate reliably.

During the accounting period there were no instances when the Group took any possession of collateral held (2007: none).

Movements in the allowance for impairment loss on loans and advances to customers are as follows:

	30 June 2008	31 December 2007
1 January	986,112	359,536
Net movement in allowance for impairment loss (Note 25)	458,982	626,576
	1,445,094	986,112

Allowance is calculated on a portfolio basis only. There are therefore no loans which have a specific impairment allowance that are not overdue (2007: nil) and loans which are overdue but for which no specific allowance was made are RUB 3,015,812 (at 31 December 2007: RUB 1,871,029).

Loans maturity analysis

	30 June 2008	31 December 2007
Within the terms of repayment schedule	22,683,042	18,798,206
Overdue up to 30 days	1,018,663	20,606
Overdue from 31-60 days	314,688	18,322
Overdue from 61-90 days	221,542	18,561
Overdue from 91 to 180 days	413,367	70,133
Overdue from 181 to 360 days	474,250	192,745
Overdue more than 360 days	573,302	244,624
	25,698,854	19,363,197

Loan portfolio stratification at 30 June 2008 is as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	659	2,244	0.4
From 500 to 5,000	139,770	53,025	9.9
From 5001 to 10,000	402,780	53,150	9.9
From 10,001 to 50,000	6,910,746	259,828	48.5
From 50,001 to 100,000	7,138,080	102,881	19.2
From 100,001 to 250,000	7,720,553	56,838	10.6
From 250,001 to 1,000,000	2,706,603	7,293	1.4
More than 1,000,000	679,663	310	0.1
Total loans and advances to customers	25,698,854	535,569	100.0

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8. Loans and Advances to Customers (continued)

Loan portfolio stratification at 31 December 2007 is as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	467	1,603	0.4
From 500 to 5000	124,154	46,489	10.3
From 5001 to 10000	295,889	39,681	8.8
From 10,001 to 50,000	6,604,464	242,372	53.8
From 50,001 to 100,000	6,098,045	86,171	19.1
From 100,001 to 250,000	4,135,533	30,348	6.7
From 250,001 to 1,000,000	1,039,506	3,198	0.7
More than 1,000,000	1,065,139	834	0.2
	19,363,197	450,696	100.0

As the credit portfolio comprises a large number of relatively low value loans Management believe there was no concentration to a single individual or groups of related individuals, although the portfolio represents exposure almost exclusively to individuals as a population. The Group did not have any borrowers who accounted for more than 5% of the loan portfolio as at 30 June 2008 (at 31 December 2007: none). The ten largest borrowers accounted for RUB 187,229 or 0.73% (at 31 December 2007: RUB 225,340, 1.16%).

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

	30 June 2008		31 December 2007	
	Amount	%	Amount	%
Consumer lending	25,554,811	99.4	19,170,779	99.0
Trade and catering	1,088	-	2,849	-
Manufacturing	1,316	-	1,659	-
Other	141,639	0.6	187,910	1.0
	25,698,854	100.0	19,363,197	100.0

Geographic and currency analysis, interest rates and the maturity structure of the loan portfolio are detailed in Note 29. The Group has several loans to related parties. The relevant information on related party loans is disclosed in Note 31.

The Group quantifies loans by reference to a six ratings system of credit quality from I to VI in descending order of quality. Loans by reference to this system were as follows:

Category	Name of the Category	30 June 2008	31 December 2007
Category I	Non classified loans	3,502,859	2,378,948
Category II	Good loans	18,090,094	14,411,158
Category III	Loans with impairment signs	1,090,089	702,062
Category IV	Loans with delays up to 90 days	1,554,892	852,987
Category V	Loans with delays 91 - 360 days	887,618	666,339
Category VI	Fully impaired loans	573,302	351,703
		25,698,854	19,363,197

Category I contain very new loans which therefore have not received a classification as there is no observable repayment or other data. Category V has eleven sub groups depending on the reasons of non-repayment of loan.

During the first 6 months of 2008 the Group sold to URSA Bank and Etalonbank a portfolio of loans to individuals amounting to RUB 3,792,894 (2007: RUB 7,984,888) (Note 23).

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Notes to the Consolidated Interim Financial Statements - 30 June 2008
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9. Accrued Interest Income and Other Assets

	<u>30 June 2008</u>	<u>31 December 2007</u>
Receivable from customers on loans previously sold	1,150,746	862,857
Accrued interest income	429,543	264,600
Debtors and prepayments	257,267	87,684
Balances with Post Office	26,400	34,304
Settlements with Siberian Interbank Currency Exchange	5,950	5,289
Other	509,911	6,175
	<u>2,379,817</u>	<u>1,260,909</u>
Less: Allowance for impairment loss	<u>(1,329,267)</u>	<u>(687,167)</u>
	<u>1,050,550</u>	<u>573,742</u>

Movements in the allowance for impairment loss are as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
1 January	687,167	193,622
Charge during the period	642,100	493,545
	<u>1,329,267</u>	<u>687,167</u>

10. Premises and Equipment

	<u>Land</u>	<u>Buildings</u>	<u>Capital Investment</u>	<u>Equipment</u>	<u>Total</u>
Cost					
1 January 2007	-	272,455	77,851	235,374	585,680
Additions	2,000	298,735	177,797	159,158	637,690
Disposals	-	(2,995)	-	(43,906)	(46,901)
Transferred	-	64,130	(64,130)	-	-
31 December 2007	<u>2,000</u>	<u>632,325</u>	<u>191,518</u>	<u>350,626</u>	<u>1,176,469</u>
Additions	-	179,919	123,263	87,188	390,370
Disposals	-	-	-	(2,912)	(2,912)
Transferred	-	28,677	(28,677)	-	-
30 June 2008	<u>2,000</u>	<u>840,921</u>	<u>286,104</u>	<u>434,902</u>	<u>1,563,927</u>
Depreciation					
1 January 2007	-	3,606	-	41,300	44,906
Charge	-	7,980	-	67,806	75,786
Disposals	-	(26)	-	(14,543)	(14,569)
31 December 2007	<u>-</u>	<u>11,560</u>	<u>-</u>	<u>94,563</u>	<u>106,123</u>
Charge	-	6,943	-	41,633	48,576
Disposals	-	-	-	(1,349)	(1,349)
30 June 2008	<u>-</u>	<u>18,503</u>	<u>-</u>	<u>134,847</u>	<u>153,350</u>
Net book values					
31 December 2007	<u>2,000</u>	<u>620,765</u>	<u>191,518</u>	<u>256,063</u>	<u>1,070,346</u>
30 June 2008	<u>2,000</u>	<u>822,418</u>	<u>286,104</u>	<u>300,055</u>	<u>1,410,577</u>

Assets with a net book value of RUB 71,083 are held under finance leases (at 31 December 2007: RUB 87,128). Capital Investment comprises equipment which has not yet been put into operation as well as acquired apartments before they were transferred to "non-residential" status.

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11. Intangible Assets

	Trademarks
Cost	
31 December 2007	600
Additions	-
Disposal	-
30 June 2008	600
Accumulated depreciation	
31 December 2007	33
Charge	33
Disposal	-
30 June 2008	66
NBV at 31 December 2007	567
NBV at 30 June 2008	534

12. Due to Other Banks

	30 June 2008	31 December 2007
Unsecured short-term loans from other banks	1,579,528	1,366,812
Unsecured long-term loans from other banks	-	-
Vostro accounts with Russian banks	41,162	39,703
	1,620,690	1,406,515

Unsecured loans were provided by various Russian banks at fixed rates varying from 3.5% to 13% p.a.

13. Customer Accounts

	30 June 2008	31 December 2007
State and public organisations		
Current/settlement accounts	3,102	474
Term deposits	35,501	38,489
	38,603	38,963
Other legal entities		
Current/settlement accounts	210,692	121,658
Term deposits	779,684	605,911
	990,376	727,569
Individuals		
Current/demand accounts	1,090,560	974,104
Term deposits	14,868,581	10,087,673
	15,959,141	11,061,777
	16,988,120	11,828,309

Deposits and current accounts of the Group's ten largest depositors amounted to RUB 662,702 or 3.9% of the overall balance as at 30 June 2008 (2007: RUB 1,003,973 or 8.5%).

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13. Customer Accounts (continued)

Customer accounts stratification at 30 June 2008 is as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	38,937	772,292	0.2
From 501 to 5,000	247,624	127,465	1.5
From 5,001 to 10,000	151,934	22,160	0.9
From 10,001 to 50,000	939,777	36,956	5.5
From 50,001 to 100,000	1,577,993	21,852	9.3
From 100,001 to 250,000	4,251,779	28,221	25.0
From 250,001 to 500,000	4,140,787	11,942	24.4
500,001 and higher	5,639,289	4,187	33.2
	16,988,120	1,025,075	100.0

Customer accounts stratification at 31 December 2007 is as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	32,623	629,025	0.3
From 501 to 5,000	338,103	156,602	2.9
From 5,001 to 10,000	189,593	28,166	1.6
From 10,001 to 50,000	774,486	31,683	6.5
From 50,001 to 100,000	1,115,824	15,448	9.4
From 100,001 to 250,000	2,884,096	19,140	24.4
From 250,001 to 500,000	2,303,959	6,639	19.5
500,001 and higher	4,189,625	2,754	35.4
	11,828,309	889,457	100.0

Geographical, currency analysis of customers, interest rates and the maturity structure of the accounts are provided in Note 29. The Group has several deposits from related parties. Information on related party deposits is disclosed in Note 31.

Economic sector concentrations within customer accounts are as follows:

	30 June 2008		31 December 2007	
	Amount	%	Amount	%
Individuals	15,958,774	93.9	11,191,267	94.6
Financial intermediation	800,592	4.7	439,719	3.7
Manufacturing	61,318	0.4	33,926	0.3
Transport, storage and communications	38,412	0.2	21,347	0.2
Shipping	33,676	0.2	36,112	0.3
Construction	29,744	0.2	67,638	0.6
Agriculture, hunting and forestry	19,853	0.1	5,769	-
Community and personal activities	18,832	0.1	15,133	0.1
Wholesale and retail trade	17,861	0.1	10,410	0.1
Electricity, gas and water supply	455	-	72	-
Health and social work	204	-	660	-
Hotels and restaurants	195	-	106	-
Education	39	-	45	-
Real estate, renting	15	-	1,256	-
Other	8,150	0.1	4,849	-
	16,988,120	100.0	11,828,309	100.0

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14. Debt Securities Issued

	30 June 2008	31 December 2007
Promissory notes	542,551	273, 551
Bonds	1,488,332	1,488,332
	2,030,883	1,761,883

Issued Promissory notes are represented by interest bearing Promissory Notes, denominated in RUB with maturity dates up to March 2010 (at 31 December 2007: up to March 2010). Effective interest rates range is from 14% to 16.5% (2007: from 3% to 16.5%).

Bonds issued represent non-convertible interest bearing bonds with a maturity date of 17 March 2010 without the possibility of early redemption at the holders' request. Coupon rate is 13.95% (at 31 December 2007: 10.3%).

15. Bonds issued by OEFL

OEFL issued two series of Loan Participation Notes quoted on the Irish Stock Exchange. Terms of the Notes are as follows:

Currency	Coupon rate	Coupon payment dates	Date of maturity	30 June 2008	31 December 2007
RUB	9.875%	3 July and 3 January	2009	5,370,796	5,370,796
USD	11%	3 July and 3 January	2017	992,396	1,038,464
				6,363,192	6,409,260

16. Warranty on Loans Sold

The warranty on loans sold arises from the transactions described in Note 23. Movements on the warranty during the period are as follows:

	30 June 2008	31 December 2007
Opening balance	131,636	153,106
Fair value of warranty issued in period at date of issue	75,858	159,698
Movement in fair value of warranty in issue	(23,742)	(181,168)
	183,752	131,636

17. Accrued Interest Expense and Other Liabilities

	30 June 2008	31 December 2007
Accrued interest expense	510,212	409,527
Other accrued expenses	234,766	201, 516
Taxes	41,579	84,071
Other	170,729	1,317
	957,286	696,431

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18. Other Borrowings

	30 June 2008	31 December 2007
Loan from EBRD	316,500	220,500
	316,500	220,500

Loan from EBRD

Within the framework of Russia for supporting small business the Group and the European Bank for Reconstruction and Development concluded a loan agreement in the amount of RUB 450,000 in December 2007. The loan is to be obtained via two tranches of RUB 225,000, the first of which was received by the Group on 24 December 2007. It has a maturity date of 24 December 2012.

Coupon rate is base rate (MosPrime rate) plus a margin of 4% p.a. Coupon payment is on 24th of the month every three months after the drawdown date. Capital repayments are to be carried out, in equal instalments, twice a year commencing from the second year after drawdown.

The credit agreement the Group and the European Bank for Reconstruction and Development was signed in December 2007 in the amount of RUB 400,000. In terms of this agreement the transfer of the funds is made only with the purpose to finance mortgage loans. The allocation of the credit is carried out by two tranches of RUB 200,000 with the right to receive the transfers partially in amount defined by the Group. The first tranches was received by the Group on 27 February 2008 in the amount RUB 100,000. It has a maturity date of 27 February 2015.

Coupon rate is base rate (Prime Rate) plus a margin of 3.75% p.a. for the first five years and 4.25% p.a. for the sixth – seventh years. Coupon payment is on 27th of the month every three months after the drawdown date. Capital repayments are to be carried out, in equal instalments, every three months commencing from the third year after drawdown.

19. Finance Lease Liability

Amounts payable under finance lease liability as at 30 June 2008 were:

	Minimum lease payments	Present value of minimum lease payments
Within one year	18,482	16,771
From two to five years	4,849	4,512
Minimum lease payments	23,331	21,283
Less: Future finance charges	(2,048)	
Present value of minimum lease payments	21,283	

The interest rate implicit in the lease is 17%.

20. Deferred Tax Liability

	30 June 2008	31 December 2007
Liability at 1 January	(297,317)	(244,687)
Deferred tax recognised during the period	(134,924)	(52,630)
	(432,241)	(297,317)

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20. Deferred Tax Liability (continued)

Major components making up the deferred tax liability at the end of the period were:

	Tax rate %	31 December 2007		Movement during the period		30 June 2008	
		Temporary differences	Deferred tax asset/(liability)	Temporary differences	Deferred tax asset/(liability)	Temporary differences	Deferred tax asset/(liability)
Securities	24	(10,445)	(2,507)	(44,648)	(10,715)	(55,093)	(13,222)
Loan loss allowance	24	(725,503)	(174,121)	(245,803)	(58,992)	(971,306)	(233,113)
Bank bad debt provisions		-	-	(3,495)	(839)	(3,495)	(839)
Other allowances	24	28,044	6,731	(28,245)	(6,779)	(201)	(48)
Accrued income	24	(150,371)	(36,089)	(83,913)	(20,139)	(234,284)	(56,228)
Accrued expenses	24	208,283	49,988	51,023	12,245	259,306	62,233
Premises and equipment	24	(437,356)	(104,965)	(152,434)	(36,585)	(589,790)	(141,550)
Loans sold	24	(4,075,854)	(978,205)	(744,020)	(178,565)	(4,819,874)	(1,156,770)
Depreciation of the part related to maintenance of the asset	24	2,373,835	569,720	764,138	183,394	3,137,973	753,114
Loans to customers	24	888,137	213,153	262,609	63,026	1,150,746	276,179
Other items of working Capital	24	662,408	158,978	(337,396)	(80,975)	325,012	78,003
		(1,238,822)	(297,317)	(562,184)	(134,924)	(1,801,006)	(432,241)

21. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	30 June 2008		31 December 2007	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares with nominal value of RUB 100 (not thousands) each	4,479,883	447,988	2,799,883	279,988
Preference shares with nominal value of RUB 1 (not thousands) each	11,700	12	11,700	12
Inflation effect on share capital	-	119,837	-	119,837
	4,491,583	567,837	2,811,583	399,837

On 29 February 2008 the Bank placed through open subscription 1,680,000 ordinary shares with par value RUB 100 (not thousands) at a price RUB 1,309.53 (not thousands) each. Share capital has increased to RUB 448,000 (at 31 December 2007: RUB 280,000) and share premium amounted to RUB 2,032,010 (at 31 December 2007: RUB 4,697).

All preference shares, which are irredeemable, carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Group. Holders are entitled to receive annual dividends of 1.7 RUB (not thousands) per share. If the dividends are not paid, preference shareholders carry the right to vote at annual and general meetings until the dividends are paid. Currently preference shareholders have the right to vote.

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21. Share Capital (continued)

The Bank's major shareholders were:

	30 June 2008		31 December 2007	
	Number of shares	% holding	Number of shares	% holding
Legal entities and third parties				
Antof N.V. (controlled by Igor Kim)	993,981	22.13	-	-
Rekha Holdings Limited (controlled by Renaissance Capital Finance)	671,980	14.96	419,981	15.00
Alexander Taranov	286,513	6.38	409,706	14.63
Schouplova Evgeniya (on behalf of Sergei Vlasov)	231,202	5.15	160,000	5.71
Limited Liability Company RATTO HOLDINGS LIMITED	223,988	4.99	-	-
Members of the Board of Directors				
Sergei Vlasov	891,798	19.85	544,635	19.45
Igor Kim	819,421	18.24	819,421	29.27
Andrey Bekarev	308,911	6.88	409,706	14.63
Yuri Vavilov	60,222	1.34	44,501	1.19
Other				
Shareholders comprising individuals and legal entities with less than 5% each.	3,567	0.08	3,633	0.12
	4,491,583	100.0	2,811,583	100.0

22. Accumulated Profit

In accordance with Russian Law on banking activity and the Law on joint stock companies, the Group must use financial statements as the basis for calculating distributable profit. Profits may be used to pay dividends or may be transferred to reserves in accordance with the decision made at annual shareholders meeting. The Group's reserves under RAS as at 30 June 2008 were RUB 3,420,461 (at 31 December 2007: RUB 612,209).

23. Result on Sale of Loans

	30 June 2008	30 June 2007
Sales of loans to URSA Bank and Etalonbank (shown below)	668,162	491,419
Other sales of loans	-	(125,959)
	668,162	365,460

During the period the Group sold loans with a carrying value of RUB 3,792,894 (during the first 6 months 2007: RUB 2,076,242) at the time of sale to URSA Bank and Etalonbank, a related party, who upon receipt recognise the loans as an asset on their balance sheet. Under the sale agreement the Group is an agent for accepting payments under loans sold and has the right to retain fees for servicing borrowers' current accounts on which funds for repayment of the sold loans are transferred. Interest and capital payments are forwarded to URSA Bank and Etalonbank. In accordance with the agreement URSA Bank and Etalonbank charges the Group a fee for representing amount registers specifying borrowers per every working day.

As part of the sales agreement the Group has issued a warranty in respect of the recovery of the loans sold. The limit of renewable warranty was set at RUB 115,000 and was in the form of a guarantee issued in favour of URSA Bank and Etalonbank. Should the Group refuse to renew the warranty, it is to pay a penalty of 2% of the outstanding balance of the loan principal and accrued interest. Management are of the opinion that the penalty of 2% represents the maximum value of the warranties and this has been used in calculating the result on disposal.

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23. Result on Sale of Loans (continued)

The result on disposal has been calculated as follows:

	30 June 2008	30 June 2007
Fair value of consideration (present and future) received in respect of the sale of loans	3,792,894	2,076,242
Carrying value of loans derecognised	3,792,894	2,076,242
Less element attributable to cash flows from servicing fees	(744,020)	(532,944)
	3,048,874	1,543,298
Less fair value of warranties issued at date of issue	(75,858)	(41,525)
Result on disposal	668,162	491,419

Movements on the service fee asset during the period were as follows:

	30 June 2008	30 June 2007
Brought forward	1,702,019	1,137,986
Additions in the year, represented by cash flows from service fees on loans sold to be retained by the Group	744,020	532,944
Amortisation in the period	(764,138)	(556,775)
	1,681,901	1,114,155

24. Interest Income and Expense

	30 June 2008	30 June 2007
Interest income		
Loans and advances to legal entities	13,587	6,976
Loans and advances to individuals	2,961,075	1,385,687
Securities	1,658	327
Due from other banks	78,006	18,037
Total interest income	3,054,326	1,411,027
Interest expense		
Term deposits of individuals	(739,067)	(398,726)
Finance lease charges	(2,968)	(6,405)
Term deposits of legal entities	(34,119)	(30,730)
Other borrowings	(325,846)	-
Bonds issued	(104,313)	-
Promissory notes	(27,723)	(59,669)
Bonds issued by OEFL	(5,557)	-
Current/settlement accounts	(1,171)	(1,534)
Term deposits of banks	(61,549)	(16,961)
Total interest expense	(1,302,313)	(514,025)
	1,752,013	897,002

Orient express bank

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25. Net Allowance for Impairment Losses on Loans and Advances

	30 June 2008	30 June 2007
Release of allowance credited to profits during the period	(582,965)	(833,179)
New allowance charged to profits during the period	1,041,947	1,035,389
	458,982	202,210

26. Net Fee and Commission Income

	30 June 2008	30 June 2007
Service fees receivable	783,235	901,355
Commission on cash transactions	1,176,878	145,814
Amortisation of Service Fee Asset (Note 23)	(764,138)	(556,775)
Other commissions	291,591	12,479
Total fee and commission income	1,487,566	502,873
Total fee and commission expense	(107,418)	(80,976)
	1,380,148	421,897

27. Operating Expenses

	30 June 2008	30 June 2007
Staff costs	1,015,969	535,648
Depreciation and Amortisation (Notes 10 and 11)	48,609	33,485
Administrative expenses	376,873	210,616
Taxes other than on income (Note 28)	97,831	54,644
Other expenses related to premises and equipment	184,272	95,122
Advertising and marketing	107,073	42,448
Allowance for impairment of other assets	392,273	19,107
	2,222,900	991,070

28. Taxation

Income tax comprised the following:

	30 June 2008	30 June 2007
Current tax charge	(293,373)	(154,629)
Deferred tax charge relating to the origination and reversal of temporary differences	(134,924)	52,472
Income tax charge for the period	(428,297)	(102,157)

Orient express bank

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28. Taxation (continued)

The income tax rate applicable to the majority of the bank's income was 24% (2007: 24%). The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	30 June 2008	30 June 2007
Accounting profit before tax	1,298,384	385,036
Adjustments to comply with IFRS including:		
Allowance for loan loss	62,722	(20,666)
Additional depreciation due to use of higher rates	(9,392)	(21,338)
Taxes	(24,106)	(668)
Net accrued interest	(8,304)	(19,271)
Other accruals	183,073	(125,054)
Result on sale of loans	668,162	491,419
Amortisation of service asset	(764,138)	(556,775)
Value of warranty issued	23,742	87,510
Other	(31,162)	(13,185)
	100,597	(178,028)
Accounting profit under RAS	1,197,787	563,064
Adjustments for disallowable items	24,601	81,224
Taxable profit	1,222,388	664,288
Tax liability at 24%	(293,373)	(154,629)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2007: 24%).

Other significant taxes borne by the Group and included in operating expenses (Note 27) include:

	30 June 2008	30 June 2007
Irrecoverable VAT	87,114	49,861
Property tax	9,739	4,138
Other	978	645
	97,831	54,644

Property tax is calculated at a rate of 2.2% (2007: 2.2%) on the value of assets as computed under Russian statutory taxation regulations. Most of the income of the Group is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

29. Financial Risk Management

The Group has a pro-active approach to Management of financial risks (credit, market including interest rate, exchange rate and liquidity risks), operational risk, legal and reputation risk. The primary objectives of the financial risk Management function are to establish risk limits, and then, through the internal control process to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that deviations are corrected in accordance with Management's policies. The operational and legal Management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational, legal and reputation risks.

29. Financial Risk Management (continued)

Credit Risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Since the Group specialises in retail lending market, the main risk for the Group is credit risk in respect of individual borrowers. The share of consumer loans in the Group's total assets comprises more than 60%. In addition, of the Group's income no less than 65% depends on interest and non-interest income from individuals lending. Another risk factor exists for the Group in that there is a concentration of unsecured loans in the retail loan portfolio.

The Group has a credit policy which establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans and contingent operations.

For the purpose of minimising credit risk concentration the Group diversifies the loan portfolio by lending a large number of loans to small borrowers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

There is a credit group function in the Group whose main task is the on-going 'perfection' of the algorithm of borrowers' credit assessment as well as other elements on lending.

There is a successful information and analytics system in the Group for support of making credit decisions. This system provides analysis of the Group's loan portfolio promptly and it helps to manage the key parameters of the credit scoring system depending on the factors such as the current rate of overdue debt, specification of credit products, regional analysis and credit generations.

An essential part of credit risk Management is the regular estimation of the adequacy of the used scoring system to ensure its forecasting accuracy and timeliness of necessary changes. There is also a centralization of the process for making credit decisions and reviewing the scoring system supported by an extensive data base. The Group also uses different credit ratings companies.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The Group uses the same 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.

The Group measures credit risk by reference to its internal rating system which is shown in Note 8.

The Group assumes credit risk in terms of its transfer of loans to URSA Bank and Etalonbank, as detailed in Note 23, however it deems the risk from URSA and Etalonbank to be minimal as cash consideration is received at or very close to the time loans are transferred. The Groups exposure to loss in terms of the underlying loans sold is also detailed in Note 23.

Orient express bank

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29. Financial Risk Management (continued)

Country Risk

Country risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets.

The Group operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Group are set out in Note 2. Comments on the risk associated with Russian tax are set out in Note 30.

A geographical analysis of the Group's assets and liabilities as at 30 June 2008 is set out as follows:

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
Assets				
Cash and cash equivalents	1,872,579	15,093	251,684	2,139,356
Mandatory cash balances with the CBRF	598,521	-	-	598,521
Securities	97,295	-	-	97,295
Due from banks	3,422,243	-	-	3,422,243
Loans to customers	24,253,760	-	-	24,253,760
Accrued interest income and other assets	1,050,550	-	-	1,050,550
Service fee asset	1,681,901	-	-	1,681,901
Premises and equipment	1,410,577	-	-	1,410,577
Intangible assets	534	-	-	534
Total assets	<u>34,387,960</u>	<u>15,093</u>	<u>251,684</u>	<u>34,654,737</u>
Liabilities				
Due to other banks	1,620,690	-	-	1,620,690
Customer accounts	16,988,120	-	-	16,988,120
Debt securities issued	2,030,883	-	-	2,030,883
Bonds issued by OEFL	-	6,363,192	-	6,363,192
Warranties on loans sold	183,752	-	-	183,752
Accrued interest expense and other liabilities	678,602	278,684	-	957,286
Other Borrowings	316,500	-	-	316,500
Finance lease	21,283	-	-	21,283
Deferred tax liability	432,241	-	-	432,241
Total liabilities	<u>22,272,071</u>	<u>6,641,876</u>	<u>-</u>	<u>28,913,947</u>
Net on-balance sheet position	<u>12,130,982</u>	<u>(6,626,783)</u>	<u>251,684</u>	<u>5,740,790</u>
Credit related commitments	<u>(87,446)</u>	<u>-</u>	<u>-</u>	<u>(87,446)</u>

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

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
Net on-balance sheet position	<u>9,109,561</u>	<u>(6,464,286)</u>	<u>25,417</u>	<u>2,670,692</u>
Credit related commitments	<u>(67,226)</u>	<u>-</u>	<u>-</u>	<u>(67,226)</u>

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29. Financial Risk Management (continued)

Market Risk

A) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Group manages currency risk via providing maximum possible matching of assets and liabilities. Assets & Liabilities Management Committee establishes limits as for the level of accepted risk by currencies as well as on the whole both at the end of every day and within one day.

At 30 June 2008, the Group had the following positions in Russian Roubles and other currencies:

	RUB	USD	Other	Total
Assets				
Cash and cash equivalents	1,502,406	374,662	262,288	2,139,356
Mandatory cash balances with CBRF	598,521	-	-	598,521
Due from other banks	1,399,500	1,177,557	845,186	3,422,243
Loans and advances to customers	24,253,760	-	-	24,253,760
Accrued interest income and other assets	1,049,419	522	609	1,050,550
Securities	97,295	-	-	97,295
Service fee asset	1,681,901	-	-	1,681,901
Premises and equipment	1,410,577	-	-	1,410,577
Intangibles	534	-	-	534
Total assets	31,993,913	1,552,741	1,108,083	34,654,737
Liabilities				
Customer accounts	15,014,835	915,328	1,057,957	16,988,120
Due to other banks	1,118,412	269,759	232,519	1,620,690
Debt securities issued	542,551	-	-	542,551
Bonds	1,488,332	-	-	1,488,332
Bonds issued by OEFL	5,370,796	992,396	-	6,363,192
Deferred tax liability	432,241	-	-	432,241
Accrued interest expense and other liabilities	832,399	119,232	5,655	957,286
Other borrowings	316,500	-	-	316,500
Warranties on loans sold	183,752	-	-	183,752
Finance lease	21,283	-	-	21,283
Total liabilities	25,321,101	2,296,715	1,296,131	28,913,947
Net balance sheet position	6,672,812	(743,974)	(188,048)	5,740,790
Credit related commitments	(87,446)	-	-	(87,446)

As of 31 December 2007 the Group had the following positions in Russian Roubles and other currencies:

	RUB	USD	Other currencies	Total
Net balance sheet position	3,164,557	(480,830)	(13,035)	2,670,692
Credit related commitments	(66,490)	(736)	-	(67,226)

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29. Financial Risk Management (continued)**Market Risk (continued)****A) Currency Risk (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in the RUB to US Dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity. Analysis has not been provided for other currencies as there are no significant exposures.

	Increase / decrease in USD rate	Effect on equity only
6 months 2008	+ 8% / - 8%	(59,518) / 59,518
12 months 2007	+ 8% / - 8%	(38,466) / 38,466

B) Interest Rate Risk

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

The main exposure of the Group to the fixed interest rate risk is in respect of the bonds issued by OEFL (Note 15).

The Group is exposed to the interest rate risk as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, the Group has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. The estimation of interest rate risk in the Group is based on gap-analysis of sensitive (towards interest rate changes) financial instruments (SFI). The basic methodological approach of gap-analysis is in recording of future SFI payment flows at balance sheet cost. The balance sheet cost is broken down by dates of interest rates revision in compliance with contract maturity dates depending on what date is the earliest.

The Group measures and sets itself targets to its interest rate risk in terms of three ratios:

- Overall level of Risk Sensitive Assets ('RSA') to Risk Sensitive Liabilities ('RSL')
- Overall gap in interest sensitive assets ('Gap') to RSA and
- Weighted average days of RSA ('WARSA') to weighted average days to RSL ('WARSL')

The level of compliance with the target is then assessed as a percentage via a formula and this is transcribed into a score. Scores are averaged and then assessed against a chart to define in general terms the risk group for the risk the bank is running. These are presented below:

Gap Analysis

	Target	30 June 2008	31 December 2007	Compliance score	Score
RSA/ RSL	0.5	1.0667	0.9836	29 %	40
Gap/ RSA	0.5	0.0625	0.0167	88 %	20
WARSA/ WARSL	1.7	1.1562	1.0298	32 %	40
Average score					<u><u>33.33</u></u>

Group of risk	Name of the group	Score for the group
Group 1	Minimal risk	Up to 20
Group 2	Low risk	From 21 to 40
Group 3	Middle risk	From 41 to 60
Group 4	High risk	From 61 to 80
Group 5	Maximum risk	From 81 to 100

Following the above schedule the Groups is in the Low Risk position for both periods.

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29. Financial Risk Management (continued)**Market Risk (continued)*****B) Interest Rate Risk (continued)***

The majority of interest bearing liabilities are on fixed rate terms but the Group reserved its right to reprice in case of significant fluctuations of interest rates. Management does not consider the Group to have significant exposure as a result of taking long term deposits at fixed interest rates.

The table below summarises the effective average interest rate, by major currencies, for the main categories of interest bearing assets and liabilities. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end contracted interest rates.

	RUB	USD	EURO
Assets			
Due from banks	10.11	5.67	6.85
Loans and advances to customers	19.75	-	-
Liabilities			
Due to other banks:			
- current term loans and deposits of other banks	7.38	5.65	6.09
Customer accounts:			
- term deposits of legal entities	9.94	-	-
- term deposits of individuals	12.00	10.70	10.90
Promissory notes issued	14.94	-	-
Bonds issued	16.19	-	-
Bonds issued by OEFL	9.88	11.00	-
Other borrowings (EBRD)	10.80	-	-

A significant proportion of the Group's revenue on loans is earned from charging service fees. This significantly increases the profitability of the Group's interest bearing assets. Service fees are calculated on a fixed rate basis based on the original loan amount.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Group's profit before tax and the Group's equity:

	30 June 2008	31 December 2007
RUB		
100 bp parallel increase	(123,065)	86,357
100 bp parallel decrease	123,065	(86,357)
USD		
50 bp parallel increase	(5,534)	3,933
50 bp parallel decrease	5,534	(3,933)

C) Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Group actively monitors liquidity risk. The table below shows assets and liabilities as at 30 June 2008 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to 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.

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29. Financial Risk Management (continued)

Market Risk (continued)

C) Liquidity Risk (continued)

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

The Group calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. These ratios include:

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

The Group was in compliance with the above ratios during the years ended 30 June 2008 and 31 December 2007. The following table represents the mandatory liquidity ratios for the Group calculated at 30 June 2008 and 31 December 2007:

	Requirement	30 June 2008	31 December 2007
Instant liquidity ratio (N2)	Minimum 15%	95%	116%
Current liquidity ratio (N3)	Minimum 50%	81%	142%
Long-term liquidity ratio (N4)	Maximum 120%	92%	86%

The Group's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior Management immediately. The Group performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity Management is controlled by the Asset and Liability Committee.

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29. Financial Risk Management (continued)

Market Risk (continued)

C) Liquidity Risk (continued)

The tables below provide an analysis of the Group's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	2,139,356	-	-	-	-	2,139,356
Mandatory cash balances with CBRF	-	-	-	-	598,521	598,521
Due from other banks	2,306,860	1,115,383	-	-	-	3,422,243
Loans and advances to customers	1,064,524	4,986,565	5,049,100	13,153,571	-	24,253,760
Securities	-	-	-	71,157	26,138	97,295
Accrued interest income and other assets	447,847	23,055	5,523	2,147	571,978	1,050,550
Service fee asset	119,041	476,297	659,911	426,652	-	1,681,901
Premises and equipment	-	-	-	-	1,410,577	1,410,577
Intangibles	-	-	-	-	534	534
Total assets	6,077,628	6,601,300	5,714,534	13,653,527	2,607,748	34,654,737
Liabilities						
Customer accounts	4,958,454	7,190,729	3,428,680	1,410,257	-	16,988,120
Due to other banks	1,028,223	592,467	-	-	-	1,620,690
Debt securities issued	-	164,400	10,000	368,151	-	542,551
Bonds of SPV	-	-	-	6,363,192	-	6,363,192
Bonds	-	-	-	1,488,332	-	1,488,332
Deferred tax liability	-	-	-	-	432,241	432,241
Accrued interest expense and other liabilities	617,233	201,273	2,242	19,958	116,580	957,286
Other borrowings	-	-	-	316,500	-	316,500
Finance lease liability	3,666	10,035	3,070	4,512	-	21,283
Warranties on loans sold	13,005	52,037	72,097	46,613	-	183,752
Total liabilities	6,620,581	8,210,941	3,516,089	10,017,515	548,821	28,913,947
Net liquidity gap	(542,953)	(1,609,641)	2,198,445	3,636,012	2,058,927	5,740,790
Cumulative gap 31 June 2008	(542,953)	(2,152,594)	45,851	3,681,863	5,740,790	-
Cumulative gap 31 December 2007	(364,916)	(75,432)	520,665	1,337,616	2,670,692	-

Operational Risk

Operational risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional wrongful actions of personnel and force majeure circumstances.

The Group has internal regulations and procedures aimed to minimise operational risk. A report on operational risk is considered quarterly by the Management Board and once a year at the meeting of the Board of Directors of the Group.

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29. Financial Risk Management (continued)

Insurance

The use of insurance as a means of regulating liability risk is still relatively undeveloped in Russian Federation as this type of cover is not widely available. Management has therefore not been able to make extensive use of this risk Management tool.

Details of property insurance are set out in Note 10.

As at the end of the year the Bank was registered with the Central Bank's retail deposit insurance scheme.

30. Contingencies, Commitments and Derivative Financial Instruments

Legal Proceedings

From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no allowance has been made in these financial statements.

Tax Legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital Commitments

As at 30 June 2008 and 31 December 2007 the Group had no material capital commitments.

Credit Related Commitments

Credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, all the Group's import letters of credit are fully collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk. Outstanding credit related commitments are as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Undrawn credit lines	86,446	61,490
Guarantees issued to third parties	1,000	5,736
	<u>87,446</u>	<u>67,226</u>

Management evaluated the likelihood of impairment in respect of other credit related commitments and concluded that no allowance for impairment loss was necessary as at 30 June 2008 (2007: nil). The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives

As at 30 June 2008 and 31 December 2007 the Group had no outstanding derivative contracts.

Assets Pledged

As at 30 June 2008 there were no assets pledged to secure liabilities of the Group (2007 - nil).

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30. Contingencies, Commitments and Derivative Financial Instruments (continued)**Leased Fixed Assets**

During the year the Group leased certain assets from third parties. Details of lease payments lease payable are set out below:

	30 June 2008	30 June 2007
Operating lease:		
Payable within one year	153,863	196,690
Payable within two to five years	171,940	104,908
Payable over five years	6,898	8,810
	332,701	310,408

Operating lease includes a number of contracts expiring in 2008, but which can be prolonged, and this will result in substantial lease payable within two to five years.

31. Related Parties

For the purposes of these 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. A holding of 5% or more by one party in another is considered by Management to be one of the possible indicators that the parties are related. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The list of those companies and individuals considered by Management to be related parties as at 30 June 2008 is set out below:

Significant shareholders

	Activities
Igor Kim	Ultimate controlling party
Sergei Vlasov	President of the Bank
Andrey Bekarev	
Evgeniya Schouplova	
Alexandr Taranov	
Rekha Holdings Limited	Investments
Antof N.V.	Investments
Rato Holdings Limited	Investments

Subsidiary companies

VEB Finance Ltd.	Financial intermediary
Business concern AVK-Gamma Ltd.	Rent
First Collection Bureau Ltd.	Financial Intermediary

Associated companies

CJSC Sibirskoye Credit Bureau	Financial intermediary
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Companies under common control through shareholders

OJSC URSA Bank	Banking
OJSC Etalonbank	Banking
Yuzhny Region Ltd.	Banking
CJSC ZapSibZHASO	Insurance
Blagoveschenskoye Credit Agency Ltd.	Financial Intermediary
Khabarovskoye Credit Agency Ltd.	Financial Intermediary
Primorskoye Credit Agency Ltd.	Financial Intermediary
Irkoutskoye Credit Agency Ltd.	Financial Intermediary
Zabaikal'skoye Credit Agency Ltd.	Financial Intermediary
Stroyinvest Ltd.	Financial Intermediary

31. Related Parties (continued)

Members of the Board of Management

Sergey Vlasov (also a shareholder)
Elena Kalinina
Ludmila Proskurina
Natalia Popova
Vladislav Persin

Members of the Board of Directors

Yuriy Vavilov	Chairman of the Board of Directors
Sergey Vlasov (also a shareholder)	President of the Bank
Andrey Bekarev (also a shareholder)	
Igor Kim (also a shareholder)	
Sergei Nazarov	

During the reporting period the Group entered into transactions with related parties, which included loan and deposit agreements, and provision of guarantees. Details of transactions and balances with related parties are set out in the tables below (all balances are unsecured unless otherwise stated). Balances and transactions with shareholders are included as such below regardless of whether the shareholders concerned also belong to another category of related party.

Orient express bank

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31. Related Parties (continued)

	6 months 2008						Total balances/ trans- actions with related parties	Parties that ceased to be related during the year	Total for the cat- egory
	Share- holders	Mem- bers of BOD	Manage- ment (excl- uding BOD)	Subsid- iaries	Assoc- iates	Other related parties			
Balances									
Cash and cash equivalents	-	-	-	-	-	97,421	97,421	-	2,139,356
Due from other banks	-	-	-	-	-	-	-	-	3,422,243
Loans issued	-	-	-	-	-	3,461	3,461	-	25,698,854
Loan loss allowance	-	-	-	-	-	-	-	-	(1,445,094)
Other assets	-	-	-	1,947	-	6,227	8,174	-	515,861
Balances on correspondent accounts	1,698	2	434	111,824	-	964	114,922	-	1,304,354
Deposits	34,851	16,031	17,264	-	-	5,000	73,146	-	15,683,766
Due to other banks	-	-	-	-	-	-	-	-	1,620,690
Promissory notes issued	-	-	-	-	-	-	-	-	542,551
Other liabilities	-	-	-	9,297	-	8,814	18,111	-	446,071
Liabilities under finance lease	-	-	-	-	-	10,234	10,234	-	21,283
Unused credit lines	-	-	-	-	-	-	-	-	86,446
Accrued interest income	-	-	-	-	-	53	53	-	429,543
Accrued interest expense	44	14	7	-	-	36	101	-	511,215
Balances on loans resold to URSA Bank and Etalonbank	-	-	-	-	-	7,847,331	7,847,331	-	7,847,331
Balance on warranties on loans sold to URSA Bank and Etalonbank	-	-	-	-	-	183,752	183,752	-	183,752
Transactions									
Interest income on loans issued	-	-	-	10	-	315	325	-	3,054,326
Interest expense	12,685	676	742	-	-	497	14,600	-	1,300,137
Rent expense	-	-	-	578	-	-	578	-	99,253
Commission received	-	-	-	186	-	10,602	10,788	1	1,487,566
Commission paid	-	-	-	69,463	-	29,985	99,448	-	156,474
Other income	-	-	-	2,103	-	-	2,103	-	326,841
Other expense	64,647	-	32,070	119,626	-	1,764	218,107	-	2,223,682
Results on disposal of loans	-	-	-	-	-	668,162	668,162	-	668,162
Loans sold to URSA Bank and Etalonbank	-	-	-	-	-	3,792,894	3,792,894	-	3,792,894

Orient express bank

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31. Related Parties (continued)

	2007						Total balances/ trans- actions with related parties	Parties that ceased to be related during the year	Total for the cat- egory
	Share- holders	Mem- bers of BOD	Manage- ment (excl- uding BOD)	Subsid- iaries	Assoc- iates	Other related parties			
Balances									
Cash and cash equivalents	-	-	-	-	-	50,796	50,796	-	1,401,875
Due from other banks	-	-	-	-	-	-	-	-	1,795,849
Loans issued	-	-	-	-	-	507	507	-	19,363,197
Loan loss allowance	-	-	-	-	-	-	-	-	(986,112)
Other assets	-	-	-	-	-	1,078	1,078	-	573,742
Balances on correspondent accounts	10,935	2	2,232	3,044	95	232	16,540	-	1,096,236
Deposits	543,083	17,473	18,292	-	-	12,000	590,848	-	10,732,073
Due to other banks	-	-	-	-	-	-	-	-	1,406,515
Promissory notes issued	-	-	-	-	-	-	-	-	273,551
Other liabilities	-	-	-	13,368	-	6,481	19,849	-	87,271
Liabilities under finance lease	-	-	-	-	-	16,264	16,264	-	44,624
Unused credit lines	-	-	-	5,000	-	-	5,000	-	61,490
Guarantees issued	-	-	-	-	-	23,195	23,195	-	28,932
Accrued interest income	-	-	-	-	-	5	5	-	264,600
Other borrowings	-	-	-	6,407,823	-	-	6,407,823	-	6,628,323
Accrued interest expense	188	135	25	-	-	76	424	-	142,919
Balances on loans resold to URSA Bank	-	-	-	-	-	6,340,527	6,340,527	-	6,340,527
Balance on warranties on loans sold to URSA Bank	-	-	-	-	-	131,636	131,636	-	131,636
Transactions									
Interest income on loans issued	-	-	29	9,089	-	363	9,481	-	3,702,541
Interest expense	54,656	389	5,920	331,452	-	4,647	397,064	-	1,489,145
Rent expense	4,599	-	4,103	-	-	251	8,953	-	131,052
Commission received	2	-	2	313	1	17,968	18,286	4	1,244,839
Commission paid	-	-	-	134,104	-	-	134,104	343	142,260
Other income	-	-	4	-	-	-	4	-	15,981
Other expense	32,331	-	28,516	129,055	-	45,900	235,802	-	2,633,017
Results on disposal of loans	-	-	-	-	-	1,756,178	1,756,178	-	1,756,178
Loans sold to URSA Bank	-	-	-	-	-	7,984,888	7,984,888	-	7,984,888

The salaries paid to the 5 members of the Bank's Management during the period amounted to RUB 96,524 (30 June 2007: RUB 9,991). There were no long term benefits, post-employment benefits, termination benefits or share based payments. No remuneration to other members of the Board of Directors was paid during first 6 months 2008 and 2007.

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32. Capital Management

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian Accounting Legislation. As 30 June 2008, the Bank's capital adequacy ratio calculated on this basis was 18.1%, exceeding the statutory minimum (31 December 2007: 11.5%)

Capital adequacy calculation is prepared by Treasury Department for each operating day. Each day treasury department receives information about receipts and placements of interbank loans, securities, loans from/to individuals and legal entities. Using this information as well as accounting records for particular day employee in charge performs the calculation of capital adequacy ratio. Calculation is then reviewed by head of Treasury department and then goes to Chairman of Executive committee.

Liquidity is controlled by ratios calculated in accordance with requirements of the CBRF (see Note 29). In addition there are two limits of liquidity ratios control in the Bank: limit Stop-loss and limit Stop-out. If the stop-loss limit has been reached, Head of Branch/Head of Treasury department is informed and necessary actions are taken to recover the limit to necessary ratio. If the stop-out limit has been reached Chairman of Executive Committee is informed to make a decision regarding recovery procedures.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1998, as of 30 June 2008 was 19.5% (2007: 11.9%). This ratio exceeded the minimum ratio of 8% recommended by Basle Accord.

The capital adequacy ratio in accordance with the 1998 Basle Accord guidelines based on the audited financial statements of the Group as of 30 June 2008 was computed as follows:

	30 June 2008	31 December 2007
Tier 1 Capital		
Share capital	567,837	399,837
Share Premium	2,036,708	4,697
Accumulated profit	3,136,245	2,266,158
Total Tier 1 Capital	5,740,790	2,670,692
Total Capital	5,740,790	2,670,692
Risk weighted assets	29,474,383	22,368,970
Total Capital adequacy ratio	19.5%	11.9%

Capital is calculated as the total of restricted and unrestricted components of equity plus general provision for loan losses to the extent that this provision does not exceed 1.25% of assets calculated using the following risk weightings:

Weighting	Description
0%	Cash, amounts with the Central Bank of Russian Federation and claims on the Government of the Russian Federation denominated in Roubles and funded in Roubles
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% - 5%	Foreign exchange contracts
0% - 0,5%	Interest rate contracts

33. Events after the Balance Sheet Date

On 11 September 2008 the Bank agreed with CBRF a loan in the amount RUB 700,000 for a term of 180 days under a guarantee from URSA Bank.

In September 2008 Orient Express Finance Limited claimed pre-term redemption of Eurobonds under the 'Senior Agreement' with this entity dated 03 July 2007. On 12 September 2008 the Group repaid its liabilities amounting RUB 4,917,600.