

OJSC “ORIENT EXPRESS BANK”

and subsidiary

Consolidated Financial Statements and Auditor’s Report

31 December 2008

OJSC “Orient Express Bank”
Consolidated Financial Statements and Auditor’s Report

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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" ("the Bank") and its subsidiary ("the Group"). They have been prepared in accordance with International Financial Reporting Standards 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

24 June 2009

INDEPENDENT AUDITOR'S REPORT

To the Management and Board of Directors of OJSC "Orient express bank ("the Bank")

We have audited the accompanying consolidated financial statements of the Group, which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, statement of cash flows and statement of changes in equity for the year when ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the Bank's Management and Board of Directors ("Management"), as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Bank's Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Management as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

OOO Moore Stephens
18A Verkhneportovaya St.
Vladivostok, Russia

24 June 2009

OJSC "Orient express bank"
Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents	5	3,279,254	1,619,702
Mandatory balances with the CBRF		31,738	281,134
Financial Assets Available-for-sale	6	34,517	46,723
Due from other banks	7	277,308	1,795,849
Loans and advances to customers	8	23,226,207	18,377,085
Accrued interest income and other assets	9	4,336,930	573,742
Service fee asset	23	1,086,562	1,702,019
Premises and equipment	10	1,836,286	1,070,346
Intangible asset	11	499	567
		<u>34,109,301</u>	<u>25,467,167</u>
Liabilities			
Due to other banks	12	5,581,000	1,406,515
Customer accounts	13	18,453,400	11,828,309
Debt securities issued	14	1,320,055	1,761,883
Bonds issued by OEFL	15	1,428,745	6,409,260
Warranty on loans sold	16	275,674	131,636
Accrued interest expense and other liabilities	17	730,623	696,431
Other Borrowings	18	316,500	220,500
Finance lease liability	19	7,584	44,624
Deferred tax liability	20	277,421	297,317
		<u>28,391,002</u>	<u>22,796,475</u>
Equity			
Share capital	21	567,837	399,837
Share premium		2,036,708	4,697
Accumulated profit	22	3,115,355	2,266,158
Revaluation reserve		(1,601)	-
Total equity		<u>5,718,299</u>	<u>2,670,692</u>
Total liabilities and equity		<u>34,109,301</u>	<u>25,467,167</u>
Credit related commitments	30	<u>338,181</u>	<u>67,226</u>

Approved on behalf of the Management Board on 24 June 2009

S.N. Vlasov, President

L. S. Proskurina, Chief Accountant

OJSC "Orient express bank"
Consolidated Income Statement for the Year Ended 31 December 2008
(in thousands of Russian Roubles)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Interest income	24	6,577,362	3,702,555
Interest income on loans sold	24	137,428	-
Interest expense	24	(2,808,386)	(1,488,928)
Interest expense on loans sold	24	(119,485)	-
Net interest income		3,786,919	2,213,627
Net allowance for impairment losses on loans and advances	25	(1,759,687)	(626,576)
Net interest income after allowance for impairment loss		2,027,232	1,587,051
Result on sale of loans to other Banks	23	393,368	1,756,178
Gains less losses arising from securities		119,900	(252)
Gains less losses arising from dealing in foreign currencies		221,905	21,279
Net foreign exchange translation (loss)/gain		(149,937)	(32,502)
Net fee and commission income	26	2,217,368	1,102,579
Release of warranty	16	114,059	181,168
Other operating income		308,901	15,981
Allowance for impairment losses against loans resold to other Banks		(68,135)	(425,215)
Operating income		5,184,661	4,206,267
Operating expenses	27	(3,990,213)	(2,634,105)
Profit before taxation		1,194,448	1,572,162
Taxation	28	(345,251)	(419,684)
Net profit for the year		849,197	1,152,478

OJSC "Orient express bank"
Consolidated Statement of Cash Flows for the Year Ended 31 December 2008
(in thousands of Russian Roubles)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities			
Interest received on loans		6,330,977	3,528,485
Interest paid		(2,604,033)	(939,538)
Interest paid under finance lease		(4,147)	(11,348)
Net gains arising from dealing in securities		123,654	1,264
Income received from dealing in foreign currencies		178,847	21,279
Net fees and commissions received		3,255,294	2,858,757
Other operating income received		308,656	164,817
Operating expenses paid		(3,523,729)	(2,406,599)
Income tax paid		(541,196)	(367,054)
Cash flows from operating activities before changes in operating assets and liabilities		3,524,323	2,850,063
Net cash increase / (decrease) from changes in operating assets and liabilities			
Net increase/(decrease) in mandatory cash balances with the CBRF		249,396	(171,021)
Net increase/(decrease) in due from other banks		1,518,541	(738,440)
Net decrease in loans and factoring		(6,807,978)	(13,361,349)
Sale of loans to First Collection Bureau		106,614	-
Net increase in due to other banks		4,174,485	542,022
Net increase in customer accounts		6,625,091	6,093,283
Net (decrease) in promissory notes		(122,400)	(497,606)
Net change in other assets and liabilities		(3,032,214)	(1,078,145)
Net cash generated by/(used in) operating activities		6,235,858	(6,361,193)
Cash flows from investing activities			
Purchase of premises and equipment		(893,488)	(637,690)
Proceeds from sale of premises and equipment		12,227	64,664
Purchase of intangible assets		-	(600)
Change in securities		10,649	(26,032)
Investments sold/(acquired)		250	(20,580)
Net cash used in investing activities		(870,362)	(620,238)
Cash flows from financing activities			
Finance lease capital repayments		(37,040)	(25,255)
Proceeds of borrowings		96,000	220,500
Bonds (repurchased)/issued		(319,428)	1,488,332
Interest paid on bonds issued		(209,127)	(122,857)
Bonds (repurchased)/issued by OEFL		(5,178,865)	6,409,260
Interest paid on bonds issued by OEFL		(160,858)	(67,093)
Share issue for cash		2,200,011	-
Net cash (used in)/generated by financing activities		(3,609,307)	7,902,887
Effect of changes in exchange rate		(96,637)	(32,502)
Net change in cash and cash equivalents		1,659,552	888,954
Cash and cash equivalents, beginning of the year		1,619,702	730,748
Cash and cash equivalents at the end of the year	5	3,279,254	1,619,702
Non-cash transactions: there were no acquisitions under conditions of finance lease during the year (2007: RUB 24,739).			

OJSC "Orient express bank"
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2008
(in thousands of Russian Roubles)

	<u>Share Capital</u>	<u>Share premium</u>	<u>Accumulated profit</u>	<u>Revaluation reserve</u>	<u>Total Equity</u>
1 January 2007	399,837	4,697	1,113,680	-	1,518,214
Net profit for the year	-	-	1,152,478	-	1,152,478
1 January 2008	399,837	4,697	2,266,158	-	2,670,692
Proceeds of share issue for cash	168,000	2,032,011	-	-	2,200,011
Revaluation	-	-	-	(1,601)	(1,601)
Net profit for the year	-	-	849,197	-	849,197
31 December 2008	<u>567,837</u>	<u>2,036,708</u>	<u>3,115,355</u>	<u>(1,601)</u>	<u>5,718,299</u>

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

OJSC “Orient express bank”
Notes to the Consolidated Financial Statements - 31 December 2008
(in thousands of Russian Roubles)

1. Principal Activities

The consolidated financial statements include financial statements of open joint stock bank “Orient 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 on 22 June 2006. At 31 December 2008 the Bank operated a registered office in Blagoveschensk, ten branches and over 292 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. It is a company limited by shares registered in Ireland. Its activities and policies are controlled completely by the Bank. It has no employees.

The Bank’s registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 31 December 2008 the Bank had 4,206 employees (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 Group

Background

The Group’s operating environment can be summarized in one word and that is ‘Crisis’. Whilst there are many different opinions about when and how it started the beginnings of problems in the US sub-prime market were becoming apparent as far back as early 2007. Since then the global economic landscape has changed beyond recognition. Initially problems were felt in western banking markets where inter-bank liquidity dried up especially regarding banks with high sub-prime exposure. Since then the effects have expanded including banking and other corporate collapses, and impacted the stock market, property market, commodity and foreign exchange markets and into the real economy. Many countries have now entered recession and periods of negative growth in their economies as a result.

Russia in 2008 and CBRF response

Russia was initially insulated from these effects but in 2008 was also seriously affected, a situation made worse by the drop in oil price, capital outflows and a sharply depreciating exchange rate. Stock market indexes were the worst performing in the world, at times dropping 18% in one day and being suspended for days at a time eventually finishing the year some 75% down. The impact on the banking sector was severe, especially on those banks with heavy securities exposure. KIT Finance, one of the major banks defaulted on repo obligations in September. The interbank market disappeared in October and at this time there were heavy withdrawals by individuals from the system. A number of larger banks have sought partners and mergers in order to avoid liquidity issues. Many small banks have had their licenses recalled by CBRF, in situations directly or indirectly due to the crisis. In response to this CBRF (and Russian Governmental bodies also) took a number of steps to lessen the impact of the crisis in Russia.

Vnesheconombank (‘VEB’) was provided with funds from the National Wealth Fund to lend funds to larger banks in order to provide liquidity to the overall banking system, although there were later criticisms that this did not occur. CBRF continued its policy of managing exchange rates in order to have a managed decline, and also open market operations, including those in order to support securities prices, have been conducted. In addition mandatory reserve ratios were substantially reduced in order to provide banks with the ability to use liquidity that they were already holding on their balance sheets. To increase the confidence of customers the limits of coverage of deposit insurance were also increased, and requirements of Banks entry to the system were made stricter. Many banks also now have access to borrow CBRF funds on a secured or unsecured basis.

2. Operating Environment (continued)

Year 2009

The macroeconomic picture remains weak, Russia's economy contracted 8.8% in January and industrial production dropped by 16% in the year to January, although within sectors there were variations for example between a 17% decline in construction and a 2.4% rise in retail trade. Arrears of business' payments to each other and on loans have risen sharply. Liquidity remains very short in the banking system and defaults on loans are expected to rise substantially throughout the year.

The Group's Management believe a proper understanding of this operating environment is essential to appreciate the context of the IFRS financial statements. In their opinion the situation so far in 2009 has neither substantially improved nor worsened and Management remain acutely aware of the difficult situation. The stock market has risen sharply and the currency stabilised in the beginning of 2009. The future situation is dependent on global macroeconomic issues and on events within Russia and the response of governmental bodies to these events.

They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Group.

3. Basis of Presentation

a) General

These financial statements have been prepared on a consolidated basis.

The consolidated financial statements of the Group are prepared in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian Banking regulations, and OEFL in accordance with Irish accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The accompanying consolidated financial statements have been prepared using the thousands of 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 RUB is the functional currency of the Bank. In year 2008 USD (2007: RUB) is considered to be the OEFL'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 Company. The change of functional currency in OEFL was due to repayment of majority of RUR series of bonds issued and the remaining one represent USD denominated series of bonds issued. Management also believes RUB to be the most appropriate currency for presentation of the Bank's Group's financial statements.

Exchange rates applied in translation of transactions and balances denominated in currencies other than RUB are detailed in Note 4(o).

3. Basis of Presentation (continued)

c) 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 (Orient Express Finance Limited, "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.

d) Changes in Accounting Policies

In general the accounting policies applied in the Group in these financial statements are consistent with those applied by the Group in the year ended 31 December 2007, except for the amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' issued on 13 October 2008 and effective from 1 July 2008, and subsequent clarifications in November 2008.

The amendments to IAS 39 permit the following:

Reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the trading category if they are no longer held for the purpose of selling or repurchasing them in the near term to either the held to maturity, loans and receivables or available for sale categories.

Reclassifications of financial assets from the available for sale category to the loans and receivables category in particular rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur to the near term.

Any reclassified instruments should subsequently be reviewed for impairment using IAS 39 impairment rules for the categories into which they are classified. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39.

3. Basis of Presentation (continued)

There is no effect of application of the amendments to IAS 39 and IFRS 7 as the Group did not reclassify any securities.

e) 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 Group 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 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 amounts.

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.

Loans sold

The Group sells portfolios of loans under a variety of contractual arrangements and under these it retains varying degrees of risk and reward, in some cases none, in the loans sold. Management therefore carefully consider whether such loans should be retained on the balance sheet as loans or whether they more accurately meet the description of a warranty or guarantee. This is done on a case by case basis.

Impairment losses on receivables 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 judgements 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 its 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.

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

3. Basis of Presentation (continued)**f) Standards, Interpretations and Amendments**

During the reporting year the following have come into force: International Financial Reporting Interpretations Committee (IFRIC) Interpretations.

IFRIC 11	IFRS 2—Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalties Programmes
IFRIC 14	IAS 19 — "The Limit on a Defined Benefit, Asset, Minimum Funding Requirements and Their Interaction"

International Financial Reporting Standards

The following standards, amendments to standards and interpretations were issued, but their application was not mandatory for the period:

IFRS 8	Operating Segments (from 1 January 2009)
IAS 1 (amended)	Presentation of Financial Statements (effective from 1 January 2009)
IAS 23 (amended)	Borrowing Costs (effective from 1 January 2009)
IAS 27 (amended)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
IFRS 3 (amended)	Business Combinations (effective from 1 July 2009)
IFRS 2 (amended)	Vesting Conditions and Cancellations (effective from 1 January 2009)
IAS 32 & IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009)
IFRS 1 & IAS 27 (amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 (amended)	Eligible Hedge Items (effective from 1 July 2009)
IAS 39 & IFRS 7 (amended)	Reclassification of Financial Assets (effective from July 2008)
IFRS 1 (amended)	First-time Adoption of Financial Reporting Standards (effective from 1 July 2009)
IFRIC 15	Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)

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 Bank'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.

4. Significant Accounting Policies (continued)

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 Income Statement. Impairment losses recognised in this way for equity instruments are not reversed through Income Statement.

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 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) Gains or losses on loans sold

The Group periodically sells portfolios of loans that it has written, to related and non related parties, and may simultaneously provide a guarantee or warranty on the credit risk of the loans sold. The gain or loss arising on sale is defined as the fair value of consideration received for the loans less the amortised cost of the loan portfolio less the fair value of the guarantee or warranty it has written (where applicable).

f) 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 Income Statement. Any subsequent upward revaluation passes through the Income Statement as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

g) 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.

h) Premises and Equipment

Equipment and other fixed assets are stated at cost less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated

4. Significant Accounting Policies (continued)

recoverable amount, it is written down to its recoverable amount and the difference is charged to the Income Statement. 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 Income Statement. Repairs and maintenance are charged to the Income Statement when the expenditure is incurred.

i) 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
Intangible asset	9

j) 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.

k) Share Premium

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

l) 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 2009.

m) Taxation

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the Income Statement 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.

n) Income and Expense Recognition

Interest income and expense are recognised in the Income Statement 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

4. Significant Accounting Policies (continued)

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.

o) 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 Income Statement 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 Income Statement as foreign exchange translation gains less losses. As at 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 29.3804 (not thousands) (2007: USD 1 = RUB 24.5462 (not thousands)).

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.

p) 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.

q) Pension Costs

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

r) 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.

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.

s) Operating Segments

As at 1 January 2008, the Group has early adopted IFRS 8 "Operating Segments" which is effective for annual periods beginning on or after 1 January 2009 (earlier application is permitted). IFRS 8 specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing financial performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 "Operating Segments" replaces IAS 14 "Segment Reporting".

A separate disclosure has not been presented in these financial statements as in the opinion of Management the Group operates only in one segment which is retail banking in the Russian Federation.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

5. Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
Cash on hand	1,032,555	521,420
Cash balances with the CBRF (other than mandatory reserves)	838,750	501,630
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	1,148,659	571,235
Other countries	259,290	25,417
	<u>3,279,254</u>	<u>1,619,702</u>

6. Financial Assets Available-for-sale

	<u>2008</u>	<u>2007</u>
Investments in Companies	26,138	26,143
Bonds of the Federal Loan ("OFZ")	8,379	20,580
	<u>34,517</u>	<u>46,723</u>

At 31 December 2008 OFZ of RUB 8,284 were pledged with the CBRF to obtain securitised ('lombard') loan (See note 12).

During 2008 and 2007 the Bank purchased OFZ securities, which are quoted in the active market and are reflected at fair value based on market quotations.

The investments in companies 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 year end (2007: Nil).

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

<u>Name</u>	<u>% Held</u>	<u>Activity</u>	<u>Country of incorporation</u>	<u>2008</u>	<u>2007</u>
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
				<u>26,138</u>	<u>26,143</u>

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

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

7. Due from Other Banks

	<u>2008</u>	<u>2007</u>
Short term loans and deposits with Russian banks	-	1,795,849
Promissory Notes	<u>277,308</u>	<u>-</u>
	<u>277,308</u>	<u>1,795,849</u>

Promissory notes comprise notes from Promsvyaz Bank at fixed rates varying from 4.55 % to 5.05 % p.a. and with maturity in January 2009.

8. Loans and Advances to Customers

	<u>2008</u>	<u>2007</u>
Current loans	21,345,043	17,492,168
Overdue loans:		
instalments overdue	540,021	564,991
portion not yet due on loans with overdue repayments	<u>2,624,570</u>	<u>1,306,038</u>
	3,164,591	1,871,029
	<u>24,509,634</u>	<u>19,363,197</u>
Less: Allowance for impairment	<u>(1,283,427)</u>	<u>(986,112)</u>
	<u>23,226,207</u>	<u>18,377,085</u>

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

The estimated fair value of collateral taken (cars and mortgage) to secure the Bank's loan portfolio amounted to RUB 6,540,769 (2007: RUB 2,817,860). The Bank also accepted other collateral with nominal value of RUB 5,333,851 (2007: RUB 2,116,771) to secure loans issued.

During the year 2008 there were no instances when the Bank took any possession of collateral held (2007: none). This is primarily because the Bank employs the services of an expert debt collection agency who buy bad loans at a discount and assume any rights or obligations under the loans, including rights to collateral.

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

	<u>2008</u>	<u>2007</u>
1 January	986,112	359,536
Net movement in allowance for impairment (Note 23 and 25)	<u>297,315</u>	<u>626,576</u>
31 December	<u>1,283,427</u>	<u>986,112</u>

Allowance for loans to individuals is calculated on a portfolio basis only. Therefore for loans to individuals there are no loans which have a specific impairment allowance that are not overdue (2007: RUB nil) and loans which are overdue but for which no specific allowance was made are RUB 3,164,015 (2007: RUB 1,871,029). For legal entities there 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 nil (2007: RUB nil).

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

Loans maturity analysis	2008	2007
Not overdue loans and not overdue instalments of loans overdue	23,969,613	18,798,206
Overdue up to 30 days	42,179	20,606
Overdue from 31-60 days	38,842	18,322
Overdue from 61-90 days	32,414	18,561
Overdue from 91 to 180 days	89,954	70,133
Overdue from 181 to 360 days	249,522	192,745
Overdue more than 360 days	87,110	244,624
	24,509,634	19,363,197

Loan portfolio stratification at 31 December 2008 was as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	568	2,261	0.4
From 500 to 5,000	142,658	52,803	10.0
From 5001 to 10,000	394,952	52,351	9.9
From 10,001 to 50,000	7,269,482	274,076	51.8
From 50,001 to 100,000	6,053,465	85,851	16.2
From 100,001 to 250,000	6,473,652	52,024	9.8
From 250,001 to 1,000,000	3,351,562	9,149	1.7
More than 1,000,000	823,295	367	0.2
	24,509,634	528,882	100.0

Loan portfolio stratification at 31 December 2007 was as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	467	1,603	0.4
From 500 to 5,000	124,154	46,489	10.3
From 5001 to 10,000	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
Total loans and advances to customers	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 Bank did not have any borrowers who accounted for more than 5% of the loan portfolio as at 31 December 2008 (2007: none). The ten largest borrowers accounted for RUB 228,060 or 0.93% (2007: RUB 225,340 1.16%).

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

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

	2008		2007	
	Amount	%	Amount	%
Consumer lending	24,383,737	99.5	19,170,779	99.0
Trade and catering	575	-	2,849	-
Manufacturing	973	-	1,659	-
Other	124,349	0.5	187,910	1.0
	24,509,634	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 Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 31.

The Bank 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	2008	2007
Category I	Non classified loans	1,299,054	2,378,948
Category II	Good loans	18,811,869	14,411,158
Category III	Loans with impairment signs	1,234,120	702,062
Category IV	Loans with delays up to 90 days	1,839,126	852,987
Category V	Loans with delays 91 - 360 days	1,131,585	666,339
Category VI	Fully impaired loans	193,880	351,703
		24,509,634	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 because loans were issued in December 2008.

Category V has eleven sub groups depending on the reasons of non-repayment of loan.

During 2008 the Bank sold to URSA Bank a portfolio of loans to individuals amounting to RUB 9,999,988 (2007 RUB 7,984,888). Also the Bank sold to Etalonbank and First Collection Bureau a portfolio of loans to individuals amounting to RUB 1,841,832 and RUB 1,661,541 correspondingly (See Note 23).

9. Accrued Interest Income and Other Assets

	2008	2007
Receivable from customers on loans previously sold and derecognised, now compensated under the terms of the warranty (Note 23)	1,035,691	862,857
Accrued interest income	644,659	264,600
Prepayment on Profit tax	176,049	-
Debtors and prepayments	96,043	87,684
Balances with Post Office	1,097	34,304
Settlements with Siberian Interbank Currency Exchange	3,187,229	5,289
Other	326,692	6,175
	5,467,460	1,260,909
Less: Allowance for impairment loss	(1,130,530)	(687,167)
	4,336,930	573,742

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

9. Accrued Interest Income and Other Assets (continued)

Movements in the allowance for impairment:	<u>2008</u>	<u>2007</u>
1 January	687,167	193,622
Charge during the period	443,363	493,545
31 December	<u>1,130,530</u>	<u>687,167</u>

Interest income accrued on impaired loans amounted to RUB 243,340 (2007: RUB 149,631).

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	1,607	538,535	197,015	156,333	893,490
Disposals	-	(19,888)	-	(6,419)	(26,307)
Transferred	-	181,745	(181,745)	-	-
31 December 2008	<u>3,607</u>	<u>1,332,717</u>	<u>206,788</u>	<u>500,540</u>	<u>2,043,652</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	-	18,497	-	86,133	104,630
Disposals	-	(354)	-	(3,033)	(3,387)
31 December 2008	<u>-</u>	<u>29,703</u>	<u>-</u>	<u>177,663</u>	<u>207,366</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>
31 December 2008	<u>3,607</u>	<u>1,303,014</u>	<u>206,788</u>	<u>322,877</u>	<u>1,836,286</u>

Assets with a net book value of RUB 61,423 are held under finance leases (2007: RUB 87,128).

The balance on "Capital Investments" is represented by apartments acquired for conversion to offices, before they were transferred to "non-residential" status as well as equipment, which has not been put into operation yet.

As at 31 December 2008 fixed assets of the Bank were insured for RUB 282,384 with Russian insurance companies (ZAO UralSib Insurance Group, OAO Voенно-Strakhovaya Kompaniya, Ingosstrakh, ZAO Zurich, OAO Rosstrakh, OOO Pervaya Strakhovaya Kompaniya, OAO Ugoriya) (2007: RUB 185,254).

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

11. Intangible Assets

	<u>Trademark</u>
Cost	
1 January 2007	-
Additions	600
Disposals	-
31 December 2007	600
Additions	-
Disposal	-
31 December 2008	600
Accumulated depreciation	
1 January 2007	-
Charge	33
Disposal	-
31 December 2007	33
Charge	68
Disposal	-
31 December 2008	101
Net book values	
31 December 2007	567
31 December 2008	499

Intangible assets represent a trademark of the Bank.

12. Due to Other Banks

	<u>2008</u>	<u>2007</u>
Unsecured short-term loans from Russian commercial banks	120,000	1,366,812
Unsecured short-term loans from CBRF	4,753,000	-
Secured short-term loans from CBRF	708,000	-
Vostro accounts with Russian banks	-	39,703
	5,581,000	1,406,515

Unsecured short-term loans from Russian commercial banks represent two loans from Ganzakombank and Krasnodarskiy Kraevoy Investizionniy Bank with 10.75% and 15% interest rates respectively and maturity in January 2009.

Unsecured short-term loans from CBRF were provided as per concluded General Agreement with the CBRF to provide short-term unsecured loans. Based on limitations on duration for these loans the Bank obtained loans with maximum duration of 5 weeks.

In September 2008 the Bank obtained loan from CBRF, secured by guarantee of URSA Bank, with maturity in March 2009.

Lombard loan from CBRF was obtained through pledge of OFZ. Interest rate for this loan is 10.8% and maturity is March 2009.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

13. Customer Accounts

	2008	2007
State and public organisations		
Current/settlement accounts	2,094	474
Term deposits	52,283	38,489
	<u>54,377</u>	<u>38,963</u>
Other legal entities		
Current/settlement accounts	164,670	121,658
Term deposits	583,734	605,911
	<u>748,404</u>	<u>727,569</u>
Individuals		
Current/demand accounts	1,263,444	974,104
Term deposits	16,387,175	10,087,673
	<u>17,650,619</u>	<u>11,061,777</u>
	<u>18,453,400</u>	<u>11,828,309</u>

Deposits and current accounts of the Bank's ten largest depositors amounted to RUB 614,407 or 3.33% of the overall balance as at 31 December 2008 (2007: RUB 1,003,973 or 8.5%).

Customer accounts stratification at 31 December 2008 was as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	40,201	871,599	0.2
From 501 to 5,000	417,355	188,747	2.3
From 5,001 to 10,000	260,051	38,410	1.4
From 10,001 to 50,000	948,574	39,184	5.1
From 50,001 to 100,000	1,474,405	20,517	8.0
From 100,001 to 250,000	4,293,835	28,690	23.3
From 250,001 to 500,000	4,878,925	14,137	26.4
500,001 and higher	6,140,054	5,337	33.3
	<u>18,453,400</u>	<u>1,206,621</u>	<u>100.0</u>

Customer accounts stratification at 31 December 2007 was 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
	<u>11,828,309</u>	<u>889,457</u>	<u>100.0</u>

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

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

13. Customer Accounts (continued)

Economic sector concentrations within customer accounts were as follows:

	2008		2007	
	Amount	%	Amount	%
Individuals	17,650,620	95.6	11,191,267	94.6
Financial intermediation	503,464	2.7	439,719	3.7
Construction	31,297	0.2	67,638	0.6
Transport, storage and communications	67,086	0.4	21,347	0.2
Agriculture, hunting and forestry	44,634	0.2	5,769	0.1
Community and personal activities	14,453	0.1	15,133	0.1
Wholesale and retail trade	15,327	0.1	10,410	0.1
Manufacturing	67,369	0.4	33,926	0.3
Shipping	49,598	0.3	36,112	0.3
Hotels and restaurants	97	-	106	-
Electricity, gas and water supply	23	-	72	-
Real estate, renting	14	-	1,256	-
Health and social work	1,913	-	660	-
Education	39	-	45	-
Other	7,466	-	4,849	-
	18,453,400	100.0	11,828,309	100.0

14. Debt Securities Issued

	2008	2007
Promissory notes	151,151	273,551
Bonds issued on MICEX	1,168,904	1,488,332
	1,320,055	1,761,883

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

Bonds issued represent non-convertible interest bearing bonds issued on MICEX by public subscription with a maturity date of 17 March 2010, with no possibility of early redemption at the holders' request. The quantity of bonds issued at 31 December 2007 was 1,500,000. 1,483,082 bonds were redeemed with public irrevocable offer by the Bank on 21 March 2008. They were redeemed with price of 100% of nominal value and also accumulated coupon interest on these bonds was paid which was calculated on date of redemption. Redeemed bonds were again sold to a range of investors during the period from March to May 2008. In November 2008 the Bank redeemed part of the bonds before maturity date. As at 31 December 2008 the quantity of redeemed bonds was 293,231. The bank took advantage of the fact that due to the liquidity crisis investors were willing for the bonds to be redeemed at a discount in order to obtain liquidity.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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15. Bonds issued by OEFL

Orient Express Finance Limited issued two series of Loan Participation Notes quoted on the Irish Stock Exchange. Terms and outstanding balances of the Notes are as follows:

Currency of series	Coupon rate	Coupon payment dates	Date of maturity	2008	2007
RUB	9.875% (14.25% from 30 September 2008)	3 July and 3 January	2009	185,763	5,370,796
USD	11%	3 July and 3 January	2017	1,242,982	1,038,464
				1,428,745	6,409,260

Put event

The Notes provide the occurrence of a Put Event. Each Noteholder shall have the option to require OEFL to redeem each Note held by the relevant Noteholder on the Put Settlement Date at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date, to the extent that such payment is received by OEFL from the Bank under the Loan Agreement. On 3 July 2008, the date that was 12 months after the date of the issue of the Notes on 3 July 2007, the board of directors of the Bank had not approved a resolution to approve the terms of a reorganisation (by way of merger or accession, as these terms are construed by applicable Russian legislation) with JSC "URSA Bank". This failure to obtain board approval for the Merger within 12 months of the date of issue of the Notes constituted a Put Event.

In order to provide Noteholders with an alternative to exercising their Put Option in respect of the Notes, OEFL and the Bank proposed for Noteholders to be offered an opportunity, by way of voting to approve an Extraordinary Resolution, to agree to amend the Conditions and to assent to amendments to the Loan Agreement and the Trust Deed. The Extraordinary Resolution proposed to increase the interest rate offered on the Notes and payable by the Bank to OEFL under the Conditions and the Loan Agreement, respectively, from (and including) the date immediately following the Initial Put Settlement Date.

At a meeting of the Noteholders on 27 August 2008, the Noteholders by an extraordinary resolution assented to the amendments.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
(in thousands of Russian Roubles)

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 were as follows:

	<u>2008</u>	<u>2007</u>
URSA Bank		
Opening balance	131,636	153,106
Fair value of warranty issued in period at date of issue	200,000	159,698
Movement in fair value of warranty in issue	<u>(114,059)</u>	<u>(181,168)</u>
	217,577	131,636
Etalonbank		
Fair value of warranty issued in period at date of issue	<u>58,097</u>	<u>-</u>
Total warranties	<u>275,674</u>	<u>131,636</u>

17. Accrued Interest Expense and Other Liabilities

	<u>2008</u>	<u>2007</u>
Accrued interest expense	359,233	409,527
Other accrued expenses	177,432	201,516
Taxes	36,412	84,071
Other	<u>157,546</u>	<u>1,317</u>
	<u>730,623</u>	<u>696,431</u>

18. Other Borrowings

	<u>2008</u>	<u>2007</u>
Loans from EBRD	<u>316,500</u>	<u>220,500</u>
	<u>316,500</u>	<u>220,500</u>

Loan from EBRD

Within the framework of Russia for supporting small business, the Group and the EBRD concluded loan agreements as follows:

Facility	Date	Received/ Amortized Closing balance	Interest	Interest payable	Maturity
450,000	Dec 2007	225,000/ 220,500	MosPrime + 4%	24 th of month every three months from 24 Dec 07	24 Dec 2012
400,000	Feb 2008	100,000/ 96,000	MosPrime + 3.75% (later 4.25%)	27 th of month every three months from 27 Feb 08	27 Feb 2015

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19. Finance Lease Liability

Amounts payable under finance lease liability as at 31 December 2008 were:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2008	2007	2008	2007
Amount payable under finance leases:				
Within one year	6,802	41,189	5,991	37,042
In the second to fifth years inclusive	1,651	8,451	1,593	7,582
	8,453	49,640	7,584	44,624
Less future finance charges	(869)	(5,016)	-	-
Present value of minimum lease payments	7,584	44,624	7,584	44,624

The interest rate implicit in the lease is 17%.

20. Deferred Tax Liability

	2008	2007
Liability at 1 January	(297,317)	(244,687)
Deferred tax released/(charged) during the year (Note 28)	19,896	(52,630)
Liability at 31 December	(277,421)	(297,317)

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

	Tax rate %	31 December 2007		Movement during the year		31 December 2008	
		Temporary differences	Deferred tax asset/(liability)	Temporary differences	Deferred tax asset/(liability)	Temporary differences	Deferred tax asset/(liability) At 20%
Securities	24	(10,445)	(2,507)	8,893	2,879	(1,552)	372
Loan loss allowance	24	(725,503)	(174,121)	1,698,194	(59,325)	972,691	(233,446)
Other allowances	24	28,044	6,731	(642,105)	140,644	(614,061)	147,375
Accrued income	24	(150,371)	(36,089)	576,000	(66,062)	425,629	(102,151)
Accrued expenses	24	208,283	49,988	(457,929)	9,927	(249,646)	59,915
Premises and equipment	24	(437,356)	(104,965)	1,041,086	(39,930)	603,730	(144,895)
Loans sold	24	(4,075,854)	(978,205)	8,895,728	(178,565)	4,819,874	(1,156,770)
Depreciation of the part related to maintenance of the asset	24	2,373,835	569,720	(6,107,147)	326,275	(3,733,312)	895,995
Loans to customers	24	888,137	213,153	(2,162,928)	92,797	(1,274,791)	305,950
Other items of work capital	24	662,408	158,978	(223,864)	(264,228)	438,544	(105,250)
Change in Profit tax interest rate	20	-	-	-	-	-	55,484
		(1,238,822)	(297,317)	2,625,928	(35,588)	1,387,106	(277,421)

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21. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2008		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

The nominal value of ordinary shares, all of which carry equal rights, is RUB 448,000 (2007: RUB 280,000).

All preference shares, which are irredeemable, carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. 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.

During the year the bank issued ordinary shares by open subscription. The amount of shares issued was 1,680,000 with nominal value of RUB 100 (not thousands) each. The actual price for one ordinary share was RUB 1,310 (not thousands) therefore share capital increased by RUB 168,000 and share premium comprised RUB 2,032,011. The entire issue was purchased and paid in cash.

Shareholder	2008		2007	
	Number of ordinary shares	% holding	Number of ordinary shares	% holding
REKHA Holdings Limited	671,980	15	419,981	15
RATTO Holdings Limited	223,988	5	-	-
Antof N.V. (controlled by I Kim)	993,981	22	-	-
Alexander Taranov	286,513	7	409,706	15
Schouplova Evgeniya (on behalf of Sergei Vlasov)	231,202	5	160,000	6
Members of the Board of Directors				
Igor Kim	819,421	18	819,421	29
Sergei Vlasov	891,798	20	544,635	19
Andrey Bekarev	308,911	7	409,706	15
Yuri Vavilov	60,222	1	44,501	1
Other				
Other shareholders - individuals and legal entities (holders of less than 5%)	3,567	-	3,633	-
	4,491,583	100	2,811,583	100

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22. Accumulated Profit

In accordance with Russian Law on banking activity and the Law on joint stock companies, the Bank must use RAS financial statements as the basis for calculating distributable profit. Similarly OEFL is subject to different laws and regulations. Distributable profit may therefore differ from retained earnings shown in these consolidated financial statements.

23. Sale of Loans

	<u>2008</u>	<u>2007</u>
Sales of loans to URSA Bank	544,020	1,756,178
Sales of loans to Etalon Bank	(58,097)	-
Sales of loans to First Collection Bureau	(92,555)	-
	<u>393,368</u>	<u>1,756,178</u>

During the year the Group sold loans with a carrying value of RUB 9,999,988 (2007: RUB 7,984,888) at the time of sale to URSA Bank, a related party, who upon receipt recognised 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. In accordance with the agreement URSA Bank charges the Group a fee if effective rate of portfolio sold is lower than 18% per annum. When it is higher URSA Bank compensates the difference to the Group. Such compensation is shown as interest income and expense in the income statement separately.

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 initially at RUB 115,000 and was in the form of a guarantee issued in favour of URSA Bank. Should the Group refuse to renew the warranty when it has been fully utilised by bad debts, 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. However in reality the Group compensates URSA bank by fluctuating amounts.

The result on disposal to URSA Bank has been calculated as follows:

	<u>2008</u>	<u>2007</u>
Fair value of consideration (present and future) received in respect of the sale of loans	<u>9,999,988</u>	<u>7,984,888</u>
Carrying value of loans derecognised	9,999,988	7,984,888
Less element attributable to cash flows from servicing fees	<u>(744,020)</u>	<u>(1,915,876)</u>
	9,255,968	6,069,012
Less: fair value of warranties issued at date of issue	<u>(200,000)</u>	<u>(159,698)</u>
Gain on disposal	<u>544,020</u>	<u>1,756,178</u>

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23. Sale of Loans (continued)

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

	2008	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	1,915,876
Amortisation of asset in the year	(1,359,477)	(1,351,843)
	1,086,562	1,702,019

Management define the real value of the amount paid under the warranty as a function of the ratio of debts compensated to URSA Bank for debts sold multiplied by the level of impairment on these loans. Calculation of ratio of debts compensated is then adjusted on cash flow from the loans subsequently received after compensation.

Relevant information for 2008 is as follows:

Year	Issued guarantee	Realised guarantee	Sold loans incl interest	Opening loans	Ratio of loans repurchased by OEB	Average impairment allowance on repurchased loans	Overall IS effect implied on repurchased loans
2008	1,978,195	1,900,634	9,999,988	9,932,590	10%	63%	6%

Cash flow subsequently received

Repayment of loans by borrowers	Penalties income received	Commissions received	Sale of loans	Total cash flow subsequently received after repurchase of loans	Realised guarantee after subsequent cash flow received	Adjusted IS effect
550,000	280,000	557,000	25,000	1,412,000	488,634	2%

During the year the Group also sold loans to Etalonbank with carrying value of RUB 1,841,832 (2007: nil) at the time of sale. Under the sale agreement the Group is an agent for accepting payments under loans sold. Interest and capital payments are forwarded to Etalonbank.

The scheme of selling the loans to Etalonbank is different from the scheme with URSA bank in terms of guarantee given regarding compensation of overdue amounts of loans sold. In both schemes the Group issues a guarantee agreement for a certain amount, and when the guarantee is called on, new agreement is concluded. In both schemes the Group confirms that they will issue a new guarantee agreement over and over again as soon as previous guarantee is realised. As per agreement with Etalonbank if the Group refuses to conclude a new guarantee agreement, it must repurchase all the loans back. Also under the sale agreement Etalon has rights to request the bank to repurchase all the loans back in case of the bank's default. Therefore the warranty allowance was created in the amount of RUB 58,097 or 9.06% of closing balance. This rate was taken from Moody's Investors Service tables of default probability, because repurchase of loans will take place only in case of default.

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24. Sale of Loans (continued)

The result on disposal to Etalonbank has been calculated as follows:

	<u>2008</u>	<u>2007</u>
Fair value of consideration received in respect of the sale of loans	1,841,832	-
Carrying value of loans derecognised	(1,841,832)	-
Fair value of warranties issued at date of issue	(58,097)	-
Loss on disposal	<u>(58,097)</u>	<u>-</u>

During the year the Group sold overdue loans to First Collection Bureau ('FCB'). Upon the sale all the risks and rewards are transferred to FCB and the Bank does retain neither continuing involvement nor control of the loans sold.

The result on disposal to FCB has been calculated as follows:

	<u>2008</u>	<u>2007</u>
Fair value of consideration (present and future) received in respect of the sale of loans	106,614	5,619
Cost of loans derecognised	(1,661,541)	(134,673)
Release of loan loss allowance	1,462,372	-
Loss on disposal	<u>(92,555)</u>	<u>(129,054)</u>

In 2007 result on disposal of loans was included in administrative expenses.

24. Interest Income and Expense

	<u>2008</u>	<u>2007</u>
Interest income		
Loans and advances to legal entities	28,077	24,064
Loans and advances to individuals	6,391,937	3,598,702
Securities	3,754	1,516
Due from other banks	153,594	78,273
Interest income on loans sold	137,428	-
Total interest income	<u>6,714,790</u>	<u>3,702,555</u>
Interest expense		
Term deposits of individuals	(1,698,271)	(813,210)
Finance lease charges	(4,147)	(11,348)
Term deposits of legal entities	(72,279)	(56,648)
Other borrowings	(324,906)	(479)
Bonds issued	(209,127)	(122,857)
Bonds issued by OEFL	(212,974)	(330,756)
Promissory notes	(45,752)	(100,487)
Current/settlement accounts	(2,217)	(3,507)
Term deposits of banks	(238,713)	(49,636)
Interest expense on loans sold	(119,485)	-
Total interest expense	<u>(2,927,871)</u>	<u>(1,488,928)</u>
	<u>3,786,919</u>	<u>2,213,627</u>

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25. Net Allowance for Impairment Losses on Loans and Advances

	<u>2008</u>	<u>2007</u>
Release of allowance on loans repaid in year	572,323	1,823,645
Allowance charged on new loans written during the year	<u>(2,332,010)</u>	<u>(2,450,221)</u>
	<u>(1,759,687)</u>	<u>(626,576)</u>

26. Net Fee and Commission Income

	<u>2008</u>	<u>2007</u>
Service fees receivable	1,662,267	2,001,537
Commission on cash transactions	2,220,003	569,822
Amortisation of Service Fee Asset (note 23)	(1,359,477)	(1,351,843)
Other commissions	<u>21,027</u>	<u>25,323</u>
Total fee and commission income	<u>2,543,820</u>	<u>1,244,839</u>
Commission on settlement and foreign currency exchange	(74,336)	(8,975)
Commission on cash transactions	(14,467)	(835)
Agency fees	(189,926)	(103,466)
Other	<u>(47,723)</u>	<u>(28,984)</u>
Total fee and commission expense	<u>(326,452)</u>	<u>(142,260)</u>
	<u>2,217,368</u>	<u>1,102,579</u>

27. Operating Expenses

	<u>2008</u>	<u>2007</u>
Staff costs	(1,859,373)	(1,309,789)
Administrative expenses	(730,607)	(708,145)
Other expenses related to premises and equipment	(416,661)	(210,516)
Taxes other than on income (Note 28)	(230,620)	(148,337)
Advertising and marketing	(273,027)	(113,169)
Depreciation and Amortisation (Notes 10 and 11)	(104,697)	(75,819)
Allowance for impairment of other assets	<u>(375,228)</u>	<u>(68,330)</u>
	<u>(3,990,213)</u>	<u>(2,634,105)</u>

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28. Taxation

Income tax comprised the following:

	<u>2008</u>	<u>2007</u>
Current tax charge	(365,147)	(367,054)
Deferred tax release/(charge) relating to the origination and reversal of temporary differences (Note 20)	<u>19,896</u>	<u>(52,630)</u>
Income tax charge for the year	<u>(345,251)</u>	<u>(419,684)</u>

The income tax rate applicable to the majority of the Bank's income was 24% (2007: 24%). The income tax rate applicable to the OEFL's income was 25% (2007: 25%). The Group's accounting profit may be reconciled to profit for taxable purposes as follows:

	<u>2008</u>	<u>2007</u>
IFRS Accounting profit before tax	1,194,448	1,572,162
Adjustments to comply with IFRS including:		
Allowance for loan loss	(167,358)	(31,749)
Additional depreciation due to use of higher rates	10,270	(39,298)
Taxes	32,203	(3,397)
Net accrued interest	77,460	103,210
Other accruals	(186,296)	(103,541)
Result on sale of loans	(544,020)	1,756,178
Amortisation of service asset	1,359,477	(1,351,843)
Value of warranty issued	(55,962)	181,168
Other	<u>(104,780)</u>	<u>(84,796)</u>
	420,994	425,932
Accounting profit under RAS	1,615,442	1,146,230
Adjustments for disallowable items	<u>(93,906)</u>	<u>383,162</u>
Taxable profit	<u>1,521,536</u>	<u>1,529,392</u>
Tax liability of the Bank at 24%	<u>(365,032)</u>	<u>(367,054)</u>
Tax liability of OEFL at 25%	<u>(115)</u>	<u>-</u>
Total tax liability of the Group	<u>(365,147)</u>	<u>(367,054)</u>

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 20% (2007: 24%).

28. Taxation (continued)

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

	2008	2007
Irrecoverable VAT	203,636	134,994
Property tax	24,967	11,563
Other	2,017	1,780
	230,620	148,337

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.

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 specializes 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.

29. Financial Risk Management (continued)

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, as detailed in Note 23, however it deems the risk from URSA to be minimal as cash consideration is received at or very close to the time loans are transferred. The Group's exposure to loss in terms of the underlying loans sold is also detailed in Note 23.

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 Bank 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 Bank are set out in Note 2. Comments on the risk associated with Russian tax are set out in Note 30.

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29. Financial Risk Management (continued)

A geographical analysis of the Group's assets and liabilities as at 31 December 2008 is set out on the following page.

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
Assets				
Cash and cash equivalents	3,005,764	14,228	259,262	3,279,254
Mandatory cash balances with the CBRF	31,738	-	-	31,738
Due from other banks	277,308	-	-	277,308
Loans and advances to customers	23,226,207	-	-	23,226,207
Accrued interest income and other assets	4,336,930	-	-	4,336,930
Securities	34,517	-	-	34,517
Service fee asset	1,086,562	-	-	1,086,562
Premises and equipment	1,836,286	-	-	1,836,286
Intangible assets	499	-	-	499
Total assets	<u>33,835,811</u>	<u>14,228</u>	<u>259,262</u>	<u>34,109,301</u>
Liabilities				
Customer accounts	18,453,400	-	-	18,453,400
Due to other banks	5,581,000	-	-	5,581,000
Debt securities issued	1,320,055	-	-	1,320,055
Bonds issued by OEFL	-	1,428,745	-	1,428,745
Deferred tax liability	277,421	-	-	277,421
Accrued interest expense and other liabilities	677,343	53,280	-	730,623
Other Borrowings	316,500	-	-	316,500
Warranties on loans issued	275,674	-	-	275,674
Finance lease	7,584	-	-	7,584
Total liabilities	<u>26,908,977</u>	<u>1,482,025</u>	<u>-</u>	<u>28,391,002</u>
Net on-balance sheet position	<u>6,926,834</u>	<u>(1,467,797)</u>	<u>259,262</u>	<u>5,718,299</u>
Credit related commitments	<u>338,181</u>	<u>-</u>	<u>-</u>	<u>338,181</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 31 December 2008, the Group had the following positions in Russian and other currencies:

	<u>RUB</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
Assets				
Cash and cash equivalents	1,729,295	1,195,495	354,464	3,279,254
Mandatory cash balances with CBRF	31,738	-	-	31,738
Due from other banks	-	132,245	145,063	277,308
Loans and advances to customers	23,225,772	435	-	23,226,207
Accrued int. income and other assets	1,159,575	1,809,364	1,367,991	4,336,930
Securities	34,517	-	-	34,517
Service fee asset	1,086,562	-	-	1,086,562
Premises and equipment	1,836,286	-	-	1,836,286
Intangibles	499	-	-	499
Total assets	<u>29,104,244</u>	<u>3,137,539</u>	<u>1,867,518</u>	<u>34,109,301</u>
Liabilities				
Customer accounts	14,808,097	1,803,240	1,842,063	18,453,400
Due to other banks	5,581,000	-	-	5,581,000
Debt securities issued	1,320,055	-	-	1,320,055
Bonds issued by OEFL	185,763	1,242,982	-	1,428,745
Deferred tax liability	277,421	-	-	277,421
Accrued interest expense and other liabilities	699,917	19,226	11,480	730,623
Other borrowings	316,500	-	-	316,500
Warranties on loans issued	275,674	-	-	275,674
Finance lease	7,584	-	-	7,584
Total liabilities	<u>23,472,011</u>	<u>3,065,448</u>	<u>1,853,543</u>	<u>28,391,002</u>
Net balance sheet position	<u>5,632,233</u>	<u>72,091</u>	<u>13,975</u>	<u>5,718,299</u>
Credit related commitments	<u>338,181</u>	<u>-</u>	<u>-</u>	<u>338,181</u>

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

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

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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29. Financial Risk Management (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
2008	+ 30% / - 30%	21,627 / (21,627)
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 Group is exposed to this risk, principally 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	31 December 2008	31 December 2007	Compliance score	Score
RSA/ RSL	0.5	0.8694	0.9835	74%	20
Gap/ RSA	0.5	0.1503	0.0167	70%	20
WARSA/ WARSL	1.7	1.6349	1.0298	4%	60
Average score					33.33

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

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29. Financial Risk Management (continued)

B) Interest Rate Risk (continued)

Following the above schedule the Group is in the Low risk position for both years.

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	-	4.55	5.05
Loans and advances to customers	20.50	-	-
Liabilities			
Due to other banks:			
- current term loans and deposits of other banks	14.29	-	-
Customer accounts:			
- term deposits of legal entities	9.73	8.45	-
- term deposits of individuals	11.99	10.85	10.90
Promissory notes issued	14.52	-	-
Bonds issued	16.19	-	-
Bonds issued by OEFL	11.48	11.00	-
Other borrowings (EBRD)	16.99	-	-

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:

	31 December 2008	31 December 2007
RUR		
100 bp parallel increase	n/a	86,357
100 bp parallel decrease	n/a	(86,357)
300 bp parallel increase	374,178	n/a
300 bp parallel decrease	(374,178)	n/a
USD		
50 bp parallel increase	8,763	3,933
50 bp parallel decrease	(8,763)	(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 actively monitors liquidity risk. The table below shows assets and liabilities as at 31 December 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.

29. Financial Risk Management (continued)**C) Liquidity Risk (continued)**

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.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and Management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Group or securities retained for short term capital appreciation and thus do not have a stated maturity date.

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, at least under normal conditions. The Group is currently dependant on the CBRF for short term funding.

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 31 December 2008 and 31 December 2007. The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2008 and 31 December 2007:

	Requirement	31 December 2008	31 December 2007
Instant liquidity ratio (N2)	Minimum 15%	168	116
Current liquidity ratio (N3)	Minimum 50%	98	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)

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	3,279,254	-	-	-	-	3,279,254
Mandatory cash balances with CBRF	-	-	-	-	31,738	31,738
Due from other banks	-	277,308	-	-	-	277,308
Loans and advances to customers	1,100,331	5,129,005	5,013,462	11,885,962	97,447	23,226,207
Securities	8,379	-	-	-	26,138	34,517
Accrued interest income and other assets	3,781,213	11,354	1,759	3,124	539,480	4,336,930
Net value of loans sold	78,033	324,750	257,127	426,652	-	1,086,562
Premises and equipment	-	-	-	-	1,836,286	1,836,286
Intangibles	-	-	-	-	499	499
Total assets	8,247,210	5,742,417	5,272,348	12,315,738	2,531,588	34,109,301
Liabilities						
Customer accounts	3,403,431	8,886,395	4,024,321	2,139,253	-	18,453,400
Due to other banks	4,020,000	1,561,000	-	-	-	5,581,000
Debt securities issued	39,000	6,000	20,000	1,255,055	-	1,320,055
Bonds issued by OEFL	-	-	185,763	1,242,982	-	1,428,745
Deferred tax liability	-	-	-	-	277,421	277,421
Accrued interest expense and other liabilities	430,335	199,936	2,233	19,168	78,951	730,623
Finance lease liability	552	2,519	2,919	1,594	-	7,584
Warranties on loans sold to other banks	15,626	65,029	51,488	85,434	58,097	275,674
Other borrowings	-	-	-	316,500	-	316,500
Total liabilities	7,908,944	10,720,879	4,286,724	5,059,986	414,469	28,391,002
Net liquidity gap	338,266	(4,978,462)	985,624	7,255,752	2,117,119	5,718,299
Cumulative gap						
31 December 2008	338,266	(4,640,196)	(3,654,572)	3,601,180	5,718,299	-
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 Bank.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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29. Financial Risk Management (continued)

Insurance

The use of insurance as a means of regulating risk is relatively less developed in the Russian Federation than other countries. Management has not made 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 31 December 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 Bank's import letters of credit are fully collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	<u>2008</u>	<u>2007</u>
Undrawn credit lines	325,181	61,490
Guarantees issued to third parties	13,000	5,736
	<u>338,181</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 31 December 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 31 December 2008 and 31 December 2007 the Group had no outstanding derivative contracts.

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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30. Contingencies, Commitments and Derivative Financial Instruments (continued)

Assets Pledged

As at 31 December 2008 there were 8,900 government bonds with number 46018RMFS with nominal value in amount of RUB 8,900,000 (not thousand) pledged to secure liabilities of the Group under Lombard loan from CBRF (2007 - nil).

Warranty on loans sold

Details of warranties on loans sold are available in note 16.

Leased Fixed Assets

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

	<u>2008</u>	<u>2007</u>
Operating lease:		
Payable within one year	126,057	103,564
Payable within two to five years	161,437	91,402
Payable over five years	12,956	-
	<u>300,450</u>	<u>194,966</u>

Operating lease includes a number of contracts expiring in 2009, 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 31 December 2008 is set out below:

Significant shareholders	Activities
Kim Igor	
Vlasov Sergey	President of the Bank
Beckarev Andrey	
Taranov Alexander	
Rekha Holdings Limited	Investment
Antof N.V.	Investment
RATTO Holdings Limited	Investment
Shuplova Evgeniya	
Subsidiary companies	
VEB Finance Ltd.	Financial intermediary
Business concern AVK-Gamma Ltd.	Rent
Associated companies	
CJSC Sibirskoye Credit Bureau	Financial intermediary

OJSC "Orient Express Bank"

Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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31. Related Parties (continued)

Companies under common control through shareholders

OAO "Ursa Bank"	Banking
OAO "EtalonBank"	Banking
OAO KB "Uzhniy region"	Banking
OAO "Rostpromstroybank"	Banking
ZAO "D2 Insurance" (till 10/10/2008 ZAO "SibZhaso")	Insurance
ZAO "Aksioma Capital"	
OOO "Asmodius"	
OAO "CK"	
OOO "K-Lombard"	
Antof N.V. Public Limited Liability Company (Amsterdam)	
OOO "Managing Company "Food-Master"	
SP OAO "Sibakademstroj"	
OO "Oskar S"	
ProMeDin GmbH	
AXI CAPITAL LIMITED	
Ao "Master Bank"	Banking
OOO "Pharmakom"	
ZAO "Sibakademinvest"	
OOO "Dinastiy-T"	
OOO "Regiondevelopment"	
OOO "Bank gotovogo businessa"	
OOO "Scientific Future Management"	
OOO "Aliance-Invest"	
ZAO "Plaza Evolution"	
OOO "Resursniy center"	
OOO "Regionalniy Center Nachisleniy"	
Wolfus Developments Limited	
OOO "Orion"	
BORGOLA HOLDING LIMITED	Financial intermediary
OOO "First Collection Bureau"	Financial intermediary
OOO "Khabarovsk Credit Agency"	Financial intermediary
OOO "Primorskoe Credit Agency"	Financial intermediary
OOO "Irkutsk Credit Agency"	Financial intermediary
OOO "Zabaikalsk Credit Agency"	Financial intermediary
OOO "Stroiinvest"	Financial intermediary

Members of the Board of Management

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

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.

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Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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31. Related Parties (continued)

	2008								
	Share-holders	Members of BOD	Management (excluding BOD)	Subsidiaries	Associates	Other related parties	Total balances/ transactions with related parties	Parties that ceased to be related during the year	Total for the category
Balances									
Cash and cash equivalents	-	-	-	-	-	234,457	234,457	-	3,265,054
Due from other banks	-	-	-	-	-	-	-	-	277,308
Loans issued	65,000	-	18,256	18,273	-	3,374	104,903	-	24,509,634
Loan loss allowance	-	-	-	-	-	-	-	-	(1,283,427)
Other assets	-	-	38	11	-	23,489	23,538	-	3,692,271
Balances on correspondent accounts	2,794	2	2,293	15,812	-	664	21,565	445	1,430,208
Deposits	29,394	3,161	7,647	-	-	25,000	65,202	-	17,023,192
Due to other banks	-	-	-	-	-	-	-	-	5,581,000
Promissory notes issued	-	-	-	-	-	-	-	-	151,151
Other liabilities	-	-	-	11,493	-	11,592	23,085	293	195,130
Liabilities under finance lease	-	-	-	-	-	-	-	-	7,584
Unused credit lines	-	-	-	-	-	-	-	-	325,181
Guarantees issued	-	-	-	12,000	-	-	12,000	-	13,000
Accrued interest income	-	-	2	31	-	23	56	-	644,659
Other borrowings	-	-	-	-	-	-	-	-	1,750,103
Accrued interest expense	8	7	4	-	-	7	26	-	343,632
Balance on loans sold to URSA Bank	-	-	-	-	-	9,932,590	9,932,590	-	9,932,590
Balances on loans sold to Etalon Bank	-	-	-	-	-	641,247	641,247	-	641,247
Warranties issued	-	-	-	-	-	275,674	275,674	-	275,674
Transactions									
Interest income on loans issued	453	-	1,078	3,952	-	4,071	9,554	-	6,577,375
Income on loans sold	-	-	-	-	-	137,428	137,428	-	137,428
Interest expense	12,576	1,093	1,734	-	-	1,588	16,991	-	2,797,832
Expense on loans sold	-	-	-	-	-	119,485	119,485	-	119,485
Rent expense	-	-	375	578	-	-	953	-	222,424
Commission received	2	5	4	640	-	3	654	2	2,543,820
Commission paid	-	-	-	137,045	-	-	137,045	-	327,396
Other income	-	-	4	7,447	-	-	7,451	-	308,901
Other expense	113,039	-	78,070	-	-	796	191,905	2,175	3,989,850
Result on sale of loans to URSA Bank	-	-	-	-	-	544,020	544,020	-	544,020
Result on sale of loans to Etalon Bank	-	-	-	-	-	58,097	58,097	-	58,097
Result on sale of loans to First Collection Bureau	-	-	-	92,555	-	-	92,555	-	92,555
Loans sold to URSA Bank	-	-	-	-	-	9,999,988	9,999,988	-	9,999,988
Loans sold to Etalon Bank	-	-	-	-	-	1,841,832	1,841,832	-	1,841,832
Loans sold to First Collection Bureau	-	-	-	1,661,541	-	-	1,661,541	-	1,661,541

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Notes to the Consolidated Financial Statements (continued) - 31 December 2008
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31. Related Parties (continued)

	2007							Parties that ceased to be related during the year	Total for the category
	Shareholders	Members of BOD	Management (excluding BOD)	Subsidiaries	Associates	Other related parties	Total balances/ transactions with related parties		
Balances									
Cash and cash equivalents	-	-	-	-	-	50,796	50,796	-	1,619,702
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	-	87,639
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
Accrued interest expense	188	135	25	-	-	76	424	-	409,527
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	-	3,702,555
Interest expense	54,656	389	5,920	-	-	4,647	65,612	-	1,488,928
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	-	2,634,105
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 salary paid to the members of the Bank's Management during 2008 amounted to RUB 190,694 (2007: 60,527). There were no long term benefits, post – employment benefits, termination benefits or share based payment. No remuneration to non-executive members of the Board of the Directors was paid during 2008 and 2007

Movements on loans issued, correspondent accounts and deposits in 2008 were as follows:

Items	Opening balance	Movements		Closing balance
Loans issued	507	775,180	670,784	104,903
Balances on correspondent accounts	67,336	24,268,433	24,079,302	256,467
Deposits	590,848	668,425	1,194,071	65,202

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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 of 31 December 2008, the Bank's capital adequacy ratio calculated on this basis was 22.5%, exceeding the statutory minimum (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 28). 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 31 December 2008 was 22.4% (2007: 16.8%). 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 31 December 2008 was computed as follows:

	<u>2008</u>	<u>2007</u>
Tier 1 Capital		
Share capital	567,837	399,837
Share Premium	2,036,708	4,697
Accumulated profit	3,115,355	2,266,158
Total Tier 1 Capital	5,719,900	2,670,692
Tier 2 Capital		
Revaluation reserve	(1,601)	-
Total Tier 2 Capital	(1,601)	-
Total Capital	5,718,299	2,670,692
Risk weighted assets	31,138,347	22,368,970
Capital adequacy ratio	18.4%	11.9%

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32. Capital Management (continued)

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 (this note is represented in RUB (not thousands))

Loan arrears and impairment

Currently there are different estimates given by various authorities in terms of loan arrears at the end of 2008 in Russia. CBRF has announced that on average 2% of banks' loan portfolios are overdue at 31 December 2008 and this will reach 10% by 31 December 2009. At the same time Standard & Poor's recently announced that currently overdue loans comprise 10% of total banks' portfolios and that at 31 December 2009 they will reach 15% of loan portfolios. It is not possible to estimate the effects on the Bank of increasing arrears since the balance sheet date which could have a material impact.

Merger with Etalon Bank

During an extraordinary shareholders meeting, which took place on 5 April 2009, a decision was made to reorganise the Bank by way of merger with Etalon Bank. Merger Agreement was approved by shareholders of both banks. In the process of merging the shares will be converted by the following way:

Every ordinary share of Etalon Bank with nominal value of RUB 1 each will be converted to 12 ordinary shares of Orient Express Bank with nominal value of RUB 0.01 each

Every preference share of Etalon Bank with nominal value of RUB 1 each (paying fixed annual dividend of 1.69 at 31 December every year) will be converted to 12 preference shares of Orient Express Bank with nominal value of 0.01 RUB each with fixed annual dividend of RUB 14.08 on 31 December every year.

As a result of the merger the Share Capital of Orient Express Bank will be increased to RUB 535,590,544 by the following way:

Split of ordinary and preference shares - every ordinary share with nominal value of RUB 100 each will be converted to 10,000 of ordinary shares with nominal value of RUB 0.01 each, every preference share with nominal value of RUB 1 each will be converted in 100 preference shares with nominal value of RUB 0.01 each.

Issue and placement of 52,753,884,436 ordinary shares with nominal value of RUB 0.01 each.

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(in thousands of Russian Roubles)

33. Events After the Balance Sheet Date (continued)

44,798,830,000 ordinary shares with nominal value of RUB 0.01 each will be placed by conversion of ordinary shares of Orient Express Bank currently in issue, (4,479,883 with nominal value of RUB 100 each

7,955,054,436 ordinary shares with nominal value of RUB 0.01 each will be placed by conversion of 662,921,203 ordinary shares of Etalon Bank with nominal value of RUB 1 each.

1,170,000 preference shares with nominal value of RUB 0.01 each will be placed by conversion of 11,700 preference shares of Orient Express Bank currently in issue items and nominal value of RUB 1 each. 804,000,000 preference shares with fixed dividend, of 14.08 paid every 31 December of RUB 0.01 each, which will be placed by conversion of 67,000,000 items of preference shares of Etalon Bank with nominal value of RUB 1 each with fixed dividend, of 1.69 paid 31 December of every year.

Possible Merger with ZAO Bank Dvizgenie

The Bank is considering a merger with ZAO Bank Dvizgenie. A decision to consider this was adopted in June 2009 by the Board of Directors. The financial effects of any such merger on the Bank cannot be estimated at this time.