

**ORIENT EXPRESS BANK**

**Non-Consolidated Interim Financial Statements**

**31 March 2008**

**ORIENT EXPRESS BANK**  
**Non-Consolidated Interim Financial Statements**

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## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Open Joint-Stock Bank "Vostochny express bank" ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by Management.

The Bank 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 Bank'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.

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S.N. Vlasov,  
President

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L. S. Proskurina,  
Chief Accountant

**ORIENT EXPRESS BANK**  
**Balance Sheet as at 31 March 2008**  
*(in thousands of Russian Roubles)*

	Notes	31 March 2008	31 December 2007
<b>Assets</b>			
Cash and cash equivalents	5	1,598,697	1,401,875
Mandatory balances with the CBRF		413,103	281,134
Securities	6	63,197	46,723
Due from other banks	7	2,003,227	1,795,849
Loans and advances to customers	8	21,309,652	18,377,085
Accrued interest income and other assets	9	802,642	573,742
Service fee asset		1,586,536	1,702,019
Premises and equipment	10	1,134,776	1,070,346
Intangible assets	11	550	567
<b>Total assets</b>		<b>28,912,380</b>	<b>25,249,340</b>
<b>Liabilities</b>			
Due to other banks	12	1,440,722	1,406,515
Customer accounts	13	13,773,899	11,828,309
Debt securities issued	14	422,801	1,761,883
Warranty on loans sold	15	127,974	131,636
Accrued interest expense and other liabilities	16	828,510	429,455
Other Borrowings	17	6,680,007	6,628,323
Finance lease liability	18	32,980	44,624
Deferred tax liability	19	249,301	297,317
<b>Total liabilities</b>		<b>23,556,194</b>	<b>22,528,062</b>
<b>Equity</b>			
Share capital	20	567,837	399,837
Share premium		2,036,708	4,697
Accumulated profit	21	2,751,641	2,316,744
<b>Total equity</b>		<b>5,356,186</b>	<b>2,721,278</b>
<b>Total liabilities and equity</b>		<b>28,912,380</b>	<b>25,249,340</b>
<b>Credit related commitments</b>	29	<b>28,463</b>	<b>67,226</b>

S.N. Vlasov, President

L. S. Proskurina, Chief Accountant

**ORIENT EXPRESS BANK**  
**Statement of Income for the Period Ended 31 March 2008**  
*(in thousands of Russian Roubles)*

	Notes	3 months 2008	12 months 2007
Interest income	23	1,448,012	3,702,541
Interest expense	23	(601,694)	(1,489,145)
<b>Net interest income</b>		<b>846,318</b>	<b>2,213,396</b>
Net allowance for impairment losses on loans and advances	24	(179,409)	(626,576)
<b>Net interest income after allowance for impairment loss</b>		<b>666,909</b>	<b>1,586,820</b>
Result on sale of loans	22	257,480	1,756,178
Gains less losses arising from securities		(703)	(252)
Gains less losses arising from dealing in foreign currencies		1,044	21,279
Net foreign exchange translation gains		24,568	17,227
Net fee and commission income	25	720,273	1,102,579
Release of warranty	15	23,729	181,168
Other operating income		176,066	15,981
Allowance for impairment losses against loans resold to URSA Bank		(122,037)	(425,215)
<b>Operating income</b>		<b>1,747,329</b>	<b>4,255,765</b>
Operating expenses	26	(1,123,343)	(2,633,017)
<b>Profit before taxation</b>		<b>623,986</b>	<b>1,622,748</b>
Taxation	27	(189,089)	(419,684)
<b>Net profit for the period</b>		<b>434,897</b>	<b>1,203,064</b>

**ORIENT EXPRESS BANK**  
**Statement of Cash Flows for the Period Ended 31 March 2008**  
*(in thousands of Russian Roubles)*

	Notes	3 months 2008	12 months 2007
<b>Cash flows from operating activities</b>			
Interest received on loans		1,384,626	3,528,471
Interest paid		(411,505)	(1,273,456)
Interest paid under finance lease		(1,731)	(11,348)
Net gains arising from dealing in securities		(182)	1,264
Income received from dealing in foreign currencies		1,044	21,279
Net fees and commissions received		977,753	2,858,757
Other operating income received		198,617	164,817
Operating expenses paid		(841,237)	(2,405,879)
Income tax paid		(237,105)	(367,054)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>1,070,280</b>	<b>2,516,851</b>
<b>Net cash increase / (decrease) from changes in operating assets and liabilities</b>			
Net increase in mandatory cash balances with the CBRF		(131,969)	(171,021)
Net increase in due from other banks		(207,378)	(738,440)
Net increase in loans and advances to customers		(3,111,976)	(13,361,349)
Net increase in due to other banks		34,207	542,022
Net increase in customer accounts		1,945,590	6,093,283
Net (decrease) / increase in promissory notes		4,000	(497,606)
Net change in other assets and liabilities		(210,829)	(1,078,145)
<b>Net cash (used in)/ generated by operating activities</b>		<b>(608,075)</b>	<b>(6,694,405)</b>
<b>Cash flows from investing activities</b>			
Purchase of premises and equipment		(93,695)	(637,690)
Proceeds from sale of premises and equipment		2,356	64,664
Purchase of intangible assets		-	(600)
Purchase of securities		-	(26,032)
Purchase of bonds (OFZ)		(16,474)	(20,580)
Proceeds from disposal of Securities		-	-
<b>Net cash used in investing activities</b>		<b>(107,813)</b>	<b>(620,238)</b>
<b>Cash flows from financing activities</b>			
Finance lease capital repayments		(11,644)	(25,255)
Proceeds of borrowings		51,684	6,628,323
Bonds issued		(1,343,082)	1,488,332
Interest paid on bonds issued		(8,827)	(122,857)
Share issue		2,200,011	-
<b>Net cash received from/ (used in) financing activities</b>		<b>888,142</b>	<b>7,968,543</b>
<b>Effect of changes in exchange rate</b>		<b>24,568</b>	<b>17,227</b>
<b>Net change in cash and cash equivalents</b>		<b>196,822</b>	<b>671,127</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>1,401,875</b>	<b>730,748</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>5</b>	<b>1,598,697</b>	<b>1,401,875</b>

**ORIENT EXPRESS BANK**  
**Statement of Changes in Equity for the Period Ended 31 March 2008**  
*(in thousands of Russian Roubles)*

	<u>Share Capital</u>	<u>Share premium</u>	<u>Accumulated profit</u>	<u>Total Equity</u>
<b>1 January 2007</b>	<b>399,837</b>	<b>4,697</b>	<b>1,113,680</b>	<b>1,518,214</b>
Net profit for the year	-	-	1,203,064	1,203,064
Share issued	-	-	-	-
<b>1 January 2008</b>	<b>399,837</b>	<b>4,697</b>	<b>2,316,744</b>	<b>2,721,278</b>
Net profit for the year	-	-	434,897	434,897
Share issued	168,000	2,032,011	-	2,200,011
<b>31 March 2008</b>	<b>567,837</b>	<b>2,036,708</b>	<b>2,751,641</b>	<b>5,356,186</b>

The availability of the Bank's retained earnings for distribution to shareholders is determined by Russian regulations and by shareholders' decisions and does not correspond to the figures presented above (Note 21).

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

## **ORIENT EXPRESS BANK**

### **Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)**

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#### **1. Principal Activities**

The Bank is a commercial bank owned by shareholders whose liability is limited. It is constituted as a Russian open joint stock company ("OJSC"). The Bank was granted a license to conduct banking operations by the Central Bank of Russian Federation ("CBRF") on 12 May 1991. It holds a license to carry out transactions with individuals and a license to make loans. These were last renewed 22 June 2006. At 31 March 2008 the Bank operated a head office in Blagoveshensk, ten branches and over 275 offices located in the Russian Far East, Siberia and North-western Federal District, in Moscow and Saint-Petersburg.

The Bank's registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 31 December 2007 the Bank had 5,240 employees (at 31 December 2007: 4,952).

A list of major shareholders is set out in Note 20.

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

#### **2. Operating Environment of the Bank**

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

#### **3. Basis of Presentation**

##### **a) General**

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

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

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

##### **b) Functional and Presentation Currency**

Accounting records of the Bank are maintained in RUB and the RUB is also considered to be the Bank'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 Bank. Management also believes the RUB to be the most appropriate currency for presentation of the Bank's IFRS financial statements.

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

**ORIENT EXPRESS BANK**

**Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008**  
(in thousands of Russian Roubles)

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

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

	<b>31 March 2008</b>	<b>3 months 2008</b>	<b>31 December 2007</b>	<b>12 months 2007</b>
	<b>Equity</b>	<b>Net profit</b>	<b>Equity</b>	<b>Net profit</b>
<b>RAS</b>	<b>4,636,552</b>	<b>686,018</b>	<b>1,750,523</b>	<b>855,762</b>
Depreciation and other expenses related to fixed assets	(48,058)	(10,116)	(37,942)	(25,831)
Tax liabilities, including profit tax	(517,606)	(140,306)	(377,300)	(132,613)
Effect of accrued interest	108,788	(24,883)	133,671	102,979
Allowance for loans and fair value adjustment	23,828	(7,147)	30,975	(31,749)
Result on sales of loans	3,886,226	257,480	3,628,746	1,756,178
Reserve against resold loans	(9,990)	(11,547)	1,557	(16,585)
Amortisation of service asset	(2,766,865)	(393,030)	(2,373,835)	(1,351,843)
Value of warranty issued	339,201	23,729	315,472	181,168
Other operating accruals	49,121	193,144	(144,023)	(12,436)
Unused holidays	(94,714)	(21,650)	(73,064)	(40,288)
Low value items written off	(76,324)	14,072	(90,396)	(66,430)
Other	(173,973)	(130,867)	(43,106)	(15,248)
<b>IFRS</b>	<b>5,356,186</b>	<b>434,897</b>	<b>2,721,278</b>	<b>1,203,064</b>

**d) Consolidation**

The Bank has subsidiaries and associates whose operations, singly and in aggregate are immaterial in the context of the Bank, with the exception of one subsidiary (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 30). 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. However, the Management of the Bank decided not to elaborate the consolidated financial reporting. Management is aware that this policy is in breach of IAS 34.

**e) Changes in Accounting Policies**

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

**f) Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

## ORIENT EXPRESS BANK

### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 3. Basis of Presentation (continued)

##### **f) Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)**

###### Impairment losses on loans to customers

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

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

###### Impairment losses on receivable other than loans

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

###### Financial Assets

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank 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.

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

IAS 1 Presentation of Financial Statements (Revised) is effective for annual periods beginning on or after 1 January 2009 and specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information within the financial statements.

IFRS 8 replaces IAS 14 "Segment Reporting" and requires an entity to report financial and descriptive information about its reportable segments. IFRS 8 is effective for annual periods beginning on or after 1 January 2009. As IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent) whose debt or equity instruments are traded in a public market; or that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, which is not the case with the Bank, Management believes that the standard will not have a significant impact on the financial statements of the Bank. Management has considered the issue of interpretations of the standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Bank.

The Bank will adopt these standards when they become effective.

## ORIENT EXPRESS BANK

### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 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.

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

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

##### **d) Loans and Advances and Allowance for Impairment**

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

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

## ORIENT EXPRESS BANK

### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 4. Significant Accounting Policies (continued)

##### **e) Discount on Loans at Below Commercial Rates**

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

##### **f) Other Credit Related Commitments**

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

##### **g) Premises and Equipment**

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

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

##### **h) Depreciation**

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

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

##### **i) Debt Securities Issued**

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

##### **j) Share Premium**

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

##### **k) Dividends**

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

##### **l) Income Taxes**

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

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes.

## ORIENT EXPRESS BANK

### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 4. Significant Accounting Policies (continued)

##### **m) Income Taxes (continued)**

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

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

##### **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 statement of income using the exchange rate ruling on that date.

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

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 31 March 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 23.5156 (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 Bank obtains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligation, net of finance charges, is included in payables. The interest element is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining lease liability. Fixed assets acquired under finance lease are depreciated similar to assets owned by the Bank.

**ORIENT EXPRESS BANK**

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**4. Significant Accounting Policies (continued)**

**r) Leases (continued)**

Where the Bank 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) Comparative Information**

This is the first occasion on which the Bank has prepared interim financial information in accordance with IFRS for a three month period. Consequently, when the Bank prepared these financial statements there was no source of readily available comparative three months figures for the income statement or cash flow statement. Management decided that the cost of producing three month comparative figures for the period to 31 March 2007 so long after the period end could not be justified and instead decided to present full year figures as comparatives. Management is aware that this policy is in breach of IAS 34.

**5. Cash and Cash Equivalents**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Cash on hand	656,904	521,420
Cash balances with the CBRF (other than mandatory reserves)	402,519	501,630
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	410,003	353,408
Other countries	129,271	25,417
	<b>1,598,697</b>	<b>1,401,875</b>

**6. Securities**

	<b>31 March 2008</b>	<b>31 December 2007</b>
<b>Securities AFS</b>		
Investments in Companies	26,143	26,143
Bonds of the Federal Loan ("BFL")	37,054	20,580
	<b>63,197</b>	<b>46,723</b>

Investments in Companies represent shareholdings in the following subsidiaries and associates:

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

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

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

During the first three months of 2008 the Bank purchased BFL securities, which are quoted in the active market and are reflected at fair value based on market quotations.

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**7. Due from Other Banks**

	<u>31 March 2008</u>	<u>31 December 2007</u>
Short term loans and deposits with Russian banks	2,003,227	1,795,849
	<u><b>2,003,227</b></u>	<u><b>1,795,849</b></u>

Short term unsecured loans were provided to various Russian banks at fixed rates varying from 2.75% to 10.25% p.a. and with maturity in April 2008.

**8. Loans and Advances to Customers**

	<u>31 March 2008</u>	<u>31 December 2007</u>
Current loans	20,062,554	17,492,168
Overdue loans:		
instalments overdue as per loan schedule	638,755	564,991
portion not yet due on loans with overdue repayments	<u>1,773,864</u>	<u>1,306,038</u>
	2,412,619	1,871,029
	<u>22,475,173</u>	<u>19,363,197</u>
Less: Allowance for impairment	<u>(1,165,521)</u>	<u>(986,112)</u>
	<u><b>21,309,652</b></u>	<u><b>18,377,085</b></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 to secure the Bank's loan portfolio amounted to RUB 3,745,418 (at 31 December 2007: RUB 2,817,860). The Bank also accepted personal guarantees with nominal value of RUB 1,857,935 (at 31 December 2007: RUB 1,479,822) to secure loans issued. These are not included in the fair value of collateral quoted above as Management believes the fair value of such guarantees is very difficult to estimate reliably.

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

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

	<u>31 March 2008</u>	<u>31 December 2007</u>
1 January	986,112	359,536
Net movement in allowance for impairment loss (Note 24)	<u>179,409</u>	<u>626,576</u>
<b>31 March 2008 / 31 December 2007</b>	<u><b>1,165,521</b></u>	<u><b>986,112</b></u>

Allowance is calculated on a portfolio basis only. There are therefore no loans which have a specific impairment allowance that are not overdue (2007: nil) and loans which are overdue but for which no specific allowance was made are RUB 2,412,619 (at 31 December 2007: RUB 1,871,029).

**Loans maturity analysis**

	<u>31 March 2008</u>	<u>31 December 2007</u>
Within the terms of repayment schedule	21,836,418	18,798,206
Overdue up to 30 days	31,870	20,606
Overdue from 31-60 days	22,801	18,322
Overdue from 61-90 days	25,048	18,561
Overdue from 91 to 180 days	68,823	70,133
Overdue from 181 to 360 days	196,244	192,745
Overdue more than 360 days	293,969	244,624
	<u><b>22,475,173</b></u>	<u><b>19,363,197</b></u>

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**8. Loans and Advances to Customers (continued)**

Loan portfolio stratification at 31 March 2008 is as follows:

<b>Loan outstanding balance range</b>	<b>Amount</b>	<b>Number of loans</b>	<b>%</b>
Less than 500	126	1,556	0.3
From 500 to 5,000	65,507	23,056	5.1
From 5001 to 10,000	233,274	31,088	6.8
From 10,001 to 50,000	6,806,296	252,540	55.4
From 50,001 to 100,000	6,845,875	99,066	21.7
From 100,001 to 250,000	5,824,250	43,252	9.5
From 250,001 to 1,000,000	1,970,469	5,272	1.1
More than 1,000,000	729,376	305	0.1
<b>Total loans and advances to customers</b>	<b>22,475,173</b>	<b>456,135</b>	<b>100.0</b>

Loan portfolio stratification at 31 December 2007 is as follows:

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

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 March 2008 (at 31 December 2007: none). The ten largest borrowers accounted for RUB 236,829 or 1.05% (at 31 December 2007: RUB 225,340, 1.16%).

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

	<b>31 March 2008</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Consumer lending	22,275,253	99.11	19,170,779	99.0
Trade and catering	2,163	0.01	2,849	-
Manufacturing	1,488	0.01	1,659	-
Other	196,269	0.87	187,910	1.0
	<b>22,475,173</b>	<b>100.0</b>	<b>19,363,197</b>	<b>100.0</b>

Geographic and currency analysis, interest rates and the maturity structure of the loan portfolio are detailed in Note 28.

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**8. Loans and Advances to Customers (continued)**

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:

<b>Category</b>	<b>Name of the Category</b>	<b>31 March 2008</b>	<b>31 December 2007</b>
Category I	Non classified loans	3,127,497	2,378,948
Category II	Good loans	16,021,111	14,411,158
Category III	Loans with impairment signs	913,947	702,062
Category IV	Loans with delays up to 90 days	1,240,976	852,987
Category V	Loans with delays 91 - 360 days	759,742	666,339
Category VI	Fully impaired loans	411,900	351,703
		<b><u>22,475,173</u></b>	<b><u>19,363,197</u></b>

Category I contain very new loans which therefore have not received a classification as there is no observable repayment or other data.

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

During the first three months of 2008 the Bank sold to URSA Bank a portfolio of loans to individuals amounting to RUB 1,003,344 (2007: RUB 7,984,888) (See Note 22).

**9. Accrued Interest Income and Other Assets**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Receivable from customers on loans previously sold	1,017,018	862,857
Accrued interest income	327,463	264,600
Debtors and prepayments	73,521	87,684
Balances with Post Office	31,869	34,304
Settlements with Siberian Interbank Currency Exchange	6,382	5,289
Other	401,568	6,175
	<b><u>1,857,821</u></b>	<b><u>1,260,909</u></b>
Less: Allowance for impairment loss	<b><u>(1,055,179)</u></b>	<b><u>(687,167)</u></b>
	<b><u>802,642</u></b>	<b><u>573,742</u></b>

Movements in the allowance for impairment loss are as follows:

	<b>31 March 2008</b>	<b>31 December 2007</b>
1 January	687,167	193,622
Charge during the period	368,012	493,545
<b>31 March 2008 / 31 December 2007</b>	<b><u>1,055,179</u></b>	<b><u>687,167</u></b>

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**10. Premises and Equipment**

	<u>Land</u>	<u>Buildings</u>	<u>Capital Investment</u>	<u>Equipment</u>	<u>Total</u>
<b>Cost</b>					
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)	-	-
<b>31 December 2007</b>	<b>2,000</b>	<b>632,325</b>	<b>191,518</b>	<b>350,626</b>	<b>1,176,469</b>
Additions	-	38,872	28,330	26,493	93,695
Disposals	-	-	-	(2,243)	(2,243)
Transferred	-	14,055	(14,055)	-	-
<b>31 March 2008</b>	<b>2,000</b>	<b>685,252</b>	<b>205,793</b>	<b>374,876</b>	<b>1,267,921</b>
<b>Depreciation</b>					
1 January 2007	-	3,606	-	41,300	44,906
Charge	-	7,980	-	67,806	75,786
Disposals	-	(26)	-	(14,543)	(14,569)
<b>31 December 2007</b>	<b>-</b>	<b>11,560</b>	<b>-</b>	<b>94,563</b>	<b>106,123</b>
Charge	-	3,206	-	24,881	28,087
Disposals	-	-	-	(1,065)	(1,065)
<b>31 March 2008</b>	<b>-</b>	<b>14,766</b>	<b>-</b>	<b>118,379</b>	<b>133,145</b>
<b>Net book values</b>					
<b>31 December 2007</b>	<b>2,000</b>	<b>620,765</b>	<b>191,518</b>	<b>256,063</b>	<b>1,070,346</b>
<b>31 March 2008</b>	<b>2,000</b>	<b>670,486</b>	<b>205,793</b>	<b>256,497</b>	<b>1,134,776</b>

Assets with a net book value of RUB 79,105 are held under finance leases (at 31 December 2007: RUB 87,128).

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

**11. Intangible Assets**

	<u>Trademarks</u>
<b>Cost</b>	
31 December 2007	600
Additions	-
Disposal	-
<b>31 March 2008</b>	<b>600</b>
<b>Accumulated depreciation</b>	
31 December 2007	33
Charge	17
Disposal	-
<b>31 March 2008</b>	<b>50</b>
<b>NBV at 31 December 2007</b>	<b>567</b>
<b>NBV at 31 March 2008</b>	<b>550</b>

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**12. Due to Other Banks**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Unsecured short-term loans from Russian banks	1,413,834	1,366,812
Unsecured long-term loans from Russian banks	-	-
Vostro accounts with Russian banks	26,888	39,703
	<b>1,440,722</b>	<b>1,406,515</b>

Unsecured loans were provided by various Russian banks at fixed rates varying from 6.5% to 13% p.a.

**13. Customer Accounts**

	<b>31 March 2008</b>	<b>31 December 2007</b>
<b>State and public organisations</b>		
Current/settlement accounts	1,588	474
Term deposits	37,941	38,489
	39,529	38,963
<b>Other legal entities</b>		
Current/settlement accounts	166,066	121,658
Term deposits	554,888	605,911
	720,954	727,569
<b>Individuals</b>		
Current/demand accounts	868,711	974,104
Term deposits	12,144,705	10,087,673
	13,013,416	11,061,777
	<b>13,773,899</b>	<b>11,828,309</b>

Deposits and current accounts of the Bank's ten largest depositors amounted to RUB 501,496 or 3.64% of the overall balance as at 31 March 2008 (at 31 December 2007: RUB 1,003,973 or 8.5%).

Customer accounts stratification at 31 March 2008 is as follows:

<b>Outstanding balance range</b>	<b>Amount</b>	<b>Accounts</b>	<b>%</b>
Less than 500	37,377	701,667	0.3
From 501 to 5,000	244,063	124,769	1.8
From 5,001 to 10,000	139,719	20,379	1.0
From 10,001 to 50,000	880,492	34,188	6.4
From 50,001 to 100,000	1,423,181	19,509	10.3
From 100,001 to 250,000	3,648,428	23,963	26.5
From 250,001 to 500,000	3,119,203	8,974	22.6
500,001 and higher	4,281,436	3,420	31.1
	<b>13,773,899</b>	<b>936,869</b>	<b>100.0</b>

Customer accounts stratification at 31 December 2007 is as follows:

<b>Outstanding balance range</b>	<b>Amount</b>	<b>Accounts</b>	<b>%</b>
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
	<b>11,828,309</b>	<b>889,457</b>	<b>100.0</b>

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**13. Customer Accounts (continued)**

Geographical, currency analysis of customers, interest rates and the maturity structure of the accounts are provided in Note 28.

Economic sector concentrations within customer accounts are as follows:

	<b>31 March 2008</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	13,013,416	94.5	11,191,267	94.6
Financial intermediation	562,230	4.0	439,719	3.7
Manufacturing	35,911	0.3	67,638	0.6
Shipping	34,588	0.3	21,347	0.2
Agriculture, hunting and forestry	31,164	0.2	5,769	0.1
Construction	30,170	0.2	15,133	0.1
Transport, storage and communications	20,769	0.2	10,410	0.1
Wholesale and retail trade	20,779	0.2	33,926	0.3
Community and personal activities	17,833	0.1	36,112	0.3
Health and social work	428	-	106	-
Electricity, gas and water supply	304	-	72	-
Hotels and restaurants	181	-	1,256	-
Real estate, renting	56	-	660	-
Education	39	-	45	-
Other	6,031	-	4,849	-
	<b>13,773,899</b>	<b>100.0</b>	<b>11,828,309</b>	<b>100.0</b>

**14. Debt Securities Issued**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Promissory notes	277,551	273,551
Bonds	145,250	1,488,332
	<b>422,801</b>	<b>1,761,883</b>

Issued Promissory notes are represented by interest bearing Promissory Notes, denominated in RUB with maturity dates up to March 2010 (at 31 December 2007: up to March 2010). Effective interest rates range is from 12% to 16.5% (2007: from 3% to 16.5%).

Bonds issued represent non-convertible interest bearing bonds with a maturity date of 17 March 2010 without the possibility of early redemption at the holders' request. Coupon rate is 13.95% (at 31 December 2007: 10.3%). On 7 March 2008 Management decided to repurchase the bonds with nominal value of RUB 1,500 that were issued on 22 March 2007.

**15. Warranty on Loans Sold**

The warranty on loans sold arises from the transactions described in Note 22. Movements on the warranty during the period are as follows:

	<b>31 March 2008</b>	<b>31 December 2007</b>
Opening balance	131,636	153,106
Fair value of warranty issued in period at date of issue	20,067	159,698
Movement in fair value of warranty in issue	(23,729)	(181,168)
	<b>127,974</b>	<b>131,636</b>

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**16. Accrued Interest Expense and Other Liabilities**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Accrued interest expense	322,550	142,919
Other accrued expenses	209,173	201,148
Taxes	209,388	84,071
Other	87,399	1,317
	<b>828,510</b>	<b>429,455</b>

**17. Other Borrowings**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Loan from EBRD	316,500	220,500
OEFL - Subordinated loan	992,621	1,036,937
OEFL – Eurobonds	5,370,886	5,370,886
	<b>6,680,007</b>	<b>6,628,323</b>

*Loans from EBRD*

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

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

The credit agreement the Bank and the European Bank for Reconstruction and Development was signed in December 2007 in the amount of RUB 400,000. In terms of this agreement the transfer of the funds is made only with the purpose to finance mortgage loans. The allocation of the credit is carried out by two tranches of RUB 200,000 with the right to receive the transfers partially in amount defined by the Bank. The first tranches was received by the Bank on 27 February 2007 in the amount RUB 100,000. It has a maturity date of 27 February 2015. The Bank pays the reserve commission of 0.5% annual from the non-allocated sum of tranches.

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

*OEFL - Subordinated loan*

On 27 June 2007 the Bank obtained a subordinated loan with nominal value of USD 43 million and maturity June 2017. The loan was received from an Irish non-bank financial company, Orient Express Finance Limited (“OEFL”). OEFL was established purely for issuing bonds listed on the Irish Stock Exchange and remitting funds to the Bank by way of loans. The only shareholder of OEFL is Deutsche International Finance Limited (Ireland).

Loan coupon rate is 11% for the first five years. At the expiration of the five year period the rate will be equal to the US Treasury rate plus 7.45%. Coupon payment dates are 27 June and 27 December in every year until it is fully repaid.

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**17. Other Borrowings (continued)**

*OEFL - Eurobonds*

On 3 July 2007 the Bank received a loan of RUB 5,400,000 from OEFL with repayment date after 3 years (3 July 2009). OEFL provided the funding via an issue of bonds quoted on the Irish Stock Exchange.

Loan coupon rate is 9.875%. Coupon payment dates are 3 July and 3 January in every year until it is fully repaid.

**18. Finance Lease Liability**

Amounts payable under finance lease liability as at 31 March 2008 are:

	<u>Minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Within one year	29,709	27,487
From two to five years	<u>6,556</u>	<u>5,493</u>
<b>Minimum lease payments</b>	<b>36,265</b>	<b>32,980</b>
Less: Future finance charges	<u>(3,285)</u>	
<b>Present value of minimum lease payments</b>	<b>32,980</b>	

The interest rate implicit in the lease is 17%.

**19. Deferred Tax Liability**

	<u>31 March 2008</u>	<u>31 December 2007</u>
<b>Liability at 1 January</b>	<b>(297,317)</b>	<b>(244,687)</b>
Deferred tax recognised during the period (Note 27)	<u>48,016</u>	<u>(52,630)</u>
<b>Liability at 31 March 2008 / 31 December 2007</b>	<b>(249,301)</b>	<b>(297,317)</b>

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

		<u>31 December 2007</u>	<u>Movement during the period</u>	<u>31 March 2008</u>		
	Tax rate %	Tempor-ary differ-ences	Temporary differences	Deferred tax asset/ (liability)	Temporary differences	Deferred tax asset/ (liability)
Securities	24	(10,445)	11,154	2,677	709	170
Loan loss allowance	24	(725,503)	241,021	57,845	(484,482)	(116,276)
Other allowances	24	28,044	(29,240)	(7,018)	(1,196)	(287)
Accrued income	24	(150,371)	(24,138)	(5,793)	(174,509)	(41,882)
Accrued expenses	24	208,283	12,905	3,097	221,188	53,085
Premises and equipment	24	(437,356)	(24,052)	(5,773)	(461,408)	(110,738)
Loans sold	24	(4,075,854)	(277,547)	(66,611)	(4,353,401)	(1,044,816)
Depreciation of the part related to maintenance of the asset	24	2,373,835	393,030	94,328	2,766,865	664,048
Loans to customers	24	888,137	128,881	30,931	1,017,018	244,084
Other items of work capital	24	662,408	(231,945)	(55,667)	430,463	103,311
		<u>(1,238,822)</u>	<u>200,069</u>	<u>48,016</u>	<u>(1,038,753)</u>	<u>(249,301)</u>

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**20. Share Capital**

Statutory capital authorised, issued and fully paid comprises:

	<b>31 March 2008</b>		<b>31 December 2007</b>	
	<b>Number of shares</b>	<b>Amount</b>	<b>Number of shares</b>	<b>Amount</b>
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
	<b>4,491,583</b>	<b>567,837</b>	<b>2,811,583</b>	<b>399,837</b>

The nominal value of ordinary shares, all of which carry equal rights, is RUB 448,000 (at 31 December 2007: RUB 280,000).

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

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.

The Bank's major shareholders were:

	<b>31 March 2008</b>		<b>31 December 2007</b>	
	<b>Number of shares</b>	<b>% holding</b>	<b>Number of shares</b>	<b>% holding</b>
<b>Third parties</b>				
Antof N.V.	993,981	22.13	-	-
Rekha Holdings Limited (controlled by Renaissance Capital Finance)	671,980	14.96	419,981	15.00
Alexander Taranov	409,706	9.12	409,706	14.63
Schouplova Evgeniya (on behalf of Sergei Vlasov)	231,202	5.15	160,000	5.71
<b>Members of the Board of Directors</b>				
Sergei Vlasov	891,798	19.85	544,635	19.45
Igor Kim	819,421	18.24	819,421	29.27
Andrey Bekarev	409,706	9.12	409,706	14.63
Yuri Vavilov	60,222	1.34	44,501	1.19
<b>Other</b>				
Shareholders comprising individuals and legal entities with less than 5% each.	3,567	0.09	3 633	0.12
	<b>4,491,583</b>	<b>100.0</b>	<b>2,811,583</b>	<b>100.0</b>

**21. Accumulated Profit**

In accordance with Russian Law on banking activity and the Law on joint stock companies, the Bank must use financial statements as the basis for calculating distributable profit. Profits may be used to pay dividends or may be transferred to reserves in accordance with the decision made at annual shareholders meeting. The Bank's reserves under RAS as at 31 March 2008 were RUB 2,644,220 (at 31 December 2007: RUB 612,209).

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**22. Result on Sale of Loans**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Sales of loans to URSA Bank (shown below)	257,480	1,756,178
Other sales of loans	-	-
	<b>257,480</b>	<b>1,756,178</b>

During the period the Bank sold loans with a carrying value of RUB 1,003,344 (2007: RUB 7,984,888) at the time of sale to URSA Bank, a related party, who upon receipt recognise the loans as an asset on their balance sheet. Under the sale agreement the Bank 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 Bank a fee for representing amount registers specifying borrowers per every working day.

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

The result on disposal has been calculated as follows:

	<b>31 March 2008</b>	<b>31 December 2007</b>
Fair value of consideration (present and future) received in respect of the sale of loans	1,003,344	7,984,888
Carrying value of loans derecognised	1,003,344	7,984,888
Less element attributable to cash flows from servicing fees	(277,547)	(1,915,876)
	<b>725,797</b>	<b>6,069,012</b>
Less fair value of warranties issued at date of issue	(20,067)	(159,698)
<b>Result on disposal</b>	<b>257,480</b>	<b>1,756,178</b>

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

	<b>31 March 2008</b>	<b>31 December 2007</b>
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 Bank	277,547	1,915,876
Amortisation in the period	(393,030)	(1,351,843)
	<b>1,586,536</b>	<b>1,702,019</b>

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**23. Interest Income and Expense**

	<b>31 March 2008</b>	<b>31 December 2007</b>
<b>Interest income</b>		
Loans and advances to legal entities	7,062	24,064
Loans and advances to individuals	1,408,697	3,598,702
Securities	521	1,516
Due from other banks	31,732	78,259
<b>Total interest income</b>	<b>1,448,012</b>	<b>3,702,541</b>
<b>Interest expense</b>		
Term deposits of individuals	(379,822)	(813,210)
Finance lease charges	(1,731)	(11,348)
Term deposits of legal entities	(16,779)	(56,648)
Other borrowings	(162,917)	(331,452)
Bonds issued	(10,511)	(122,857)
Promissory notes	(8,827)	(100,487)
Current/settlement accounts	(674)	(3,507)
Term deposits of banks	(20,433)	(49,636)
<b>Total interest expense</b>	<b>(601,694)</b>	<b>(1,489,145)</b>
	<b>846,318</b>	<b>2,213,396</b>

**24. Net Allowance for Impairment Losses on Loans and Advances**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Release of allowance credited to profits during the period	(294,167)	(1,823,645)
New allowance charged to profits during the period	473,576	2,450,221
	<b>179,409</b>	<b>626,576</b>

**25. Net Fee and Commission Income**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Service fees receivable	665,337	2,001,537
Commission on cash transactions	494,884	569,822
Amortisation of Service Fee Asset (note 22)	(393,030)	(1,351,843)
Other commissions	16,411	25,323
<b>Total fee and commission income</b>	<b>783,602</b>	<b>1,244,839</b>
Commission on settlement, cash transactions and foreign currency exchange	(9,990)	(9,810)
Other	(53,339)	(134,450)
<b>Total fee and commission expense</b>	<b>(63,329)</b>	<b>(142,260)</b>
	<b>720,273</b>	<b>1,102,579</b>

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**26. Operating Expenses**

	<b>31 March 2008</b>	<b>31 December 2007</b>
Staff costs	454,100	1,309,789
Administrative expenses	227,087	707,057
Other expenses related to premises and equipment	84,814	210,516
Taxes other than on income (Note 27)	41,654	148,337
Advertising and marketing	41,607	113,169
Depreciation and Amortisation (Notes 10 and 11)	28,106	75,819
Allowance for impairment of other assets	245,975	68,330
	<b>1,123,343</b>	<b>2,633,017</b>

**27. Taxation**

Income tax comprised the following:

	<b>31 March 2008</b>	<b>31 December 2007</b>
Current tax charge	(237,105)	(367,054)
Deferred tax charge relating to the origination and reversal of temporary differences (Note 19)	48,016	(52,630)
<b>Income tax charge for the period</b>	<b>189,089</b>	<b>(419,684)</b>

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

	<b>31 March 2008</b>	<b>31 December 2007</b>
Accounting profit before tax	623,986	1,622,748
Adjustments to comply with IFRS including:		
Allowance for loan loss	(7,147)	(31,749)
Additional depreciation due to use of higher rates	(10,456)	(39,298)
Taxes	(19,132)	(3,397)
Net accrued interest	(24,883)	102,979
Other accruals	171,494	(52,724)
Result on sale of loans	257,480	1,756,178
Amortisation of service asset	(393,030)	(1,351,843)
Value of warranty issued	23,729	181,168
Other	(128,002)	(84,796)
	(129,947)	476,518
Accounting profit under RAS	753,933	1,146,230
Adjustments for disallowable items	234,005	383,162
Taxable profit	987,938	1,529,392
Tax liability at 24%	<b>(237,105)</b>	<b>(367,054)</b>

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

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### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

#### 27. Taxation (continued)

Other significant taxes borne by the Bank and included in operating expenses (Note 26) include:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Irrecoverable VAT	36,496	134,994
Property tax	4,667	11,563
Other	491	1,780
	<u>41,654</u>	<u>148,337</u>

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 Bank is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

#### 28. Financial Risk Management

The Bank 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 Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank 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 Bank specialises in retail lending market, the main risk for the Bank is credit risk in respect of individual borrowers. The share of consumer loans in the Bank's total assets comprises more than 60%. In addition, of the Bank's income no less than 65% depends on interest and non-interest income from individuals lending. Another risk factor exists for the Bank in that there is a concentration of unsecured loans in the retail loan portfolio.

The Bank 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 Bank 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 Bank whose main task is the on-going 'perfection' of the algorithm of borrowers' credit assessment as well as other elements on lending.

There is a successful information and analytics system in the Bank for support of making credit decisions. This system provides analysis of the Bank'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.

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### **Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)**

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#### **28. Financial Risk Management (continued)**

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 bank also uses different credit ratings companies.

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

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

The bank assumes credit risk in terms of its transfer of loans to URSA Bank, as detailed in note 22, 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 Banks exposure to loss in terms of the underlying loans sold is also detailed in note 22.

#### **Country Risk**

Country risk is the risk that the Bank 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 29.

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**28. Financial Risk Management (continued)**

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

	<u>Russia</u>	<u>Non OECD</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	1,469,426	129,271	1,598,697
Mandatory cash balances with the CBRF	413,103	-	413,103
Due from other banks	2,003,227	-	2,003,227
Loans and advances to customers	21,309,652	-	21,309,652
Accrued interest income and other assets	802,642	-	802,642
Securities	63,197	-	63,197
Service fee asset	1,586,536	-	1,586,536
Premises and equipment	1,134,776	-	1,134,776
Intangible assets	550	-	550
<b>Total assets</b>	<b><u>28,783,109</u></b>	<b><u>129,271</u></b>	<b><u>28,912,380</u></b>
<b>Liabilities</b>			
Customer accounts	13,773,899	-	13,773,899
Due to other banks	1,440,722	-	1,440,722
Debt securities issued	422,801	-	422,801
Deferred tax liability	249,301	-	249,301
Accrued interest expense and other liabilities	828,510	-	828,510
Other Borrowings	6,680,007	-	6,680,007
Warranties on loans sold	127,974	-	127,974
Finance lease	32,980	-	32,980
<b>Total liabilities</b>	<b><u>23,556,194</u></b>	<b><u>-</u></b>	<b><u>23,556,194</u></b>
<b>Net on-balance sheet position</b>	<b><u>5,226,915</u></b>	<b><u>129,271</u></b>	<b><u>5,356,186</u></b>
<b>Credit related commitments</b>	<b><u>(28,463)</u></b>	<b><u>-</u></b>	<b><u>(28,463)</u></b>

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

	<u>Russia</u>	<u>Non OECD</u>	<u>Total</u>
<b>Net on-balance sheet position</b>	<b><u>2,695,861</u></b>	<b><u>25,417</u></b>	<b><u>2,721,278</u></b>
<b>Credit related commitments</b>	<b><u>(67,226)</u></b>	<b><u>-</u></b>	<b><u>(67,226)</u></b>

**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 Bank 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.

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**28. Financial Risk Management (continued)**

**Market Risk (continued)**

**A) Currency Risk (continued)**

At 31 March 2008, the Bank had the following positions in Russian and other currencies:

	<u>RUB</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	1,108,412	398,886	91,399	1,598,697
Mandatory cash balances with CBRF	413,103	-	-	413,103
Due from other banks	650,000	1,112,288	240,939	2,003,227
Loans and advances to customers	21,309,652	-	-	21,309,652
Accrued int. income and other assets	800,864	1,096	682	802,642
Securities	63,197	-	-	63,197
Service fee asset	1,586,536	-	-	1,586,536
Premises and equipment	1,134,776	-	-	1,134,776
Intangibles	550	-	-	550
<b>Total assets</b>	<b><u>27,067,090</u></b>	<b><u>1,512,270</u></b>	<b><u>333,020</u></b>	<b><u>28,912,380</u></b>
<b>Liabilities</b>				
Customer accounts	12,450,729	697,871	625,299	13,773,899
Due to other banks	1,118,558	322,164	-	1,440,722
Debt securities issued	422,801	-	-	422,801
Deferred tax liability	249,301	-	-	249,301
Accrued int. expense and other liab.	741,431	83,581	3,498	828,510
Other borrowings	5,687,386	992,621	-	6,680,007
Warranties on loans sold	127,974	-	-	127,974
Finance lease	32,980	-	-	32,980
<b>Total liabilities</b>	<b><u>20,831,160</u></b>	<b><u>2,096,237</u></b>	<b><u>628,797</u></b>	<b><u>23,556,194</u></b>
<b>Net balance sheet position</b>	<b><u>6,235,930</u></b>	<b><u>(583,967)</u></b>	<b><u>(295,777)</u></b>	<b><u>5,356,186</u></b>
<b>Credit related commitments</b>	<b><u>(27,758)</u></b>	<b><u>(705)</u></b>	<b><u>-</u></b>	<b><u>(28,463)</u></b>

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

	<u>RUB</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
<b>Net balance sheet position</b>	<b><u>3,214,288</u></b>	<b><u>(479,975)</u></b>	<b><u>(13,035)</u></b>	<b><u>2,721,278</u></b>
<b>Credit related commitments</b>	<b><u>(66,490)</u></b>	<b><u>(736)</u></b>	<b><u>-</u></b>	<b><u>(67,226)</u></b>

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 Bank's profit before tax and the Bank's equity. Analysis has not been provided for other currencies as there are no significant exposures.

	<u>Increase / decrease in USD rate</u>	<u>Effect on equity only</u>
<b>3 months 2008</b>	+ 8% / - 8%	(46,717) / 46,717
<b>12 months 2007</b>	+ 8% / - 8%	(38,398) / 38,398

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**28. Financial Risk Management (continued)**

**Market Risk (continued)**

***B) Interest Rate Risk***

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 March 2008	31 December 2007	Compliance score	Score
RSA/ RSL	1.5 / 0.5	1.0970	0.9836	27%	40
Gap/ RSA	0.5	0.0885	0.0167	82%	20
WARSA/ WARSL	1.7	1.1451	1.0298	33%	40
<b>Average score</b>					<b>33.33</b>

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

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

The majority of interest bearing liabilities are on fixed rate terms but the Bank reserved its right to reprice in case of significant fluctuations of interest rates. Management does not consider the Bank 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.

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**28. Financial Risk Management (continued)**

**Market Risk (continued)**

***B) Interest Rate Risk (continued)***

The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end contracted interest rates.

	<b>RUB</b>	<b>USD</b>	<b>EURO</b>
<b>Assets</b>			
Due from banks	8.69	4.28	6.04
Loans and advances to customers	17.52	-	-
<b>Liabilities</b>			
Due to other banks:			
- current term loans and deposits of other banks	7.72	6.81	
Customer accounts:			
- term deposits of legal entities	9.39	-	-
- term deposits of individuals	11.60	10.30	10.50
Promissory notes issued	14.85	-	-
Bonds issued	13.95	-	-
Subordinated loan	-	11.00	-
Other borrowings (OEFL)	9.88	-	-
Other borrowings (EBRD)	10.74	-	-

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

***C) Liquidity Risk***

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk. The table below shows assets and liabilities as at 31 March 2008 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to Management of the Bank. 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 Bank 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 Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date. Securities to split out by time element.

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 Bank would indicate that deposits provide a long-term and stable source of funding for the Bank.

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**Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008**  
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**28. Financial Risk Management (continued)**

**Market Risk (continued)**

***C) Liquidity Risk (continued)***

The Bank 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 Bank was in compliance with the above ratios during the period ended 31 March 2008 and 31 December 2007. The following table represents the mandatory liquidity ratios for the Bank calculated at 31 March 2008 and 31 December 2007:

	<b>Requirement</b>	<b>31 March 2008</b>	<b>31 December 2007</b>
Instant liquidity ratio (N2)	Minimum 15%	91%	97%
Current liquidity ratio (N3)	Minimum 50%	88%	125%
Long-term liquidity ratio (N4)	Maximum 120%	87%	87%

The Bank'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 Bank 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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**28. Financial Risk Management (continued)**

**Market Risk (continued)**

***C) Liquidity Risk***

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

	<u>Demand and less than 1 month</u>	<u>From 1 to 6 months</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>Overdue/ no stated maturity</u>	<u>Total</u>
<b>Assets</b>						
Cash and cash equivalents	1 598 697	-	-	-	-	1 598 697
Mandatory cash balances with CBRF	-	-	-	-	413 103	413 103
Due from other banks	2 003 227	-	-	-	-	2 003 227
Loans and advances to customers	979 317	4 347 491	4 491 127	11 491 548	169	21 309 652
Securities	-	-	-	37 054	26 143	63 197
Accrued interest income and other assets	667 759	1 181	1 323	-	132 379	802 642
Service fee asset	125 419	493 219	375 182	592 716	-	1 586 536
Premises and equipment	-	-	-	-	1 134 776	1 134 776
Intangibles	-	-	-	-	550	550
<b>Total assets</b>	<b><u>5 374 419</u></b>	<b><u>4 841 891</u></b>	<b><u>4 867 632</u></b>	<b><u>12 121 318</u></b>	<b><u>1 707 120</u></b>	<b><u>28 912 380</u></b>
<b>Liabilities</b>						
Customer accounts	3 472 401	5 488 776	3 896 770	915 952	-	13 773 899
Due to other banks	1 165 566	-	275 156	-	-	1 440 722
Debt securities issued	-	45 000	68 000	309 801	-	422 801
Deferred tax liability	-	-	-	-	249 301	249 301
Accrued interest expense and other liabilities	406 084	277 759	5 277	44 676	94 714	828 510
Other borrowings	-	-	-	6 680 007	-	6 680 007
Finance lease liability	3 895	19 237	4 355	5 493	-	32 980
Warranties on loans sold	10 238	39 672	30 714	47 350	-	127 974
<b>Total liabilities</b>	<b><u>5 058 184</u></b>	<b><u>5 870 444</u></b>	<b><u>4 280 272</u></b>	<b><u>8 003 279</u></b>	<b><u>344 015</u></b>	<b><u>23 556 194</u></b>
<b>Net liquidity gap</b>	<b><u>316 235</u></b>	<b><u>(1 028 553)</u></b>	<b><u>587 360</u></b>	<b><u>4 118 039</u></b>	<b><u>1 363 105</u></b>	<b><u>5 356 186</u></b>
<b>Cumulative gap</b>						
<b>31 March 2008</b>	<b><u>316 235</u></b>	<b><u>(712 318)</u></b>	<b><u>(124 958)</u></b>	<b><u>3 993 081</u></b>	<b><u>5 356 186</u></b>	<b><u>-</u></b>
<b>Cumulative gap</b>						
<b>31 December 2007</b>	<b><u>413 697</u></b>	<b><u>(26 283)</u></b>	<b><u>569 814</u></b>	<b><u>1 388 202</u></b>	<b><u>2 721 278</u></b>	<b><u>-</u></b>

**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 Bank 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.

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### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 28. Financial Risk Management (continued)

##### **Insurance**

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

Details of property insurance are set out in Note 10.

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

#### 29. Contingencies, Commitments and Derivative Financial Instruments

##### **Legal Proceedings**

From time to time and in the normal course of business, claims against the Bank 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 Bank'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 Bank 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 March 2008 and 31 December 2007 the Bank 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>31 March 2008</u>	<u>31 December 2007</u>
Undrawn credit lines	21,757	61,490
Guarantees issued to third parties	<u>6,706</u>	<u>5,736</u>
	<u><b>28,463</b></u>	<u><b>67,226</b></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 March 2008 (at 31 December 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 March 2008 and 31 December 2007 the Bank had no outstanding derivative contracts.

##### **Assets Pledged**

As at 31 March 2008 and 31 December 2007 there were no assets pledged to secure liabilities of the Bank.

## ORIENT EXPRESS BANK

### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

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#### 30. 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 March 2008 is set out below:

#### Significant shareholders

	<u>Activities</u>
Igor Kim	
Sergei Vlasov	President of the Bank
Andrey Bekarev	
Evgeniya Schouplova	
Alexandr Taranov	
Rekha Holdings Limited	Investments
Antof N.V.	Investments

#### Subsidiary companies

VEB Finance Ltd.	Financial intermediary
Business concern AVK-Gamma Ltd.	Rent
First Collection Bureau Ltd.	Financial Intermediary
Orient Express Finance Ltd	Special Purpose Entity

#### Associated companies

Vostochnoye Bureau of Credit Histories Ltd.	Financial intermediary
CJSC Sibirskoye Credit Bureau	Financial intermediary

#### Companies under common control through shareholders

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

#### Members of the Board of Management

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

#### Members of the Board of Directors

Yuriy Vavilov  
Sergey Vlasov (also a shareholder)  
Andrey Bekarev (also a shareholder)  
Igor Kim (also a shareholder)  
Sergei Nazarov

Chairman of the Board of Directors  
President of the Bank

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### Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008 (in thousands of Russian Roubles)

#### 30. Related Parties (continued)

During the reporting period the Bank entered into transactions with related parties, which included loan and deposit agreements, and provision of guarantees.

The salaries paid to the members of the Bank's Management during the period amounted to RUB 7,679 (2007: RUB 60,527). There were no long term benefits, post-employment benefits, termination benefits or share based payments. No remuneration to other members of the Board of Directors was paid during first three months 2008 and 2007.

#### 31. Capital Adequacy

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 March 2008, the Bank's capital adequacy ratio calculated on this basis was 21.61%, exceeding the statutory minimum (at 31 December 2007: 11.5%)

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

Liquidity is controlled by ratios calculated in accordance with requirements of the CBRF (see Note 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 March 2008 was 24.9% (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 Bank as of 31 March 2008 was computed as follows:

	<b>31 March 2008</b>	<b>31 December 2007</b>
<b>Tier 1 Capital</b>		
Share capital	567,837	399,837
Share Premium	2,036,708	4,697
Accumulated profit	2,751,641	2,316,744
<b>Total Tier 1 Capital</b>	<b>5,356,186</b>	<b>2,721,278</b>
<b>Tier 2 Capital</b>		
Subordinated loan	992,621	1,036,937
<b>Total Tier 2 Capital</b>	<b>992,621</b>	<b>1,036,937</b>
<b>Total Capital</b>	<b>6,348,807</b>	<b>3,758,215</b>
<b>Risk weighted assets</b>	<b>25,503,479</b>	<b>22,325,405</b>
<b>Capital adequacy ratio</b>	<b>24.9%</b>	<b>16.8%</b>

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**Notes to the Non-Consolidated Interim Financial Statements - 31 March 2008**  
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**31. Capital Adequacy (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:

<b>Weighting</b>	<b>Description</b>
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