Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company)

(formerly Joint-stock Bank “GPB-Mortgage” (Closed Joint-Stock Company))

Consolidated Financial Statements for the year ended 31 December 2008

Audited by KPMG. See a separate report.

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company) (formerly Joint-stock Bank "GPB-Mortgage" (Closed Joint-Stock Company))

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
4 June 2009

(in thousands of Russian Roubles unless otherwise stated)

	Notes	2008	2007
Interest income	4	4 128 535	2 853 491
Interest expense	4	(2 474 595)	(1 630 058)
Net interest income		**1 653 940**	**1 223 433**
Charge for provision for loan impairment	13	(505 902)	(94 369)
Net interest income after provision for loan impairment		**1 148 038**	**1 129 064**
Net gain on financial assets and liabilities at fair value through profit or loss	5	1 042 970	44 076
Net foreign exchange loss	6	(950 290)	(168 936)
Fee and commission income	7	41 873	157 119
Other operating income		18 210	11 027
Fee and commission expense	7	(455 144)	(383 297)
Operating expenses	8	(653 103)	(655 824)
Goodwill impairment	30	(88 090)	-
Operating income before taxes		**104 464**	**133 229**
Income tax expense	9	(21 837)	(95 468)
Net income		**82 627**	**37 761**

The consolidated financial statements were approved by the Management Board on 4 June 2009.

Seregin V.A.
Chairman of the Board

Selivanova V.I.
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

	Notes	31 December 2008	31 December 2007
ASSETS			
Due from the Central Bank of the Russian Federation	10	73 739	75 843
Due from banks	11	1 199 163	1 424 853
Financial assets at fair value through profit or loss	12	1 241 222	210 120
Loans to customers	13	31 156 914	25 962 758
Investments available-for-sale	14	4 782	4 782
Property and equipment	15	593 114	392 802
Investment property	16	-	183 129
Current income tax receivable		52 287	46 970
Deferred tax assets	9	202 687	-
Other assets	17	169 350	133 185
Total assets		**34 693 258**	**28 434 442**
LIABILITIES			
Due to banks	18	12 426 431	8 150 350
Customer accounts	19	465 809	426 684
Debt securities issued	20	17 018 076	15 253 302
Subordinated debts	21	1 517 000	1 517 000
Current income tax payable		68	35
Deferred tax liabilities	9	150 735	6 518
Other liabilities	22	699 770	747 811
Total liabilities		**32 277 889**	**26 101 700**
Shareholders' equity			
Share capital	23	2 402 691	2 402 691
Retained earnings/(accumulated losses)		12 678	(69 949)
Total shareholders' equity		**2 415 369**	**2 332 742**
Total liabilities and shareholders' equity		**34 693 258**	**28 434 442**

Seregin V.A.
Chairman of the Board

Selivanova V.I.
Chief Accountant

JSB "GPB-Mortgage" (OJSC)
Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008
(in thousands of Russian Roubles unless otherwise stated)

	Shareholders' equity attributable to equity holders of the parent				
	Share capital	Retained earnings/ (accumulated losses)	Total	Minority interest	Total equity
Balance at 1 January 2007	**977 691**	**(97 718)**	**879 973**	**42 161**	**922 134**
Income for the year	-	37 761	37 761	-	37 761
Total income for the year					**37 761**
Shares issued	1 425 000	-	1 425 000	-	1 425 000
Disposal of subsidiaries	-	(9 992)	(9 992)	(42 161)	(52 153)
Balance as at 31 December 2007	**2 402 691**	**(69 949)**	**2 332 742**	-	**2 332 742**
Balance as at 1 January 2008	**2 402 691**	**(69 949)**	**2 332 742**	-	**2 332 742**
Income for the year	-	82 627	82 627	-	82 627
Total income for the year					**82 627**
Balance as at 31 December 2008	**2 402 691**	**12 678**	**2 415 369**	-	**2 415 369**

Seregin V.A.
Chairman of the Board

Акционерный банк
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1027739137843
"ГПБ-Ипотека"
МОСКВА

Selivanova V.I.
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

	Notes	2008	2007
Cash flows form operating activities			
Interest receipts		3 814 206	2 587 726
Interest payments		(2 203 897)	(1 713 450)
Net receipts from financial assets and liabilities at fair value through profit or loss		6 173	1 633
Net receipts from foreign exchange		74	18
Fee and commissions receipts		58 857	140 135
Fee and commissions payments		(455 348)	(383 297)
Other operating income received		21 222	7 292
Operating expenses paid		(601 302)	(628 026)
Cash flows provided from operating activities before changes in operating assets and liabilities		**639 985**	**12 031**
Changes in operating assets and liabilities			
Net decrease in mandatory reserves with the Central Bank of the Russian Federation		51 185	746
Net decrease/(increase) in due from banks		204 575	(206 725)
Net (increase)/decrease in financial assets at fair value through profit or loss		(717)	16 861
Net increase in loans to customers		(5 352 483)	(10 261 573)
Net increase in due to banks		4 164 928	2 492 459
Net increase in customer accounts		25 528	352 133
Net decrease in promissory notes issued		(250 000)	(500 000)
Net (increase)/decrease in other assets net of other liabilities		(65 436)	26 690
Net cash used in operating activities before taxes		**(582 435)**	**(8 067 378)**
Income tax paid		(85 591)	(188 448)
Net cash used in operating activities after taxes		**(668 026)**	**(8 255 826)**
Cash flows from investing activities			
Cash disposed as a result of sale of a subsidiary		-	(165 235)
Acquisition of subsidiary	30	(116 790)	-
Acquisition of investment property	16	-	(183 129)
Net cash disposed as a result of purchase and sale of property and equipment	15	(19 049)	(111 432)
Net cash used in investment activities		**(135 839)**	**(459 796)**
Cash flows from financing activities			
Bonds issued	20	4 088 022	7 622 325
Bonds redeemed	20	(2 903 936)	(1 444 569)
Bonds repurchased		(329 376)	-
Shares issued		-	1 425 000
Net cash provided from financing activities		**854 710**	**7 602 756**
Effect of changes in exchange rates on cash and cash equivalents		3 955	7 109
Net increase/(decrease) in cash and cash equivalents		**54 800**	**(1 105 757)**
Cash and cash equivalents at the beginning of the year	24	1 211 757	2 317 514
Cash and cash equivalents at the end of the year	24	**1 266 557**	**1 211 757**

Seregin V.A.
Chairman of the Board

Selivanova V.I.
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

1 Introduction and Russian business environment

(a) Introduction

The following consolidated financial statements include the financial statements of Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company) (formerly Joint-stock Bank "GPB-Mortgage" (Closed Joint-Stock Company)) (the "Bank") and it subsidiaries.

JSB "GPB-Mortgage" (OJSC) was established in the Russian Federation in 1994. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank has a general banking license № 2403 issued by the CBR. The principal activities of the Bank are refinancing of mortgage and housing loans, acquisition of mortgages, lending to legal entities and individuals, operations with securities and foreign exchange.

The Bank's registered address is 14, Kolomensky street, Moscow, the Russian Federation.

As at 31 December 2008 and 2007 the principal subsidiaries of the Bank were as follows:

Name	Country of registration	Voting share % 31 December 2008	Capital share, % 31 December 2007
Investing activities			
CMIFRE "Regional projects"	Russian Federation	100.0	100.0
MCMIF "RCPF - United Second"	Russian Federation	100.0	-
MCMIF "Third United"	Russian Federation	100.0	-
Special purpose entities for securitization of assets			
OJSC "ISO GPB-Mortgage"	Russian Federation	-	-
Gazprombank Mortgage Funding 1 SA	Luxemburg	-	-
Gazprombank Mortgage Funding 2 SA	Luxemburg	-	-
Gazprombank Mortgage Funding 3 SA	Luxemburg	-	-
Other activities			
LLC "Belkor"	Russian Federation	100.0	-

OJSC "ISO GPB-Mortgage", Gazprombank Mortgage Funding 1 SA, Gazprombank Mortgage Funding 2 SA and Gazprombank Mortgage Funding 3 SA are special purposes entities ("SPEs") used for assets securitization which financial statements are included in the consolidated financial statements of the Bank. These SPEs are controlled by the Bank as the Bank pre-determined their activities, has the rights to obtain the majority of economic benefits from their activities, and retains the majority of the residual risks related to the SPEs or their assets in order to obtain benefits from their activities.

For the purposes of these financial statements the Bank and its subsidiaries are further referred to as the "Group".

Changes in the Group structure during 2008 are detailed in Note 30 "Changes in the Group's structure".

(b) Shareholders

As at 31 December 2008 and 2007 the shareholders of the Bank were as follows:

	31 December 2008, %	31 December 2007, %
"Gazprombank" (Open Joint – stock Company)	72.3	72.3
LLC "Gazprom Export" (prior name LLC "Gazexport")	11.7	11.7
LLC "Novfintech"	13.4	13.3
LLC "Gaztorgpromstroy"	2.4	2.4
Other	0.2	0.3
Total	**100.0**	**100.0**

(in thousands of Russian Roubles unless otherwise stated)

As at 31 December 2008 and 2007 the following shareholders of the Bank owned shares of “Gazprombank” (Open Joint – stock Company):

	31 December 2008 ,%	31 December 2007 , %
CJSC “Lider” (on behalf of non-state pension fund “GAZFOND”)	42.9	42.9
OAO “Gazprom”	41.7	41.7
Non-state pension fund “GAZFOND”	7.1	7.1
Other	8.3	8.3
Total	**100.0**	**100.0**

The Bank’s shareholder LLC “Novfintech” is a subsidiary of “Gazprombank” (Open Joint – stock Company). The Bank’s shareholder LLC “Gazexport” is a subsidiary of OAO “Gazprom”, which disclose the information related to its ultimate beneficiaries in its financial statements prepared in accordance with International Financial Reporting Standards.

“Gazprombank” (Open Joint – stock Company) prepares its publicly available financial statements in accordance with International Financial Reporting Standards.

Related parties transactions are disclosed in Note 29 “Related parties transactions”.

(c) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of the preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale investments are stated at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in the Russian Roubles (“RUR”) which is the functional currency of the Group. Except as indicated, financial information presented has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

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

- Note 3 (g) “Significant accounting policies” and Note 13 (b) “Loans to customers” in relation to loan impairment estimates.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of these consolidated financial statements. The accounting policies have been consistently applied.

(a) Consolidation principles

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Special purpose entities

Special purpose entities are entities which are created to accomplish a narrow and well-defined objective, such as the securitisation of particular assets, or the execution of a specific borrowing transaction. The financial statements of SPEs are included in the consolidated financial statements when the substance of relationship between the Group and the SPE indicates that the SPE is controlled by the Group, even if the Group does not have any direct or indirect shareholdings in the entity.

(iii) Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

(iv) Acquisition and disposal of minority interest

A difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Bank’s interest in the subsidiary including attributable goodwill, is recognised in the consolidated income statement except for transactions with companies under common control.

(v) Associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank’s share of losses exceeds the Bank’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Bank’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(vii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank’s share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated income statement.

(viii) Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent company. Minority interest in the profit or loss of the Bank is separately disclosed in the consolidated income statement.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

As at 31 December 2008 the exchange rates used for translation of balances in foreign currencies were 29.3804 USD/RUR and 41.4411 EUR/RUR (31 December 2007 24.5462 USD/RUR and 35.9332 EUR/RUR).

(c) Cash and cash equivalents

The Bank considers nostro accounts with the CBR, nostro accounts with other banks and short-term deposits with other banks with maturity less than 3 months from the date of placement to be cash and cash equivalents. Overdue assets and assets with contractual restrictions on their withdrawability are excluded from cash and cash equivalents.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,

- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported liabilities.

Financial assets and liabilities at fair value through profit or loss are not reclassified upon initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;

- the Group upon initial recognition designates as at fair value through profit or loss;

- the Group upon initial recognition designates as available-for-sale; or

- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;

- the Group designates as available-for-sale; or

- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of initial recognition.

(ii) Recognition

Financial assets and liabilities are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;

- held-to-maturity investments which are measured at amortized cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;

- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders’ equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group’s consolidated balance sheet.

When the Group has transferred financial assets to another entity, but has retained substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the Group’s consolidated balance sheet.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the Group’s consolidated balance sheet.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

(e) Offsetting

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

(f) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	years
Buildings	50
Banking equipment and motor vehicles	2 – 7

(g) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and 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 receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related provisions for loan impairment. The Group writes off a loan balance (and any related provisions for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and can not be reversed.

(iii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

(j) Share capital

Share capital contributed prior to 1 January 2003 is stated at cost adjusted for hyperinflation. Share capital contributed after 1 January 2003 is stated at cost.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Income and expense recognition

Interest income and expense are recognised in the consolidated income statement using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the consolidated income statement on the date that the dividend is declared.

(m) Segment reporting

The majority of Group’s operations are operations with mortgages. The Group’s operations are primarily held within the Russian Federation. The Group does not have independent divisions or business components which are subject to risks and rewards that are different from those of other divisions or business components. Thus the Group does not present the segment information.

(n) Comparative information

The presentation of certain comparative amounts for the year ended 31 December 2007 was changed to conform to changes in presentation in the current year consolidated financial statements. The effect of these changes is as follows:

Fee and commission expenses for the service-agent services in the amount of RUR 312 917 thousand were reclassified from interest income on loans to individuals to fee and commission income on service-agent services.

Construction in progress in the amount of RUR 77 325 thousand was reclassified from other assets to property and equipment.

In the Group’s consolidated financial statements for the year ended 31 December 2007 cash and cash equivalents included balances on nostro and deposit accounts with the CBR with maturity less than 90 days and due from OECD banks in the amount of RUR 421 239 thousand. Starting from 1 January 2008 the Group considers balances on nostro accounts with the CBR and due from banks with maturity less than 3 months from the date of origination, net of overdue assets and assets with contractual limits on immediate withdrawal, to be cash and cash equivalents. These changes were made to minimize differences between accounting policies of the Group and its parent company. Total amount of cash and cash equivalents as at 31 December 2007 recalculated in accordance with the new accounting policy in respect of cash and cash equivalents amounted to RUR 1 211 757 thousand.

(o) New Standards and Interpretations not yet adopted

IAS 1 “Presentation of Financial Statements” (restated), which is affective for annual periods beginning on or after 1 January 2009, specifies how the Group should present changes in equity not resulting from transactions with owners and other changes in equity in its consolidated financial statements, and introduces certain other requirements in respect of presentation of information in the consolidated financial statements.

IFRS 8 “Operating Segments”, which is affective for annual periods beginning on or after 1 January 2009 specifies how the entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 “Operating Segments” will replace International Financial Reporting Standard IAS 14 “Segment Reporting”.

The amendment to IFRS 7 “Financial Instruments: Disclosures”, which is effective for annual periods beginning or after 1 January 2009, introduces additional requirements regarding disclosures of fair value of financial instruments.

The Group has not applied these Standards and the amendment in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analyzed the likely impact of these Standards and amendment on its consolidated financial statements.

(in thousands of Russian Roubles unless otherwise stated)

4 Net interest income

	2008	2007
Interest income		
Loans to customers		
- Loans to individuals	4 062 722	2 777 309
- Loans to legal entities	38 917	31 923
Due from banks	24 518	44 259
Debt securities	2 378	-
Total interest income	**4 128 535**	**2 853 491**
Interest expense		
Debt securities issued	(1 475 189)	(922 269)
Due to banks	(950 027)	(676 014)
Customer accounts	(32 379)	(14 775)
Subordinated debts	(17 000)	(17 000)
Total interest expense	**(2 474 595)**	**(1 630 058)**
Net interest income	**1 653 940**	**1 223 433**

5 Net gain on financial assets and liabilities at fair value through profit or loss

	2008	2007
Net gain on derivative financial instruments	1 043 089	42 381
Net gain on securities held for trading	(119)	1 695
Total net gain on financial assets and liabilities at fair value through profit or loss	**1 042 970**	**44 076**

6 Net foreign exchange loss

	2008	2007
Net foreign exchange income	74	18
Net loss on revaluation of financial assets and liabilities	(950 364)	(168 954)
Total net foreign exchange loss	**(950 290)**	**(168 936)**

(in thousands of Russian Roubles unless otherwise stated)

7 Fee and commission income and expense

	2008	2007
Service-agent services	41 535	156 861
Settlement operations	338	258
Total fee and commission income	**41 873**	**157 119**
Service agents services	(369 147)	(355 696)
Custodian services	(68 597)	(21 704)
Settlement operations	(17 400)	(5 897)
Total fee and commission expense	**(455 144)**	**(383 297)**
Net fee and commission expense	**(413 271)**	**(226 178)**

8 Operating expenses

	2008	2007
Staff costs	343 067	357 041
Taxes other than on income	128 341	81 867
Professional services	32 692	67 948
Maintenance	24 961	15 489
Depreciation	23 104	20 141
Software	14 031	6 365
Telecommunication	8 608	8 043
Travel expenses	7 197	5 182
Advertising	3 050	10 715
Rent	3 002	18 298
Office supplies	2 235	2 850
Entertainment costs	1 620	2 216
Other	61 195	59 669
Total operating expenses	**653 103**	**655 824**

9 Income tax expense

	2008	2007
Current year income tax expense	80 307	88 950
Origination and reversal of temporary differences	(58 470)	6 518
Income tax expense	**21 837**	**95 468**

As at 31 December 2008 and 2007 the applicable tax rate determined by the requirement of the Russian legislation was 24%. Starting from 1 January 2009 the applicable tax rate determined by the requirement of the Russian legislation will be changed to 20%.

(in thousands of Russian Roubles unless otherwise stated)

The effective income tax rate differs from the income tax rate determined in accordance with the Russian legislation. The reconciliation between the expected and the actual income tax expense is provided below.

	2008	%	2007	%
Income before tax	**104 464**		**133 229**	
Income tax at the applicable tax rate	25 071	24.0	31 975	24.0
Effect of different tax rates	(1 005)	(1.0)	-	-
Non-deductible costs	19 072	18.3	40 862	30.7
Change in unrecognized deferred tax asset	(26 022)	(24.9)	22 631	17.0
Effect of a change in the tax rate	4 721	4.5	-	-
Income tax expense	**21 837**	**20.9**	**95 468**	**71.7**

Movements in temporary differences for 2008 are as follows:

	1 January 2008	Movement for the year	31 December 2008
Tax effect of deductible temporary differences			
Estimated provisions for impairment losses and provisions for possible losses	37 622	60 607	98 229
Securities	443	(413)	30
Accrued income and expense	-	145 655	145 655
Other	5 461	2 597	8 058
Total deferred tax assets	**43 526**	**208 446**	**251 972**
Deferred tax asset not recognized	(26 022)	26 022	-
Net deferred tax assets	**17 504**	**234 468**	**251 972**
Tax effect of taxable temporary differences			
Estimated provisions for impairment losses and provisions for possible losses	(19 280)	(5 084)	(24 364)
Property and equipment	(3 157)	(233)	(3 390)
Securities	(1 585)	1 585	-
Accrued income and expense	-	(172 266)	(172 266)
Total deferred tax liabilities	**(24 022)**	**(175 998)**	**(200 020)**
Total net deferred tax (liabilities)/assets	**(6 518)**	**58 470**	**51 952**

(in thousands of Russian Roubles unless otherwise stated)

Movements in temporary differences for 2007 are as follows:

	1 January 2007	Movement for the year	31 December 2007
Tax effect of deductible temporary differences			
Estimated provisions for impairment losses and provisions for possible losses	2 263	35 359	37 622
Securities	103	340	443
Other	6 669	(1 208)	5 461
Total deferred tax assets	**9 035**	**34 491**	**43 526**
Deferred tax asset not recognized	(3 391)	(22 631)	(26 022)
Net deferred tax assets	**5 644**	**11 860**	**17 504**
Tax effect of taxable temporary differences			
Estimated provisions for impairment losses and provisions for possible losses	-	(19 280)	(19 280)
Property and equipment	(5 644)	2 487	(3 157)
Securities	-	(1 585)	(1 585)
Total deferred tax liabilities	**(5 644)**	**(18 378)**	**(24 022)**
Total net deferred tax liabilities	**-**	**(6 518)**	**(6 518)**

Deferred income tax is calculated using the balance sheet liabilities method in respect of all temporary differences in accordance with income tax rates applicable to the Group companies.

Taking into account the current Group structure, tax losses and current deferred tax assets of different companies cannot be offset with current income tax liabilities and taxable income of other companies; and, correspondingly, taxes can be accrued even in case of net consolidated tax losses. Thus, deferred tax assets of one of the Group companies cannot be offset with deferred tax liabilities of another Group company.

As at 31 December 2008 net deferred tax assets comprised RUR 51 952 thousand out of which deferred tax assets comprised RUR 202 687 thousand, and deferred tax liabilities comprised RUR 150 735 thousand. These deferred tax assets and liabilities are related to different subsidiaries of the Group.

As at 31 December 2007 net deferred tax assets in respect of net deductible temporary differences of RUR 26 022 thousand were not recognized in the consolidated financial statements as it was not certain whether the relevant Group subsidiary would have sufficient taxable income for the Group to realize gain on deferred tax assets.

10 Due from the Central Bank of the Russian Federation

In the preparation of statement of cash flows mandatory reserves with the CBR were not considered to be cash and cash equivalents due to restrictions on their withdrawability.

	31 December 2008	31 December 2007
Nostro accounts with the Central Bank of the Russian Federation	67 394	18 313
Mandatory reserves with the Central Bank of the Russian Federation	6 345	57 530
Total due from the Central Bank of the Russian Federation	**73 739**	**75 843**

Mandatory reserves with the CBR represent non-interest bearing deposits calculated in accordance with the regulations issued by the CBR and whose withdrawability is restricted. Nostro accounts with the CBR relate to settlement activity and were available for withdrawal at year end.

(in thousands of Russian Roubles unless otherwise stated)

11 Due from banks

	31 December 2008	31 December 2007
Correspondent accounts	1 109 096	1 074 752
Term deposits	90 067	350 101
Total due from banks	**1 199 163**	**1 424 853**

As at 31 December 2008 the Group had no counterparties, whose balances individually exceeded 10% of the Group’s equity. As at 31 December 2007 the Group had one counterparty, whose balances exceeded 10% of the Group’s equity. The gross value of these balances as at 31 December 2007 was RUR 350 101 thousand or 24.6% of total due from banks.

Financial assets are classified on the basis of current credit ratings assigned by internationally acknowledged rating agencies. The highest possible rating is AAA. The investment level of financial assets relate to ratings from AAA to BBB. Financial assets rated below BBB are of speculative level.

The analysis of due from banks by credit ratings as at 31 December 2008 and 2007 is as follows:

	31 December 2008	31 December 2007
AA-	489 576	396 162
BB+	687 699	1 020 156
BBB	21 827	8 463
Not rated	61	72
Total due from banks	**1 199 163**	**1 424 853**

12 Financial assets at fair value through profit or loss

	31 December 2008	31 December 2007
Financial assets held for trading		
Corporate bonds	5 112	10 263
Government and municipal bonds	-	654
Derivative financial assets		
Foreign currency interest swap agreements	1 236 110	199 203
Total financial assets at fair value through profit or loss	**1 241 222**	**210 120**

The analysis of the Group’s securities at fair value through profit or loss as at 31 December 2008 and 2007 is as follows:

	31 December 2008		31 December 2007	
	Annual coupon rate, %	Carrying value	Annual coupon rate, %	Carrying value
OJSC “Uralsvyazinform” bonds	-	-	9.0	5 152
OAO “Gazprom” bonds	7.0	5 112	7.0	5 111
Internal state currency loan bonds (OVGVZ)	-	-	3.0	643
Russian Government Federal eurobonds (OFZ)	-	-	5.0 – 8.3	11

As at 31 December 2008 and 2007 all debt securities were rated BBB.

As at 31 December 2008 and 2007 derivative financial assets comprised cross-currency swap contracts, concluded by Gazprombank Mortgage Funding 1 SA and Gazprombank Mortgage Funding 2 SA. Under these contracts the company pays to the counterparty under the swap agreement the contractual principal amounts in Russian Roubles in accordance with the bonds’ repayment schedule and interest amounts at a fixed rate. The counterparty under the swap agreement pays to the relevant company the principal amounts in Euros at a fixed EUR/RUR exchange rate over the period of the cross-currency swap contract and interest payments at a floating interest rate which has the same structure as the floating interest rate for the bonds issued (Note 20). Cross-currency swap contracts are settled at established dates on a monthly basis.

(in thousands of Russian Roubles unless otherwise stated)

In September 2008 international bank Lehman Brothers (the Group's counterparty under a cross-currency swap contract concluded by Gazprombank Mortgage Funding 2 SA) ceased to fulfill its contractual obligations due to severe economic position. Thus, starting from September 2008 there were no exchanges of the principal amounts in Russian Roubles determined in accordance with the bonds' repayment schedule and interest amounts at a fixed rate on the principal amount in Euros, and interest payments at a floating interest rate which has the same structure as the floating interest rate for the bonds issued by Gazprombank Mortgage Funding 2 SA at a fixed EUR/RUR exchange rate.

The Group's claims to international bank Lehman Brothers as at 31 December 2008 amounted to RUR 1 648 732 thousand. The Group created a 100% provision in respect of these claims due to Lehman insolvency.

As at 31 December 2008 net unrealized gains under a cross-currency swap contract, concluded by Gazprombank Mortgage Funding 1 SA, amounted to RUR 1 236 110 thousand. This contract was concluded with an international bank, which was rated AA- as at 31 December 2008. These unrealized gains were included in financial assets at fair value through profit or loss.

13 Loans to customers

	31 December 2008	31 December 2007
Loans to individuals	31 550 996	25 864 384
Loans to legal entities	267 403	253 957
Gross loans to customers	**31 818 399**	**26 118 341**
Provision for loan impairment	(661 485)	(155 583)
Net loans to customers	**31 156 914**	**25 962 758**

(a) Loan refinancing

As at 31 December 2008 net loans to individuals include mortgage and housing loans in the amount of RUR 30 804 946 thousand purchased by the Group from regional and corporate operators under the mortgage and housing loans refinancing program (31 December 2007: RUR 25 643 766 thousand). Under certain purchase contracts the Group has the right to sell mortgage and housing loans in case of the borrower's default after the purchase date. As at 31 December 2008 total loans the Group has the right to sell back amount to RUR 7 738 389 thousand (31 December 2007: RUR 11 750 908 thousand).

Mortgage and housing loans purchased by the Group under the mortgage and housing loans refinancing program are serviced by regional and corporate operators.

(b) Loan impairment losses

Movements in the provision for loan impairment are as follows:

	2008	2007
Balance at 1 January	**155 583**	**72 813**
Loans written-off during the year as uncollectible	-	(3 807)
Loan impairment losses during the year	505 902	94 369
Disposal of subsidiaries	-	(7 792)
Balance at 31 December	**661 485**	**155 583**

As disclosed in Note 3 (g) the Group uses its experience and judgement to estimate the amount of any impairment loss.

The Group has estimated provision for loan impairment based on its past loss experience for these types of loans and taking into account the current economic situation.

(in thousands of Russian Roubles unless otherwise stated)

The Group uses professional judgement to estimate the amount of impairment losses as at 31 December 2008 and 2007. The amount of the loss is measured as the difference between the present value of estimated future cash flows expected from disposal of collateral and discounted at initial interest rate under mortgage loans, and the carrying amount of mortgage loans based on the possibility that mortgage loans will not be repaid by the borrowers and the foreclosure of collateral will be required. In determining the amount of impairment losses the following key assumptions were used:

- The Group expects a delay of 48 months in obtaining proceeds from the foreclosure of collateral, which is compensated by related interest income.

- The Group expects a discount of 40% to the originally appraised value if the property pledged is sold.

Mortgage lending to individuals is a relatively new practice in the Russian Federation. Thus the Group and the finance sector as a whole have a limited historical loss experience in this area that is necessary for loan impairment provision estimates.

If the actual loan payments is less than the amount estimated by the Group, the Group will recognise additional provision for loan impairment.

The Group analysed the loans as at 31 December 2008 and recognized the provision for loan impairment as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans (%)
Loans to individuals				
Loans to individuals assessed for impairment on a collective basis				
Mortgage loans				
- Not past due	26 887 957	(273 092)	26 614 865	1.0
- Overdue less than 30 days	1 784 583	(26 274)	1 758 309	1.5
- Overdue 30-89 days	529 213	(37 096)	492 117	7.0
- Overdue 90-179 days	445 734	(107 346)	338 388	24.1
- Overdue 180-360 days	259 063	(64 397)	194 666	24.9
- Overdue more than 360 days	313 399	(121 218)	192 181	38.7
Total mortgage loans	30 219 949	(629 423)	29 590 526	2.1
Housing loans				
- Not past due	1 168 625	(12 814)	1 155 811	1.1
- Overdue less than 30 days	38 577	(658)	37 919	1.7
- Overdue 30-89 days	21 801	(1 975)	19 826	9.1
- Overdue more than 360 days	1 241	(377)	864	30.4
Total housing loans	1 230 244	(15 824)	1 214 420	1.3
Total loans to individuals assessed for impairment on a collective basis	*31 450 193*	*(645 247)*	*30 804 946*	*2.1*
Loans to individuals assessed for impairment on an individual basis				
Mortgage loans				
- Not past due	54 242	-	54 242	-
Housing loans				
- Not past due	37 914	(30)	37 884	0.1
Consumer loans				
- Not past due	6 737	-	6 737	-
- Overdue less than 30 days	365	(3)	362	0.8
- Overdue more than 360 days	1 545	(1 545)	-	100.0
Total consumer loans	8 647	(1 548)	7 099	17.9
Total loans to individuals assessed for impairment on an individual basis	*100 803*	*(1 578)*	*99 225*	*1.6*
Total loans to individuals	**31 550 996**	**(646 825)**	**30 904 171**	**2.1**
Loans to legal entities				
Loans to legal entities assessed for impairment on an individual basis	258 019	(5 276)	252 743	2.0
- Overdue more than 1 year	9 384	(9 384)	-	100.0
Total loans to legal entities	**267 403**	**(14 660)**	**252 743**	**5.5**
Total loans to customers	**31 818 399**	**(661 485)**	**31 156 914**	**2.1**

(in thousands of Russian Roubles unless otherwise stated)

The Group analysed the loans as at 31 December 2007 and recognized the provision for loan impairment as follows:

	Gross loans	**Provision for Impairment**	**Net loans**	**Provision for Impairment to gross loans (%)**
Loans to individuals				
Loans to individuals assessed for impairment on a collective basis				
Mortgage loans				
- Not past due	23 522 604	(49 397)	23 473 207	0.2
- Overdue less than 30 days	523 448	(3 926)	519 522	0.8
- Overdue 30-89 days	710 921	(55 167)	655 754	7.8
- Overdue 90-179 days	109 719	(13 836)	95 883	12.6
- Overdue 180-360 days	33 346	(4 842)	28 504	14.5
- Overdue more than 360 days	4 351	(863)	3 488	19.8
Total mortgage loans	24 904 389	(128 031)	24 776 358	0.5
Housing loans				
- Not past due	840 135	(6 637)	833 498	0.8
- Overdue less than 30 days	31 859	(1 029)	30 830	3.2
- Overdue 30-89 days	2 674	(421)	2 253	15.7
- Overdue more than 360 days	1 088	(261)	827	24.0
Total housing loans	875 756	(8 348)	867 408	1.0
Total loans to individuals assessed for impairment on a collective basis	*25 780 145*	*(136 379)*	*25 643 766*	*0.5*
Loans to individuals assessed for impairment on an individual basis				
Mortgage loans				
- Not past due	29 822	-	29 822	-
Housing loans				
- Not past due	49 365	(494)	48 871	1.0
Consumer loans				
- Not past due	3 509	-	3 509	-
- Overdue more than 360 days	1 543	(1 543)	-	100.0
Total consumer loans	5 052	(1 543)	3 509	30.5
Total loans to individuals assessed for impairment on an individual basis	*84 239*	*(2 037)*	*82 202*	*2.4*
Total loans to individuals	**25 864 384**	**(138 416)**	**25 725 968**	**0.5**
Loans to legal entities				
Loans to legal entities assessed for impairment on an individual basis	244 573	(7 783)	236 790	3.2
- Overdue more than 1 year	9 384	(9 384)	-	100.0
Total loans to legal entities	**253 957**	**(17 167)**	**236 790**	**6.8**
Total loans to customers	**26 118 341**	**(155 583)**	**25 962 758**	**0.6**

Mortgage loans are loans to customers for purchase of housing real estate ready for use with execution of mortgage deeds. Housing loans are loans to customers for purchase of housing real estate under construction. Loans to individuals assessed for impairment on an individual basis are loans to the Bank’s employees.

(in thousands of Russian Roubles unless otherwise stated)

(c) Collateral

The following table provides an analysis of loan portfolio (net of provision for loan impairment) by types of collateral as at 31 December 2008:

	31 December 2008			31 December 2007		
	Real estate	Other, including loans with no collateral	Total	Real estate	Other, including loans with no collateral	Total
Loans to legal entities	-	252 743	252 743	71 348	165 442	236 790
Loans to individuals	30 897 072	7 099	30 904 171	25 722 459	3 509	25 725 968
Total net loans to individuals	**30 897 072**	**259 842**	**31 156 914**	**25 793 807**	**168 951**	**25 962 758**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying real estate. Housing loans are secured by the relevant claims for real estate under construction.

During 2008 and 2007 the Group did not obtain any assets by taking control of collateral accepted as security.

(d) Asset securitization

The Bank has transferred certain mortgage loans to individuals to Gazprombank Mortgage Funding 1 SA, Gazprombank Mortgage Funding 2 SA, Gazprombank Mortgage Funding 3 SA and OJSC “ISO GPB Mortgage”, entities which are, in substance, controlled by the Bank. Accordingly, the financial statements of Gazprombank Mortgage Funding 1 SA, Gazprombank Mortgage Funding 2 SA, Gazprombank Mortgage Funding 3 SA and OJSC “ISO GPB Mortgage” are consolidated into these consolidated financial statements and the loans are included in the consolidated balance sheet. These loans are pledged by the Group under liabilities in respect of bonds issued by the Group as collateral. As at 31 December 2008, the net amount of the loans pledged was RUR 16 852 763 thousand (31 December 2007: RUR 14 948 879 thousand). As at 31 December 2008, the carrying amount of the bonds issued was RUR 16 390 799 thousand (31 December 2007: RUR 14 386 994 thousand). Refer to Note 20.

(e) Transfer of assets

Mortgage loans transferred but not derecognized

The Group has transferred certain mortgage loans to individuals to MCMIF “RCPF – United Second”, an entity which is, in substance, controlled by the Group. Accordingly, the financial statements of MCMIF “RCPF – United Second” is consolidated into these consolidated financial statements and the loans are included in the consolidated balance sheet. As at 31 December 2008, the net amount of loans transferred to MCMIF “RCPF – United Second” was RUR 122 501 thousand (Note 30).

Mortgage loans sold and derecognized

During the year of 2008 the Group transferred mortgage loans of RUR 1 016 007 thousand to MCMIF “First United”, an entity which is not controlled by the Bank, that resulted in derecognition of mortgage loans transferred, as Management believes that the Group neither retained nor transferred substantially all risks and rewards related to mortgage loans transferred and has not retained control over the assets. The Group retained a right to serve the mortgage loans.

(in thousands of Russian Roubles unless otherwise stated)

(f) Analysis of loan portfolio exposures

The following table provides information on the Group's loan portfolio structure that reflects the risk concentration by economic sectors.

	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Individuals	31 550 996	99.2	25 864 384	99.0
Other	267 403	0.8	253 957	1.0
Total gross loans to customers	**31 818 399**	**100.0**	**26 118 341**	**100.0**

14 Investments available-for-sale

	31 December 2008		31 December 2007	
	Share in capital, %	Carrying value	Share in capital, %	Carrying value
Shares:				
CJSC "ETA & Co"	33.3	4 187	33.3	4 187
CJSC "SFT Trading"	12.1	595	12.1	595
Total investments available-for-sale		**4 782**		**4 782**

Investments in CJSC "ETA & Co" capital of 33.3% are recognized at cost, as equity method recognition would not have significant impact on the Group's consolidated financial statements as a whole.

15 Property and equipment

Changes in the carrying value of buildings and equipment for the year ended 31 December 2008 are as follows:

	Buildings	Equipment and motor vehicles	Construction in progress	Total
Net carrying value as at 1 January 2008	**256 448**	**59 029**	**77 325**	**392 802**
Cost				
Balance at the beginning of the year	265 087	93 416	77 325	435 828
Additions	7 095	11 954	-	19 049
Acquisition of subsidiaries	-	25 437	-	25 437
Disposals	-	(220)	-	(220)
Transfer from investment property	183 129	-	-	183 129
Balance at the end of the year	**455 311**	**130 587**	**77 325**	**663 223**
Accrued depreciation and impairment				
Balance at the beginning of the year	8 639	34 387	-	43 026
Depreciation charge	4 565	18 539	-	23 104
Acquisition of subsidiaries	-	4 001	-	4 001
Disposals	-	(22)	-	(22)
Balance at the end of the year	**13 204**	**56 905**	**-**	**70 109**
Net carrying value as at 31 December 2008	**442 107**	**73 682**	**77 325**	**593 114**

(in thousands of Russian Roubles unless otherwise stated)

Changes in the carrying value of buildings and equipment for the year ended 31 December 2007 are as follows:

	Buildings	Equipment and motor vehicles	Construction in progress	Total
Net carrying value as at 1 January 2007	**261 750**	**54 414**	**-**	**316 164**
Cost				
Balance at the beginning of the year	265 087	118 863	-	383 950
Additions	-	38 977	77 325	116 302
Disposals	-	(64 424)	-	(64 424)
Balance at the end of the year	**265 087**	**93 416**	**77 325**	**435 828**
Accrued depreciation and impairment				
Balance at the beginning of the year	3 337	64 449	-	67 786
Depreciation charge	5 302	14 839	-	20 141
Disposals	-	(44 901)	-	(44 901)
Balance at the end of the year	**8 639**	**34 387**	-	**43 026**
Net carrying value as at 31 December 2007	**256 448**	**59 029**	**77 325**	**392 802**

As at 31 December 2008 property and equipment include fully amortised property that is still in use with the cost of RUR 17 191 thousand (31 December 2007: RUR 16 118 thousand). As at 31 December 2008 and 2007 the Group had no externally constructed intangible assets.

16 Investments property

Changes in the carrying value of investment property for the years ended 31 December 2008 and 2007 are as follows:

	2008	2007
Carrying value at 1 January	**183 129**	**-**
Additions	-	183 129
Transfer to fixed assets	(183 129)	-
Carrying value at 31 December	**-**	**183 129**

As at 31 December 2007 investment property included ownership rights for industrial real estate located in the Moscow region.

17 Other assets

	31 December 2008	31 December 2007
Receivables and prepayments	117 683	126 410
Settlements with budget on other taxes	47 555	5 595
Other	4 112	1 180
Total other assets	**169 350**	**133 185**

As at 31 December 2008 and 2007 other assets did not include overdue indebtedness.

(in thousands of Russian Roubles unless otherwise stated)

18 Due to banks

	31 December 2008	31 December 2007
Term deposits to banks	12 371 516	8 149 877
Correspondent accounts to banks	54 915	473
Total due to banks	**12 426 431**	**8 150 350**

As at 31 December 2008 due to banks include balances of the parent company “Gazprombank” (Open Joint – stock Company) of RUR 12 370 599 thousand (31 December 2007: RUR 8 150 350 thousand).

19 Customer accounts

	31 December 2008	31 December 2007
Settlement and current accounts		
- Legal entities	80 767	9 571
- Individuals	998	869
Deposits and term placements		
- Legal entities	384 044	416 244
Total customer accounts	**465 809**	**426 684**

The table below provides information on the customer accounts concentration by economic sector:

	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Finance and insurance	461 720	99.1	423 134	99.2
Trade	1 912	0.4	1 648	0.4
Individuals	998	0.2	869	0.2
Other	1 179	0.3	1 033	0.2
Total customer accounts	**465 809**	**100.0**	**426 684**	**100.0**

As at 31 December 2008, the aggregate amount of the Bank’s 10 largest customers (or groups of customers) amounted to RUR 402 802 thousand or 86.5% of total customer accounts (31 December 2007: RUR 416 244 thousand or 97.6% of total customer accounts).

20 Debt securities issued

	31 December 2008	31 December 2007
Mortgage-backed securities issued	16 390 799	14 386 994
Promissory notes	627 277	866 308
Total debt securities issued	**17 018 076**	**15 253 302**

(in thousands of Russian Roubles unless otherwise stated)

As at 31 December 2008 mortgage-backed securities issued had the following issue structure:

	Carrying value	Date of issue	Maturity date	Coupon rate, %
Gaprombank Mortgage Funding 1 S.A. A class bonds	3 782 319	21.12.2006	01.12.2046	Euribor+1.3
Gaprombank Mortgage Funding 1 S.A. B class bonds	516 072	21.12.2006	01.12.2046	8.0
Gaprombank Mortgage Funding 1 S.A. C class bonds	342 763	21.12.2006	01.12.2046	11.0
Gaprombank Mortgage Funding 2 S.A. A1 class bonds	4 252 668	25.06.2007	01.06.2047	Euribor+1.1
Gaprombank Mortgage Funding 2 S.A. A2 class bonds	638 397	25.06.2007	01.06.2047	7.5
Gaprombank Mortgage Funding 2 S.A. B class bonds	309 667	25.06.2007	01.06.2047	7.75
Gaprombank Mortgage Funding 2 S.A. C class bonds	64 885	25.06.2007	01.06.2047	10.5
Gaprombank Mortgage Funding 3 S.A. A class bonds	4 622 111	19.12.2007	19.05.2009	MosPrime+2.85
OJSC "ISO GPB Mortgage" bonds	1 861 917	19.10.2006	29.12.2036	8.0
Total mortgage-backed securities issued	**16 390 799**			

As at 31 December 2007 mortgage-backed securities issued had the following issue structure:

	Carrying value	Date of issue	Maturity date	Coupon rate, %
Gaprombank Mortgage Funding 1 S.A. A class bonds	4 105 358	21.12.2006	01.12.2046	Euribor+1.3
Gaprombank Mortgage Funding 1 S.A. C class bonds	341 634	21.12.2006	01.12.2046	11.0
Gaprombank Mortgage Funding 1 S.A. B class bonds	511 435	21.12.2006	01.12.2046	8.0
Gaprombank Mortgage Funding 2 S.A. A 1 class bonds	4 704 869	25.06.2007	01.06.2047	Euribor+1.1
Gaprombank Mortgage Funding 2 S.A. A 2 class bonds	771 542	25.06.2007	01.06.2047	7.5
Gaprombank Mortgage Funding 2 S.A. B class bonds	307 957	25.06.2007	01.06.2047	7.75
Gaprombank Mortgage Funding 2 S.A. C class bonds	326 659	25.06.2007	01.06.2047	10.5
Gaprombank Mortgage Funding 3 S.A. A class bonds	1 009 520	19.12.2007	19.05.2009	MosPrime+2.85
OJSC "ISO GPB Mortgage" Bonds	2 308 020	19.10.2006	29.12.2036	8.0
Total mortgage-backed securities issued	**14 386 994**			

Payments under mortgage-backed securities issued are made on a monthly basis. Under the terms of the bonds, bonds of more senior tranches are repaid first. When entering into these transactions, the Group also entered into cross-currency swap contracts with guaranteed amounts with large international banks. Under these contracts, all principal and fixed rate interest repayment amounts received by the Group in Russian Roubles under mortgage loans pledged as collateral for bonds issued are exchanged for amounts in Euros at floating rates, which are then used for payments on mortgage-backed securities issued (Note 12).

In September 2008 international bank Lehman Brothers (the Group's counterparty under a cross-currency swap contract concluded by Gazprombank Mortgage Funding 2 SA) ceased to fulfill its contractual obligations due to severe economic position. Thus, starting from September 2008 there were no exchanges of the principal amounts in Russian Roubles determined in accordance with the bonds' repayment schedule and interest amounts at a fixed rate on the principal amount in Euros, and interest payments at a floating interest rate which has the same structure as the floating interest rate for the bonds issued by Gazprombank Mortgage Funding 2 SA at a fixed EUR/RUR exchange rate (Note 12).

21 Subordinated debts

	31 December 2008	31 December 2007
Subordinated debts	1 517 000	1 517 000
Total subordinated debts	**1 517 000**	**1 517 000**

(in thousands of Russian Roubles unless otherwise stated)

As at 31 December 2008 and 2007 subordinated debts had the following structure:

	Coupon rate, %	Maturity date	31 December 2008	31 December 2007
Subordinated debt from a related party	7.0	30.09.2013	1 300 000	1 300 000
Subordinated debt from a related party	8.5	25.03.2009	217 000	217 000

In case of bankruptcy, the repayment of the subordinated debts shall be made after repayment in full of all other liabilities of the Group.

22 Other liabilities

	31 December 2008	31 December 2007
Payables	618 379	714 218
Employee compensation	24 198	19 651
Tax payables other than on income	21 112	2 349
Other	36 081	11 593
Total other liabilities	**699 770**	**747 811**

As at 31 December 2008 payables included liabilities in respect of repurchase of OJSC “ISO GPB Mortgage” preference shares of RUR 613 193 thousand (31 December 2007: RUR 670 760 thousand).

23 Share capital

As at 31 December 2008 and 2007 the Group’s issued share capital comprised 224 995 944 ordinary shares with the nominal value of RUR 10 each.

All ordinary shares belong to the same class and have one vote.

Changes in the number of shares in circulation for 2008 and 2007 are as follows:

	2008	2007
Share capital at 1 January	2 402 691	977 691
Share issue	-	1 425 000
Share capital at 31 December	**2 402 691**	**2 402 691**

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. As at 31 December 2008 funds available for distribution amounted to RUR 331 286 thousand (31 December 2007: RUR 84 642 thousand). During 2008 and 2007 no dividends were declared.

(in thousands of Russian Roubles unless otherwise stated)

24 Cash and cash equivalents

As at the end of the reporting period cash and cash equivalents recognized in the consolidated statement of cash flows were as follows:

	31 December 2008	31 December 2007
Nostro accounts with banks	1 109 096	1 074 752
Short term deposits with banks	90 067	118 692
Nostro accounts with the Central Bank of the Russian Federation	67 394	18 313
Total cash and cash equivalents	**1 266 557**	**1 211 757**

25 Risk management

Taking risk is core to the financial business. The Group’s aim is to achieve an appropriate balance between risk and return and minimize potential adverse effect on the Group’s financial performance. The Group has exposure to risks, which include credit, market, liquidity, operational risks and other risks.

(a) Risk management policies and procedures

The Group’s risk management policy aims to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports directly to the Chairman of the Board of the Bank and indirectly to the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Group’s organisational structure. Apart from the standard credit and market risk analysis, the Risk and Methodology Department monitors non-financial (operational) risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or a counterparty on their obligation to the Group.

(i) Credit risk management

The Group conducts its credit activity based on the regulations of the CBR and internationally-acknowledged principles. The credit policy is approved by the Management Board and the Credit Committee of the Bank.

The Group’s major activities include mortgage and housing lending to individuals. The Group’s mortgage portfolio comprised claims on mortgage and housing loans repurchased from regional and corporate operators that are initial lenders. When making decision to repurchase claims on mortgage and housing loans from regional and corporate operators the Group uses certain criteria approved by the Bank’s credit committee. Regional and corporate operators provide mortgage and housing loans maintainance services to the Group for the loans purchased by the Group.

In the course of business the Group assumes credit risk in respect of the following types of borrowers:

- Mortgage and housing loans borrowers – individuals;
- Regional operators servicing mortgage and housing loans, which have liabilities to repurchase loans in case of default;
- Corporate operators – entities, which are related parties to the Group, servicing mortgage and housing loans, to which the Group provides loans for their expansion and maintaining current activity;
- Other counterparties forming part of the mortgage and housing lending infrastructure (insurance and appraisal companies).

The Group’s key credit risk management activities include:

- setting limits for mortgage lending;
- setting standard requirement in respect of the borrower, collateral, terms of lending;
- creating impairment allowance for possible losses from credit risk;
- diversification of mortgage and housing loan portfolio;
- estimation of credit risk exposure and establishing interest rate which incorporates appropriate compensation for the risk assumed;
- monitoring of loans issued;
- segregation of employees’ duties.

The Group’s maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off-balance sheet commitments, except that for mortgage-backed securities the mortgage loans pledged as collateral is the sole source of repayment of the debt and, therefore, the Group’s exposure to credit risk in respect of such mortgage loans is limited to the mortgage-backed securities retained by the Group.

Setting limits for mortgage lending

The Group operates within maximum of credit risk exposure level established for all assets in relation to equity and maximum risk in respect of one borrower or a group of borrowers (effective requirements of the CBR for ratios N1 (Capital adequacy ratio) and N6 (Maximum amount of risk per borrower or per group of related borrowers). The Group continuously monitors the actual amount of risks assumed in comparison with the regulations set.

To reduce credit risk from errors of the Group’s employees and regional/corporate operators, the Group introduced limits on the maximum amount of repurchased mortgage and housing loans. The amount exceeding the maximum limit requires an approval of the Credit Committee of the Group in addition to an approval of the credit committees of primary lenders.

Based on the analysis of the creditworthiness of the Group’s counterparties, which form part of the mortgage lending infrastructure, the Group sets limits on the risk exposure in respect of these counterparties.

The Group’s credit risk management policy requires appraisers of collateral to maintain professional liability insurance policies.

Standard requirements in respect of borrowers, pledged real estate, terms of lending

The Group introduced standard requirements for mortgage and housing loans in respect of borrowers and pledged real estate, which serve the basis for decision-making on repurchase of mortgage loans from the Group’s regional and corporate operators. These requirements include:

- requirement to secure the loan issued by pledge of real estate (for mortgage loans), or pledge of claims for construction-in-progress (for housing loans), with value of collateral exceeding the loan balance (“l/p” ratio is used, “loan to pledge”);
- limit on the ratio of loan payments on to the borrower’s income level (“p/i” ratio is used, “payment to income”);
- requirements for insurance of the property pledged, and borrower’s life and disability;
- requirements to use loan contracts which comply with the Group’s standards, including the loan amount, the size of the initial payment and the loan interest rate.

The Group has repurchase agreements to sell back loans overdue more that 30 days with its corporate operators.

The Group developed internal procedures to analyze the financial position of the Group’s counterparties, which form part of the mortgage lending infrastructure (insurance companies, banks).

Provision for loan impairment

For the purposes of accounting for the credit risk exposure, the Group creates and monitors on a monthly basis provisions for impairment of mortgage and housing loans as well as loans to the Group’s corporate operators in accordance with the internal procedures.

Monitoring of issued loans

The Group monitors borrowers’ payments under the mortgage and housing loans and on a monthly basis prepares reports on overdue loan indebtedness.

The Group developed regulations for management of overdue indebtedness under mortgage and housing loans for regional and corporate operators servicing mortgage and housing loans purchased by the Group. The Group continuously monitors regional and corporate operators' performance in respect of management of overdue indebtedness under mortgage and housing loans.

The Group also monitors the financial position of corporate operators and the Group's counterparties which are the borrowers of the Group, and variances between actual and budgeted figures business plan performance (for regional operators) on a quarterly basis. Debt servicing is controlled on a continuous basis.

Assessment of credit risk and its effect on the interest rate

The Group uses an internal methodology to measure credit risk exposure on mortgage loans and its effect on the loan interest rates.

Diversification of mortgage and housing loan portfolio

The Group's activity is concentrated on purchase of mortgage and housing loans in all regions of the Russian Federation with strong mortgage lending market potential. Economic dependence and other factors relevant to borrowers are taken into account on purchase of mortgage and housing loans.

(ii) Changes in credit risk management

Taking into account the economic crisis spreading in the economy of the Russian Federation, which resulted in a decrease in the population income and creditworthiness, the Group toughened its requirements in respect of borrowers for new loans in 2008.

- A new requirement was introduced to include all expenses of the borrower in the calculation of the maximum monthly payment determined as a difference between the aggregate income and aggregate expense (including family maintenance expenses) of the borrower.
- Individual entrepreneurs and applicants who cannot provide official documentary proof of their income are excluded from the potential borrowers list.
- Interest rates on mortgage and housing loans were increased due to an additional charge for credit risk compensation.

Due to the current crisis in the international mortgage market the Group supplemented its risk management strategy with prospectus in respect of movements in prices of real estate that serves as collateral for mortgage and housing loans.

(in thousands of Russian Roubles unless otherwise stated)

(c) Geographical concentration

The majority of the Group's activities are within the Russian Federation.

Geographical analysis of the Group's assets and liabilities as at 31 December 2008 is as follows:

	Russian Federation	OECD countries	Total
ASSETS			
Due from the Central Bank of the Russian Federation	73 739	-	73 739
Due from banks	689 263	509 900	1 199 163
Financial instruments at fair value through profit or loss	5 112	1 236 110	1 241 222
Loans to customers	31 156 914	-	31 156 914
Investments available-for-sale	4 782	-	4 782
Property and equipment	593 114	-	593 114
Current income tax receivable	52 287	-	52 287
Deferred tax assets	202 687	-	202 687
Other assets	169 350	-	169 350
Total assets	**32 947 248**	**1 746 010**	**34 693 258**
LIABILITIES			
Due to banks	12 419 814	6 617	12 426 431
Customer accounts	465 809	-	465 809
Debt securities issued	7 111 305	9 906 771	17 018 076
Subordinated debts	1 517 000	-	1 517 000
Current income tax payable	68	-	68
Deferred tax liabilities	150 735	-	150 735
Other liabilities	699 770	-	699 770
Total liabilities	**22 364 501**	**9 913 388**	**32 277 889**

Geographical analysis of the Group's assets and liabilities as at 31 December 2007 is as follows:

	Russian Federation	OECD countries	Total
ASSETS			
Due from the Central Bank of the Russian Federation	75 843	-	75 843
Due from banks	1 021 927	402 926	1 424 853
Financial instruments at fair value through profit or loss	10 917	199 203	210 120
Loans to customers	25 962 758	-	25 962 758
Investments available-for-sale	4 782	-	4 782
Property and equipment	392 802	-	392 802
Investment property	183 129	-	183 129
Current income tax receivable	46 970	-	46 970
Other assets	133 185	-	133 185
Total assets	**27 832 313**	**602 129**	**28 434 442**
LIABILITIES			
Due to banks	8 150 350	-	8 150 350
Customer accounts	425 602	1 082	426 684
Debt securities issued	3 174 328	12 078 974	15 253 302
Subordinated debts	1 517 000	-	1 517 000
Current income tax payable	35		35
Deferred tax liabilities	6 518	-	6 518
Other liabilities	747 811	-	747 811
Total liabilities	**14 021 644**	**12 080 056**	**26 101 700**

As at 31 December 2008 and 2007 all credit related commitments refer to the residents of the Russian Federation.

Financial assets, liabilities and credit related commitments were classified by the counterparty's registered address.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions 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.

(i) Liquidity risk management

The Group maintains the necessary liquidity position with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Treasury Department is responsible for the Group's current liquidity position management. The Group's Management Board manages the Group's balance sheet liquidity position through taking relevant operating and strategic decisions on the basis of analytical materials, fact sheets, as well as calculations of liquidity ratios, prepared by the Finance and Economic Department on a continuous basis.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2008 and 31 December 2007.

(ii) Liquidity risk assessment

Key factors in assessing the Group's assets and liabilities liquidity and its sensitivity to changes in interest and exchange rates are maturity dates of the Group's assets and liabilities as well as the possibility to replace interest bearing liabilities as they mature with other liabilities at acceptable price.

The following tables show the breakdown of carrying value on the Group's assets and liabilities on the basis of their contractual maturity.

(in thousands of Russian Roubles unless otherwise stated)

The liquidity position of the Bank as at 31 December 2008 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	No maturity	Total
ASSETS								
Due from Central Bank of the Russian Federation	67 394	-	-	-	-	-	6 345	73 739
Due from banks	1 199 163	-	-	-	-	-	-	1 199 163
Financial instruments at fair value through profit or loss	8 475	10 611	43 416	399 472	779 248	-	-	1 241 222
Loans to customers	181 262	782 001	6 968 058	12 190 126	8 032 270	3 003 197	-	31 156 914
Investments available-for-sale	-	-	-	-	-	-	4 782	4 782
Property and equipment	-	-	-	-	-	-	593 114	593 114
Current income tax receivable	-	52 287	-	-	-	-	-	52 287
Deferred tax assets	-	-	-	-	-	-	202 687	202 687
Other assets	11 662	11 888	6 852	25 950	112 998	-	-	169 350
Total assets	**1 467 956**	**856 787**	**7 018 326**	**12 615 548**	**8 924 516**	**3 003 197**	**806 928**	**34 693 258**
LIABILITIES								
Due to banks	54 915	1 482	-	12 370 034	-	-	-	12 426 431
Customer accounts	81 765	32 256	351 788	-	-	-	-	465 809
Debt securities issued	151 963	637 075	6 556 797	8 714 736	957 505	-	-	17 018 076
Subordinated debts	17 000	-	200 000	1 300 000	-	-	-	1 517 000
Current income tax payable	68	-	-	-	-	-	-	68
Deferred tax liabilities	-	-	-	-	-	-	150 735	150 735
Other liabilities	106	86 501	-	-	613 163	-	-	699 770
Total liabilities	**305 817**	**757 314**	**7 108 585**	**22 384 770**	**1 570 668**	**-**	**150 735**	**32 277 889**
Net liquidity gap	**1 162 139**	**99 473**	**(90 259)**	**(9 769 222)**	**7 353 848**	**3 003 197**	**656 193**	**2 415 369**
Cumulative liquidity gap	**1 162 139**	**1 261 612**	**1 171 353**	**(8 597 869)**	**(1 244 021)**	**1 759 176**	**2 415 369**	

The Group estimates that the negative accumulated gap will be sufficiently covered by open credit line facilities from the parent company.

(in thousands of Russian Roubles unless otherwise stated)

The liquidity position of the Bank as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	No maturity	Total
ASSETS								
Due from Central Bank of the Russian Federation	18 313	-	-	-	-	-	57 530	75 843
Due from banks	1 193 444	-	-	-	231 409	-	-	1 424 853
Financial instruments at fair value through profit or loss	542	1 710	6 997	74 469	126 402	-	-	210 120
Loans to customers	198 003	316 133	1 242 232	12 202 665	10 666 664	1 337 061	-	25 962 758
Investments available-for-sale	-	-	-	-	-	-	4 782	4 782
Property and equipment	-	-	-	-	-	-	392 802	392 802
Investment property	-	-	-	-	-	-	183 129	183 129
Current income tax receivable	-	46 970		-	-	-	-	46 970
Other assets	9 173	9 350	5 385	20 409	88 868	-	-	133 185
Total assets	**1 419 475**	**374 163**	**1 254 614**	**12 297 543**	**11 113 343**	**1 337 061**	**638 243**	**28 434 442**
LIABILITIES								
Due to banks	473	-	1 329 490	6 820 387	-	-	-	8 150 350
Customer accounts	10 440	176 472	239 772	-	-	-	-	426 684
Debt securities issued	202 030	322 563	1 267 499	12 450 867	1 010 343	-	-	15 253 302
Subordinated debts	17 000	-	-	200 000	1 300 000	-	-	1 517 000
Current income tax payable	35	-	-	-	-	-	-	35
Deferred tax liabilities	-	-	-	-	-	-	6 518	6 518
Other liabilities	8 541	68 510	-	-	670 760	-	-	747 811
Total liabilities	**238 519**	**567 545**	**2 836 761**	**19 471 254**	**2 981 103**	**-**	**6 518**	**26 101 700**
Net liquidity gap	**1 180 956**	**(193 382)**	**(1 582 147)**	**(7 173 711)**	**8 132 240**	**1 337 061**	**631 725**	**2 332 742**
Cumulative liquidity gap	**1 180 956**	**987 574**	**(594 573)**	**(7 768 284)**	**363 956**	**1 701 017**	**2 332 742**	

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognized credit related commitments on the basis of their earliest possible contractual maturity. The total gross amounts (inflow)/outflow disclosed in the tables are the contractual, undiscounted cash flows on the financial liabilities or credit related commitments. Mortgage-backed securities issued are shown in the table below by their expected maturity dates (Note 20). The Group's expected cash flows on these financial liabilities and unrecognized credit related commitments may vary significantly from this analysis.

(in thousands of Russian Roubles unless otherwise stated)

The Group’s position as at 31 December 2008 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Gross nominal amount (inflow)/outflow	Carrying amount
Non-derivative liabilities							
Due to banks	55 831	277 397	847 603	13 192 173	-	14 373 004	12 426 431
Customer accounts	81 765	39 205	355 812	-	-	476 782	465 809
Debt securities issued	269 302	659 117	7 120 322	10 346 669	1 049 397	19 444 807	17 018 076
Subordinated debts	17 000	-	303 868	1 531 814	-	1 852 682	1 517 000
Other liabilities	106	86 501	-	-	613 163	699 770	699 770
Derivative liabilities							
- Inflow	66 258	196 251	887 706	2 955 768	-	4 105 983	1 236 110
- Outflow	(72 887)	(186 702)	(761 750)	(1 765 090)	-	(2 786 429)	-
Total	**417 375**	**1 071 769**	**8 753 561**	**26 261 334**	**1 662 560**	**38 166 599**	**33 363 196**
Credit related commitments	**65 685**	**-**	**-**	**-**	**1 967**	**67 652**	**67 652**

The Group’s position as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Gross nominal amount (inflow)/outflow	Carrying amount
Non-derivative liabilities							
Due to banks	149 877	174 271	1 814 142	7 409 570	-	9 547 860	8 150 350
Customer accounts	11 936	180 099	247 311	-	-	439 346	426 684
Debt securities issued	250 688	702 004	2 912 088	14 898 734	1 298 105	20 061 619	15 253 302
Subordinated debts	17 000	-	91 000	593 668	1 367 814	2 069 482	1 517 000
Other liabilities	8 541	68 510	-	-	670 760	747 811	747 811
Derivative liabilities							
- Inflow	208 914	405 452	1 792 175	7 650 682	-	10 057 223	199 203
- Outflow	(219 351)	(424 343)	(1 866 832)	(7 300 549)	-	(9 811 075)	
Total	**427 605**	**1 105 993**	**4 989 884**	**23 252 105**	**3 336 679**	**33 112 266**	**26 294 350**
Credit related commitments	**5 764**	**-**	**-**	**-**	**1 967**	**7 731**	**7 731**

The table below represents mortgage-backed securities issued by their contractual maturities:

	31 December 2008	31 December 2007
Demand and less than 1 month	151 963	41 495
From 1 to 3 months	637 075	130 940
From 3 to 12 months	5 929 520	535 749
From 1 to 5 years	8 714 736	4 000 000
More than 5 years	957 505	9 678 810
Total mortgage-backed securities issued	**16 390 799**	**14 386 994**

(in thousands of Russian Roubles unless otherwise stated)

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- Instant liquidity ratio (N2), calculated as a ratio of highly liquid assets to liabilities payable on demand.
- Current liquidity ratio (N3), calculated as a ratio of highly liquid assets to liabilities with maturity period less than 30 days.
- Long-term liquidity ratio (N4), calculated as a ratio of the Bank’s assets with maturity period more than 1 year to equity and liabilities with maturity period more than 1 year.

The Bank was in compliance with these ratios during the years ended 31 December 2008 and 31 December 2007. The Bank’s mandatory liquidity ratios calculated as at 31 December 2008 and 31 December 2007 are as follows:

	Asset	31 December 2008 %	31 December 2007 %
Instant liquidity ratio (N2)	Not less than 15%	42.2	77.2
Current liquidity ratio (N3)	Not less than 50%	284.3	390.9
Longterm liquidity ratio (N4)	Not more than 120%	86.7	94.1

(e) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group’s income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

(i) Market risk management

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Groups risk management activity is aimed at reducing the possibility of risks as well as mitigating current risks (reduction of possible losses and consequences for the Group’s activity).

The Group manages its market risk by setting open position limits in relation to re-pricing gaps for assets and liabilities, open position limits in relation to financial instrument, interest rate re-pricing and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

(ii) Currency risk

Currency risk is the risk of changes in the value of a financial instrument due to fluctuations in foreign exchange rates. The Group’s financial position and cash flows are subject to fluctuations in foreign exchange rates. The Group’s management sets limits in respect of risk level for various currencies, which are also in compliance with the requirements of the CBR. The Treasury Department monitors on the daily basis the actual amount of risks compared with the limits set.

(in thousands of Russian Roubles unless otherwise stated)

The following table shows the Bank's currency position analysis as at 31 December 2008.

	RUR	USD	EUR	Other currencies	Total
ASSETS					
Due from the Central Bank of the Russian Federation	73 739	-	-	-	73 739
Due from banks	1 169 874	5 537	23 537	215	1 199 163
Financial instruments at fair value through profit or loss	5 112	-	1 236 110	-	1 241 222
Loans to customers	31 156 914	-	-	-	31 156 914
Investments available-for-sale	4 782	-	-	-	4 782
Property and equipment	593 114	-	-	-	593 114
Current income tax receivable	52 287	-	-	-	52 287
Deferred tax assets	202 687	-	-	-	202 687
Other assets	169 350	-	-	-	169 350
Total assets	**33 427 859**	**5 537**	**1 259 647**	**215**	**34 693 258**
LIABILITIES					
Due to banks	12 419 248	7 183	-	-	12 426 431
Customer accounts	458 623	4 914	2 167	105	465 809
Debt securities issued	8 983 089	-	8 034 987	-	17 018 076
Subordinated debts	1 517 000	-	-	-	1 517 000
Current income tax payable	68	-	-	-	68
Deferred tax liabilities	150 735	-	-	-	150 735
Other liabilities	699 770	-	-	-	699 770
Total liabilities	**24 228 533**	**12 097**	**8 037 154**	**105**	**32 277 889**
Net on balance sheet position	**9 199 326**	**(6 560)**	**(6 777 507)**	**110**	**2 415 369**
Net off balance sheet position	**(3 782 319)**	**-**	**3 782 319**	**-**	**-**
Net position	**5 417 007**	**(6 560)**	**(2 995 188)**	**110**	**2 415 369**
Credit related commitments	**67 652**	**-**	**-**	**-**	**67 652**

As at 31 December 2008 an off balance sheet position is the position in respect of a cross-currency swap contract concluded with Gazprombank Mortgage Funding 1 (Note 12).

(in thousands of Russian Roubles unless otherwise stated)

The following table shows the Bank's currency position analysis as at 31 December 2007:

	RUR	USD	EUR	Other currencies	Total
ASSETS					
Due from the Central Bank of the Russian Federation	75 843	-	-	-	75 843
Due from banks	1 401 984	11 288	10 807	774	1 424 853
Financial instruments at fair value through profit or loss	10 263	654	199 203	-	210 120
Loans to customers, net	25 962 758	-	-	-	25 962 758
Investments available-for-sale	4 782	-	-	-	4 782
Property and equipment	392 802	-	-	-	392 802
Investment property	183 129	-	-	-	183 129
Current income tax receivable	46 970	-	-	-	46 970
Other assets	133 185	-	-	-	133 185
Total assets	**28 211 716**	**11 942**	**210 010**	**774**	**28 434 442**
LIABILITIES					
Due to banks	8 149 877	473	-	-	8 150 350
Customer accounts	423 672	1 043	1 861	108	426 684
Debt securities issued	6 443 075	-	8 810 227	-	15 253 302
Subordinated debts	1 517 000	-	-	-	1 517 000
Current income tax payable	35	-	-	-	35
Deferred tax liabilities	6 518	-	-	-	6 518
Other liabilities	747 811	-	-	-	747 811
Total liabilities	**17 287 988**	**1 516**	**8 812 088**	**108**	**26 101 700**
Net on balance sheet position	**10 923 728**	**10 426**	**(8 602 078)**	**666**	**2 332 742**
Net off balance sheet position	**(8 810 227)**	**-**	**8 810 227**	**-**	**-**
Net position	**2 113 501**	**10 426**	**208 149**	**666**	**2 332 742**
Credit related commitments	**7 731**	**-**	**-**	**-**	**7 731**

As at 31 December 2007 an off balance sheet position is the position in respect of cross-currency swap contracts concluded with Gazprombank Mortgage Funding 1 and Gazprombank Mortgage Funding 2 (Note 12).

An analysis of sensitivity of the Bank's net income for the year and the Group's equity to changes in the exchange rates based on net positions existing as at 31 December 2008 and a simplified scenario of a 20% change in major currencies exchange rates is as follows:

	31 December 2008	
	Net income	**Equity**
20% appreciation of USD against RUR	(997)	(997)
20% depreciation of USD against RUR	997	997
20% appreciation of EUR against RUR	3 251	3 251
20% depreciation of EUR against RUR	(3 251)	(3 251)

(in thousands of Russian Roubles unless otherwise stated)

An analysis of sensitivity of the Bank’s net income for the year and equity and the Group’s equity to changes in the exchange rates based on net positions existing as at 31 December 2007 and a simplified scenario of a 5% change in major currencies exchange rates is as follows.

	31 December 2007	
	Net income	**Equity**
5% appreciation of USD against RUR	396	396
5% depreciation of USD against RUR	(396)	(396)
5% appreciation of EUR against RUR	7 910	7 910
5% depreciation of EUR against RUR	(7 910)	(7 910)

(iii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group’s income or the value of its portfolios of financial instruments.

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Group manages interest rate risk by regular assessment of possible losses which could arise from negative changes in market conditions. The Economic Analysis Department monitors the Group’s financial results, assesses the Group’s exposure to changes in interest rates and their impact on the Group’s profit.

The majority of the Group’s interest bearing assets and liabilities are fixed rate instruments, except for mortgage-backed securities.

The following table provides an analysis of average effective interest rates by major currencies for principal categories of monetary financial instruments. The analysis is prepared based on weighted interest rates on different financial instruments using effective interest rates as at the end of the period.

	31 December 2008 %		31 December 2007 %	
	RUR	**EUR and other currencies**	**RUR**	**EUR and other currencies**
ASSETS				
Due from banks	1.2	-	2.9	-
Financial instruments at fair value through profit or loss	7.0	-	5.8	-
Loans to customers	13.7	-	13.4	-
LIABILITIES				
Due to banks	9.3	-	9.7	-
Customer accounts	4.3	-	4.6	-
Debt securities issued	13.9	6.4	9.8	6.0
Subordinated debts	7.8	-	7.8	-

An analysis of sensitivity of the Group’s net income and equity for the year 31 December 2008 to changes in the market interest rates based on a simplified scenario of a 500 basis points (bp) symmetrical fall or rise in all yield curves and assuming no asymmetrical changes in yield curves and constant balance sheet position is as follows:

	31 December 2008
500 bp parallel rise	44 185
500 bp parallel fall	(44 185)

(in thousands of Russian Roubles unless otherwise stated)

An analysis of sensitivity of the Group's net income for the year ended 31 December 2007 to changes in the market interest rates based on a simplified scenario of a 100 basis points (bp) symmetrical fall or rise in all yield curves and assuming no asymmetrical changes in yield curves and constant balance sheet position is as follows:

	31 December 2007
100 bp parallel rise	2 687
100 bp parallel fall	(2 687)

This analysis is based on the assumption of a constant balance sheet position, no asymmetrical changes in yield curves and it excludes the effect of changes in interest rates in respect of demand customer accounts.

(iv) Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Bank takes a long or short position in an equity financial instrument.

The Group is not exposed to significant equity price risk in respect of investment in equity securities.

26 Capital management

The Group manages capital to ensure its ability to continue as a going concern, increasing the shareholders' profit by maintaining an optimal ratio of borrowings to the Group's capital.

The Group's capital structure is represented by borrowings, including subordinated debts (Note 21) and the shareholders' capital, which comprises the share capital, and retained earnings disclosed in the statement of changes of shareholders' equity.

The capital structure is monitored by the Management Board of the Group on a regular basis. In particular, the Management Board of the Bank analyses the capital base and risks inherent in the each class of capital.

Twice a year based on the recommendations of the Board of Directors the General Shareholders' Meeting adjusts the structure of the capital by paying dividends and, when necessary, the General Shareholders' Meeting takes a decision to change the volume of the share capital and register an additional share issue.

The Group's general policy in respect of risks inherent in capital management did not change as compared with 2007.

The Group monitors its capital adequacy requirements calculated in accordance with the Basel Accord (commonly known as Basel I) as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007).

The following table shows the analysis of the Bank's capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2008:

	31 December 2008
Tier 1 capital	
Share capital	2 402 691
Retained earnings	12 678
Total tier 1 capital	**2 415 369**
Tier 2 capital	
Subordinated debts (unamortized portion)	784 655
Total tier 2 capital	**784 655**
Total capital	**3 200 024**
Risk-weighted assets	
Banking book	18 254 571
Trading book	5 911
Total risk weighted assets	**18 260 482**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**17.5**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**13.2**

(in thousands of Russian Roubles unless otherwise stated)

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

27 Contingencies and commitments

(a) Litigation

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

(b) Tax legislation

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

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

(c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	31 December 2008	31 December 2007
Less than 1 year	451	2 827
Between 1 and 5 years	-	275
More than 5 years	-	265
Total operating lease commitments	**451**	**3 367**

During 2008 RUR 3 002 thousand was recognised as operating expenses in the consolidated income statement in respect of operating lease commitments (2007: RUR 18 298 thousand).

(d) Credit related commitments

Credit related commitments comprise guarantees and undrawn credit lines. 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.

Guarantees carry the same risk as loans. Undrawn credit lines are obligations of the Group to provide loan to a customer in case of necessity.

Current credit related commitments are as follows:

	31 December 2008	31 December 2007
Guarantees issued	1 967	1 967
Undrawn credit lines	65 685	5 764
Total credit related commitments	**67 652**	**7 731**

The majority of the above mentioned commitments may expire or terminate without being funded. Thus the credit related commitments mentioned above do not necessarily represent future cash outflow.

(in thousands of Russian Roubles unless otherwise stated)

28 Fair value of financial instruments

The estimated fair value of the Group’s financial assets and liabilities as required by IFRS 7 “Financial Instruments: Disclosures” is as follows.

The estimated fair value of financial instruments at fair value through profit or loss, quoted available-for-sale assets, and other quoted securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. The estimated fair value of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair value of all financial instruments approximates their carrying values except for financial instruments stated in the table below.

	31 December 2008	
	Carrying value	**Fair value**
Loans to customers	31 156 914	29 725 421
Debt securities issued	(16 390 799)	(15 227 595)
Subordinated debts	(1 517 000)	(1 343 047)

29 Related parties transactions

For the purposes of these consolidated financial statements the parties are considered to be related if one party has the ability to control the other party or may have a significant influence over the other party in making financial or operational decision in compliance with IAS 24 “Related Parties Disclosures”. In considering each possible related party relationship the economic substance of the relationship is taken into consideration, not merely their legal form.

Related parties of the Group comprise the shareholders of the Bank as well as directors and key management personnel of the Group and other related parties. Other related parties are mainly companies which are under common control with the Bank and other companies the shareholders, directors and key management personnel of the Bank may have control or significant influence on. As at 31 December 2008 related parties primarily include the companies of the “Gazprombank” (Open Joint – stock Company) Group.

In 2008 the remuneration of the key management personnel of the Group amounted to RUR 63 306 thousand (2007: RUR 53 444 thousand).

The outstanding balances and average interest rates with the related parties as at 31 December 2008 were as follows:

	Shareholders of the Bank		Other related parties	
	Carrying value, RUR’000	**Average interest rate, %**	**Carrying value, RUR’000**	**Average interest rate, %**
ASSETS				
Due from banks	597 474	5.1	-	
Loans to customers	-	-	243 221	14.1
Total assets	**597 474**	**5.1**	**243 221**	**14.1**
LIABILITIES				
Due to banks	12 370 599	10.1	-	-
Customer accounts	-	-	34 411	-
Debt securities issued	4 622 111	MosPrime+2.85	-	-
Subordinated debts	1 517 000	7.2	-	-
Other liabilities	-	-	613 193	-
Total liabilities	**18 509 710**	**9.9**	**647 604**	**-**
Undrawn credit lines and loan commitments	13 945	-	285	-

(in thousands of Russian Roubles unless otherwise stated)

The results of transactions with related parties as at 31 December 2008 were as follows:

	Shareholders of the Bank	Directors and key management personnel	Other related parties
Interest income on due from banks	307	-	-
Interest income on loans to customers	-	-	32 649
Recovery of provision for loan impairment	-	-	962
Interest expense on due to banks	(847 861)	-	-
Interest expense on debt securities issued	(109 442)	-	-
Interest expense on subordinated debts	(108 000)	-	-
Net fee and commission income	8 923	-	-
Operating expenses	-	(63 306)	-

The outstanding balances and average interest rates with the related parties as at 31 December 2007 were as follows:

	Shareholders of the Bank		Other related parties	
	Carrying value, RUR'000	Average interest rate, %	Carrying value, RUR'000	Average interest rate, %
ASSETS				
Due from banks	211 244	2.9	-	
Loans to customers (before impairment losses)	-	-	177 554	11.6
Loan impairment losses	-	-	(5 736)	0.5
Total assets	**211 244**	**2.9**	**171 818**	**11.3**
LIABILITIES				
Due to banks	8 150 350	9.7	-	-
Subordinated debts	1 517 000	7.2	-	-
Other liabilities	-	-	670 760	-
Total liabilities	**9 667 350**	**8.6**	**670 760**	**-**
Undrawn credit lines and loans liabilities	800 000	-	5 764	-

The results of transactions with related parties as at 31 December 2007 were as follows:

	Shareholders of the Bank	Directors and key management personnel	Other related parties
Interest income on due from banks	933	-	-
Interest income on loans to customers	-	-	7 009
Interest expense on due to banks	(374 944)	-	-
Interest expense on subordinated debts	(108 000)	-	-
Net fee and commission income	12 056	-	2 822
Operating expenses	-	(53 444)	-

30 Changes in the Group's structure

In January 2008 the Group established and acquired 100% of the shares in MCMIF "RCPF - United Second" at a nominal value for RUR 300 mln (Note 13).

In December 2008 the Group established and acquired 100% of the shares of MCMIF "Third United" at a nominal value for RUR 250 mln (Note 13).

In February 2008 the Group acquired 100% of the shares in LLC "Belkor" for RUR 120 mln.

(in thousands of Russian Roubles unless otherwise stated)

Net assets of the acquired entity at the date of acquisition were as follows:

	Recognised fair value on acquisition
ASSETS	
Due from banks	3 210
Property and equipment	21 436
Other assets	11 737
LIABILITIES	
Due to banks	(2 200)
Other liabilities	(2 273)
Net identifiable assets and liabilities	**31 910**
Goodwill on acquisition	88 090
Consideration paid	**120 000**
Net cash outflow	(116 790)

As at 31 December 2008 the Group's goodwill was tested for impairment. As a result goodwill impairment was recognized in the consolidated income statement for the year ended 31 December 2008 in the amount of RUR 88 090 thousand.

Movement in the amount of goodwill is as follows:

	2008	2007
Goodwill at 1 January	**-**	**-**
Goodwill on acquisition of subsidiaries	88 090	-
Goodwill impairment	(88 090)	-
Goodwill as at 31 December	**-**	**-**

31 Subsequent events

In January 2009 a special General Shareholders Meeting of JSB “GPB-Mortgage” (CJSC) made a decision to change the legal form of the Bank from a closed joint stock company to an open joint-stock company and changed its full name to Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company) and short name to JSB “GPB-Mortgage” (OJSC).