



Russian Agricultural Bank

Annual report 2008



Key Financial Highlights

No 1 LARGEST BANK
BY AUTHORIZED CAPITAL

No 3 LARGEST BANK
BY TOTAL CAPITAL

No 2 LARGEST
BANK BY REGIONAL
BRANCH NETWORK

No 4 LARGEST BANK
BY ASSETS

CONSOLIDATED FINANCIAL STATEMENT

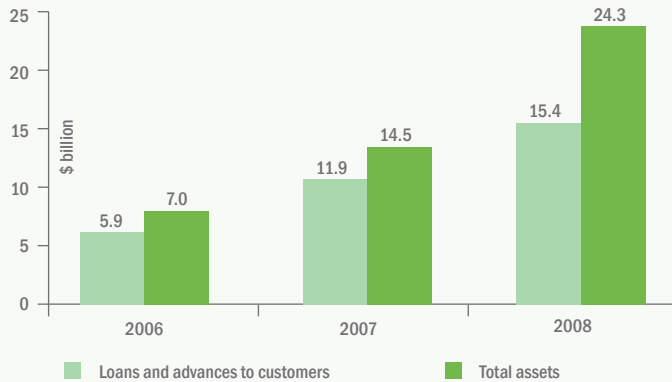
\$ million	FYE 2008	FYE 2007	FYE 2006
Summary of consolidated income statement			
Net interest income	904.1	693.7	313.2
Net interest income after provision for loan impairment	580.9	566.9	213.3
Profit before tax	113.5	238.0	44.7
Profit for the year	69.9	177.3	32.4
Summary of consolidated balance sheet			
Cash and cash equivalents	2,831.1	1,384.5	517.1
Mandatory cash balances with the Central Bank of the Russian Federation	32.8	99.5	65.2
Securities	2,310.5	777.3	268.0
Due from other banks	3,297.5	66.3	108.8
Loans and advances to customers	15,394.8	11,877.1	5,919.7
Premises and equipment	304.0	282.0	91.9
Other assets	101.3	33.0	39.6
Total assets	24,272.1	14,519.8	7,010.3
Due to other banks	8,274.4	2,497.1	1,342.8
Customer accounts	5,258.5	3,908.7	1,308.9
Promissory notes issued	335.1	1,318.2	1,452.2
Other borrowed funds	5,987.6	3,881.4	1,431.8
Syndicated loans	358.5	634.3	99.3
Derivative financial instruments	144.7	145.0	24.4
Other liabilities	57.0	51.9	11.4
Subordinated debts	1,550.0	705.5	506.5
Total liabilities	21,965.8	13,142.0	6,177.4
Total equity	2,306.3	1,377.7	832.9
Total liabilities and equity	24,272.1	14,519.8	7,010.3

STRONG CAPITALIZATION

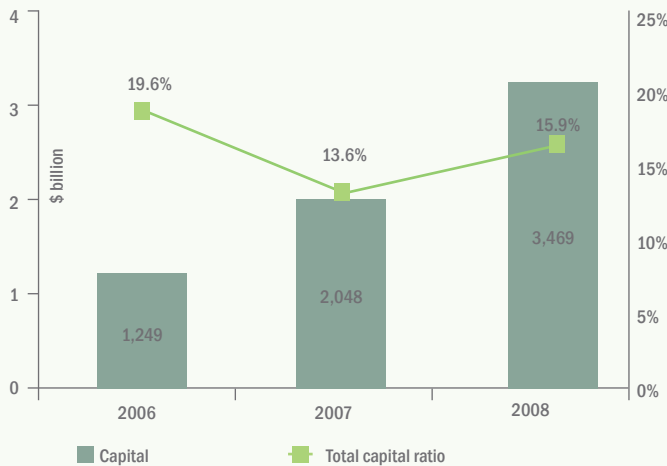
\$ million, %	FYE 2008	FYE 2007	FYE 2006
Tier I Capital	2,325.1	1,340.9	832.8
Tier II Capital	1,143.7	707.5	416.4
Total Capital	3,468.8	2,048.4	1,249.2
Total RWA	21,768.7	15,043.1	6,361.2
Tier I Capital / RWA	10.7%	8.9%	13.1%
Total Capital Ratio	15.9%	13.6%	19.6%

Source: Company Information as of YE 2008. Audited financial statements (IFRS) as of December 31, 2006, December 31, 2007 and December 31, 2008

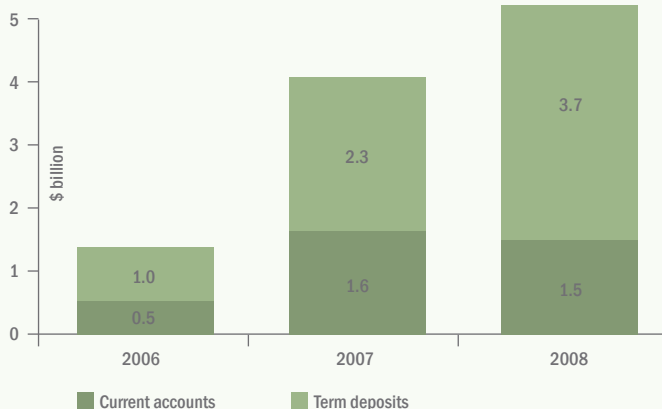
Strong Asset Growth



Capitalization



Deposit Growth



Chairman of the Supervisory Board Letter Chairman of the Management Board Letter

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Russian Federation



Victor A. Zubkov

First Deputy Prime Minister of the Russian Federation,
Chairman of the Supervisory Board,
Russian Agricultural Bank

The Russian Federation managed to fully unlock high potential of the national agribusiness in 2008. Positive shifts that the country's agribusiness saw in the recent years were further anchored and evolved in 2008.

The potential of the agribusiness sector was strengthened; its competitiveness was raised and the sector became more attractive for long-term investments. High performance was achieved within the framework of the Federal Program on Agribusiness Development 2008-2012.

Agribusiness of the Russian Federation today employs over 6 million people, which comprises 10% of all those employed in the national economy.

The dynamics of the agricultural production bear evidence of the positive changes in the national agribusiness: in 2008 agricultural output index amounted to 111%. Plant breeding grew by 17%, animal breeding – by 3.4%. In 2008, one registered high grain yield totaling 108 million tons, which is a record yield in the last 15 years. This amount allows to satisfy the primary needs for food and feed grain and gives the country export capacity of 15-20 million tons. Today, Russia has joined the world's five largest exporters of grain.

Such high performance of the national agribusiness was achieved in large part due to expansion of financial support of agricultural producers.

The decision of the Government of the Russian Federation to increase almost twofold the authorized capital of Russian Agricultural Bank – the main financial institution supporting the sector – has allowed the

LETTER BY VICTOR A. ZUBKOV

national agribusiness to mitigate negative developments caused by financial turmoil.

Within the framework of the main lines of the Federal Program on Agribusiness Development 2008-2012 Russian agricultural producers received over RUR 380 billion of subsidized loans – a 1.5 times growth as compared to the target figures set in the Federal Program. It should be emphasized that Russian Agricultural Bank was the major contributor of such loans. More than one third of these funds were allocated for longer terms.

The growing demand for credit resources speaks well for the fact that the rural population cares for its native land and is eager to live and work on it. The first year of the Federal Program implementation has shown that agribusiness revives nowadays, the status of rural labor improves, the sector sees upsurge of business activity.

We are going through difficult times now. Financial crisis that broke out abroad has had a severely adverse effect on the international financial architecture, disrupted the liquidity of the Russian banking system and endangered many enterprises of the real economy sector, including agribusiness. Agricultural goods producers are most vulnerable in this context. Agribusiness is a highly leveraged sector, it has a lengthy production cycle and it is exposed to climatic risk. Nevertheless, the turbulence in the global economy provides additional benefits to the agribusiness of the Russian Federation. The demand for the key agriproducts has a steady upward trend, evidenced by world agriproduct market price dynamics.

Credit for the steady development of the national agribusiness and its recent breakthroughs should be

given to the personnel of Russian Agricultural Bank. In 2008, the Bank demonstrated positive dynamics of its key performance indicators. Amid the liquidity crisis and collapse of confidence in the banking sector, when many banks have virtually scaled down their lending programs, Russian Agricultural Bank maintains upward dynamics of lending and expands the range of its programs.

In order to introduce the best practices of corporate management the Government of the Russian Federation approved appointment of independent directors to the Supervisory Board of Russian Agricultural Bank in 2008. They were also included in a number of committees supporting the activity of the Supervisory Board.

Due to the substantial increase of the Bank's authorized capital the Supervisory Board initiated the process of RAB strategy updating. The revised strategy of Russian Agricultural Bank will define the Bank's mission in the new economic environment, its priorities and business prospects. The objective of the renewed strategy is to balance the interests of the Bank's activity as an agribusiness development institute and a commercial bank.

In 2009, we should maintain the positive dynamics of the sector development, promote import substitution processes and ensure the transition of the national agribusiness to a new level in order to provide the whole population of the Russian Federation with foodstuffs. I firmly believe that despite current turbulence Russian Agricultural Bank will further stick to its consistent and transparent lending policy and ensure credit availability and continuous financing of priority agribusiness programs. ●



Yuri V. Trushin
Chairman of the Management Board and CEO,
Russian Agricultural Bank

Russian Federation

LETTER BY YURI V. TRUSHIN

Year 2008 was a challenging year for the financial market of the Russian Federation. The financial storm that broke out in the year under review has affected both the country's banking system and the real manufacturing sector. The situation with fundraising had shortly become aggravated. The banking sector faced new threats and risks. The general crisis of confidence affected the financial sector.

The Government of the Russian Federation has undertaken a set of measures for crisis combating with the view to support and strengthen the national banking and real manufacturing sectors. The Government has chosen Russian Agricultural Bank to be among the main contributors to the implementation of these measures by providing credit and financial support to agricultural producers.

This task demands utmost efforts and dedication from the Bank's personnel. Given the current tangled situation in the agribusiness, a special focus should be given to maintaining availability of credit resources for agricultural producers and rural population, updating forms and mechanisms of credit support.

Amid resource and confidence shortage in the national credit system the Bank continues its stable and sustainable

operations, while duly and fully meeting its obligations. In this regard the priority is given to the credit support of the national agribusiness.

In 2008, RAB maintained high growth rates in lending, even in times of aggravation of crisis developments. In fact, the volumes of lending support gained significant momentum. In 2008, the Bank extended loans to the total amount exceeding RUR 335 billion - a 36% growth as compared to 2007. Virtually all credit resources were allocated in the frameworks of special federal programs. At year-end 2008, RAB gross loan portfolio exceeded RUR 466 billion and showed a 60% growth. Upward dynamics was registered both in corporate and retail lending. The market share of RAB in the financing of national agribusiness well exceeds 50%.

Despite the liquidity crisis and current trend of banking deposits outflow, the Bank has not only managed to retain its funding base, but has expanded it significantly. Steady expansion of RAB client base serves best to show that confidence in the Bank grows. Since the start of 2008, the Bank has registered over 360 thousand new clients. Overall, RAB serves over one million clients today.

Given the current challenges and threats, the Bank seeks to take adequate measures by introducing immediate changes to its lending, funding, interest rate policies and risk-management, and ensuring continuous operation of all the Bank's units.

The set of crisis prevention measures developed and implemented in the Bank has already allowed to eliminate or at least mitigate the detrimental effect of certain negative factors on the Bank's activity.

The high capitalization level and extensive regional branch network allow the Bank to continue consecutive buildup of its loan portfolio. Expansion of credit and financial support of agricultural producers becomes a matter of urgent importance in the view of ensuring the country's food security – a challenging target for the national agribusiness set by the Government of the Russian Federation.

The recent years experience has shown that investments in agribusiness proved to be highly efficient. This is evidenced by steady demand and upward dynamics of the world market prices for the main agriproducts. In fact, each ruble invested in the rural areas development pays out by recovering underutilized land, improving living standards of the rural population.

This poses a large-scale and crucial task for the staff of Russian Agricultural Bank for 2009. We are determined to continue focusing on agribusiness lending support by expanding the scale of lending to agricultural enterprises and rural population and ensuring achievement of the objectives outlined by the Government. ●

ECONOMIC ENVIRONMENT

Strong Position in the Downturn Global Economy

MACROECONOMIC CLIMATE

The performance of the Russian economy since 1998 has been impressive. Between 1998 and 2007, Russian GDP expanded by an estimated 69%, real incomes of the population grew by 82%. Unprecedented macroeconomic stability was achieved in the context of strong budgetary and current account surpluses. Important taxation, budgetary and administrative reforms facilitated the rapid development of market institutions in many areas. Modernization and productivity growth outside the oil and gas sector have been important contributing factors to the recent expansion, although major strengthening of oil, gas, and other prices on Russia's commodity exports also gave a new boost to economic growth since 2003.

In the first six months of 2008, real GDP growth in Russia continued at a brisk pace of about 8%, reflecting a booming economy and strong macroeconomic fundamentals (table 1, chart 2).

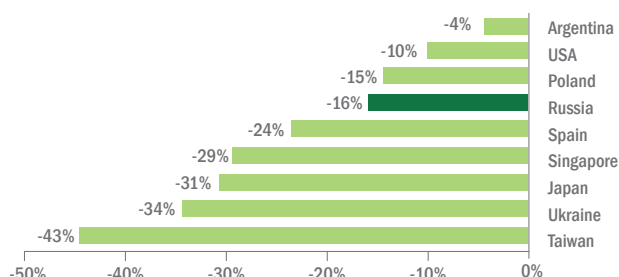
Russia's macroeconomic outlook has started deterioration in the third quarter alongside a perfect storm of financial market and macroeconomic developments. After a decade of high growth, the Russian economy is experiencing now a slowdown in the wake of the global financial crisis (chart 1).

Russia's strong short-term macroeconomic fundamentals, prudent fiscal policy, and lack of exposure to the US sub-prime crisis made it better prepared than many emerging economies to deal with the crisis. Russia entered the crisis with eight years of budget surpluses behind it and the world's third-largest gold and foreign exchange reserves.

The government has taken all possible measures to mitigate growing financial and economic difficulties. These include but are not limited to cutting banks' reserve requirements and oil companies' export duties several times; injecting liquidity (more than \$200 billion in federal budget fund deposits, subordinated loans, and the like), increasing coverage of retail bank deposit insurance by 75%; intervening in the foreign exchange market, evidenced in a decline of more than \$100 billion in reserves; committing an additional \$50 billion of reserves to solve refinancing difficulties in banks and companies and using another \$20 billion from its national wealth fund to boost domestic stock markets directly (table 2).

The turbulence in the global financial market in the second half of 2008, contraction of business activity, collapse of oil prices, growing outflow of private capital

CHART 1. INDUSTRIAL PRODUCTION DYNAMICS IN JANUARY 2009, AS COMPARED TO JANUARY 2008



Source: Data of national statistics services

TABLE 1. RUSSIAN FEDERATION: MAIN ECONOMIC INDICATORS

Economic indicator	2005	2006	2007	2008	2009f
GDP, \$ billion	764.9	990.2	1,295.4	1,642.2	1,418.7
GDP growth, % yoy	6.4	7.7	8.1	5.6	-2.2
Industrial production index, % yoy	4.0	3.9	6.3	2.1	-7.4
Capital stock investment growth, %	10.5	16.7	21.1	9.1	-14.8
Consumer prices, % yoy	10.9	9.0	11.9	13.3	13.0
Central Bank policy rate, %	12.0	11.0	10.0	13.0	11.0
Budget balance, % of GDP	7.7	7.4	5.4	4.0	-7.4
Trade balance, \$ billion	118.4	139.2	130.9	179.8	40.0
Current account, \$ billion	84.4	95.6	76.5	98.9	7.1
Forex reserves, \$ billion	168.4	303	476.4	427.1	315.4
Foreign debt / GDP, %	31.0	31.3	36.3	29.8	34.2

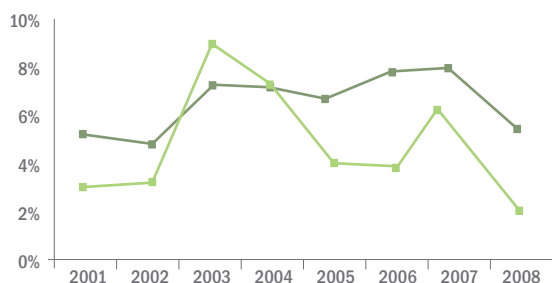
Source: Federal State Statistics Service, Central Bank of Russia, Ministry of Economic Development of the Russian Federation

TABLE 2. FISCAL AND BUDGET POLICY MEASURES AIMED AT CRISIS PREVENTION

	RUR billion	\$ equivalent	% of GDP
1. Fiscal and budget policy measures, total	2045.3-2145.3	61.2-64.2	5.2-5.4
2. Fiscal policy measures	900-1000	26.9-29.9	2.3-2.5
Reduction of income tax by 4 points	400-500	12-15	1.0-1.3
Increase of depreciation charges from 10% to 30%	150	4.5	0.4
Cutting oil companies' export duties	250	7.5	0.6
Others, including reduction of SME tax, support of fisheries	100	3	0.3
3. Budget policy measures	1145.3	34.3	2.9
Replenishment of authorized capitals	439	13.1	1.1
<i>Including Russian Agricultural Bank</i>	75	2.2	0.2
Subordinated loans	450	13.5	1.13
<i>Including Russian Agricultural Bank</i>	25	0.7	0.06
Interest rates subsidizing for agribusiness	18.07	0.5	0.05
SME development	6.2	0.2	0.02
Labor market measures	43.7	1.3	0.11
Upgrading unemployment benefits	35	1	0.09

Source: Ministry of Finance of the Russian Federation

CHART 2. GDP AND INDUSTRIAL PRODUCTION GROWTH IN 2001-2008



Source: Ministry of Economic Development of the Russian Federation

from the Russian economy have affected year 2008 results. In 2008, the Central Bank of Russia registered net capital outflow amounting to \$129.9 billion as compared to net capital inflow of \$83.1 billion in 2007. These factors together combined to squeeze the Russian economy from both the external and domestic side. The growth rates of GDP, capital stock investments and disposable real income of the population have slowed down as compared to 2007. The GDP growth rate in 2008 was 5.6%, in 2007 the GDP grew by 8.1% (chart 3). According to the economists estimations stable recovery and return to 2007 indicators can be expected in 2010.

The macroeconomic effects of the ongoing financial crisis continue to play out in Russia's key eurozone, US, emerging Europe and Asian export markets.

CHART 3. GROWTH RATES OF GDP, CAPITAL STOCK INVESTMENTS AND DISPOSABLE REAL INCOMES



Source: Central Bank of Russia

BANKING SECTOR

In the first six months of 2008, banking sector in Russia continued impressive growth reflecting a strong economy and macroeconomic fundamentals. Until 2H2008, Russian banking sector remained untouched by the world financial turbulence.

The rise of external financial and economic threats of the deteriorating global economy and aggravating problems of the Russian banking sector have caused a decline in its financial strength in 2H2008. It resulted in contraction by 10-20% of the key performance indices of the banking sector in 2008 as compared to 2007.

However, altogether Russian banking sector has shown significant growth in 2008 - total assets of the Russian banking sector grew by 39.2%, total capital – by 42.7% (chart 4).

In terms of retail deposits growth rate the market grew by 14.5%. Corporate deposits grew by 18%.

The corporate lending sector increased by 34.5%, retail lending sector – by 35.2%.

The fact that in September, October and November of 2008 the banking sector growth rates were slower than in 2007 has most affected the sector performance.

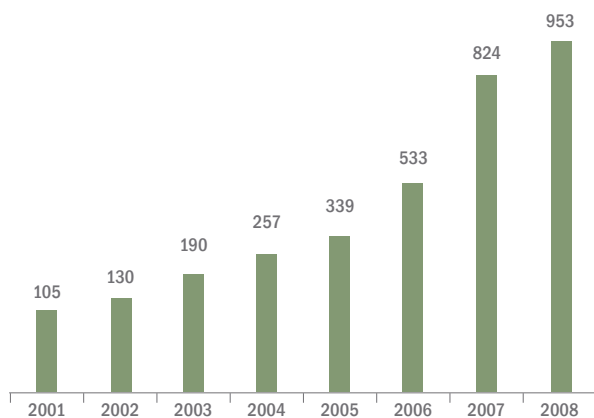
As of January 1, 2009, the total NPL level of banks amounted to 3.8%, loan loss provisions reached 5% of the total loan portfolio.

External debt of the Russian banking sector has remained almost unchanged. At the start of 2009, the total external debt of the Russian banks amounted to \$166.1 billion. As of January 1, 2008, it totaled \$163.7 billion.

Liquidity issues and tightening credit in Russia are reflective of economic and banking sector developments globally, particularly in the benchmark eurozone, UK and US economies. The short-term liquidity problem was successfully resolved; however the long-term liquidity issue remains the main challenge.

Systemic risk to the banking sector appears limited because of the government's resolve to support the systemically important banks and a sizable package of measures taken to date. However, private and smaller banks faced liquidity shortages. In Russia there are currently 1,108 banks, of which the 20 largest account for 70% of household deposits and corporate loans.

CHART 4. RUSSIAN BANKING SECTOR ASSETS (IN \$ BILLION)



Source: Central Bank of Russia

As a result, bank consolidation has been restarted with several banks being taken over by other, stronger banks or the government. Given the fragmented Russian banking system and the large number of small banks, orderly consolidation could contribute to a stronger and healthier banking sector emerging after the crisis.

The Central Bank moved decisively to support liquidity in the system and help restore confidence during the September liquidity crunch. Worsening of global financial conditions in the third quarter of 2008 and the liquidity

crisis in September caused the Central Bank to change the policy course and provide substantial liquidity in its efforts to alleviate the confidence crisis and unfreeze the interbank credit market. These actions were swift, appropriate, and proportionate to the problem at hand.

The government is expected to continue to support financial markets and the real economy.

AGRIBUSINESS SECTOR

Year 2008 turned out to be rather successful for the agribusiness of the Russian Federation. During the last 15 years one ever managed to achieve such remarkable results. For the first time agribusiness grew higher than the whole economy. Gross agricultural output index amounted to 111% (chart 5). A record net grain yield was registered – namely, 108 million tons. Furthermore, Russia has an export capacity of 15-20 million tons of grain.

All this was achieved due to timely and proper measures. The size of arable plough land was expanded by 2 million ha, including 1 million ha for account of underutilized land. The efficiency of spring field works was further increased. Lending to farmers and purchase of new machinery was enhanced: farmers purchased over 23 thousand tractors and 9 thousand combine harvesters during the year under review. That translates to a 15% growth as compared to previous years.

In 2008, the Federal Program on Agribusiness Development 2008-2012 was launched. The Federal Program includes both production parameters and social aspects of rural areas development, as well as measures on preservation and rehabilitation of land used in agribusiness.

One of the priority areas of the Federal Program implementation is accelerated development of animal breeding. Milk production in all categories of enterprises in 2008 grew by 354 thousand tons or by 1.1% and amounted to 32.5 million tons. Such increase was achieved due to sustainable growth of milk yield. For the first time in the animal breeding statistics of Russia average milk yield per cow exceeded 4 tons of milk.

Dairy stock farming will receive further impetus in 2009. A special program on development of dairy stock farming and increase of milk production in Russia 2009-2012 was introduced. Additional RUR 20 billion will be allocated from the federal budget for its implementation. The program stipulates that by 2012 milk production in Russia will be increased by almost 18% to reach 37 million tons.

During two years of the National Priority Project on Agribusiness Development implementation 197 new projects for 126 thousand cows were completed and put into operation, 786 milk complexes and farms were renovated with the use of modern technologies and processes, ca. 300 thousand pedigree cattle were supplied to the milk farms.

Year 2008 saw further growth of animal breeding production. In particular, poultry production grew some 17%, production of other types of meat – ca. 8%. This creates solid basis for further success in 2009.

The Government of the Russian Federation is currently taking additional comprehensive measures for stabilization of the situation in agribusiness sector. The main objective of these measures is to sustain the momentum gained in the agribusiness lending.

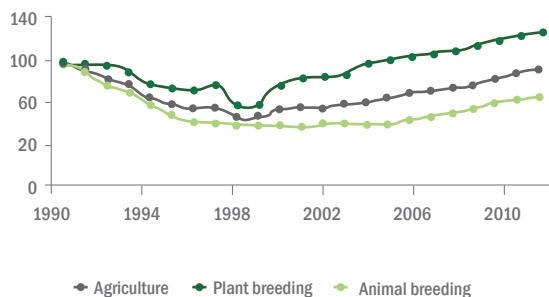
The Government's crisis combating policy includes the following systemic measures of agribusiness support:

- ensuring credit availability for agribusiness enterprises;
- providing for domestic market protection;
- promoting import substitution, i.e. ensuring national production growth and expanding export of homegrown agriproducts;
- providing state support to systemic enterprises;
- promoting investment activity in agribusiness.

The scale of agribusiness budget support for 2009 was increased by more than 1.5 times to RUR 182.8 billion from RUR 115 billion.

Given the global financial turbulence the Government decreed to increase the amount of subsidies for compensation of interest expenses on loans to 80% from 2/3rds (66.7%) of the Bank of Russia refinancing rate and to 100% - for animal breeding enterprises.

CHART 5. GROSS AGRICULTURAL OUTPUT INDEX (IN COMPARABLE PRICES, IN % TO 1990)



Source: Ministry of Agriculture of the Russian Federation

The set of crisis combating measures also include cutting of import poultry quotas by 300 thousand tons and import of pork by 200 thousand tons.

The volume of stock-exchange deals on grain purchase and commodities interventions reached ca. 3.5 million tons. The state will continue such interventions as part of price stabilization program.

The Food Security Doctrine of the Russian Federation was developed to ensure supply of the country's population with homegrown foodstuffs, which are competitive to the imported goods in terms of price and quality.

All these measures combined will allow to mitigate possible losses of the national agribusiness due to the financial turmoil and will give new growth capacities.

MACROECONOMIC OUTLOOK 2009

Given that the global crisis has a lot further to run, the final outcome will depend on the rather uncertain global economic outlook.

Past crises suggest that the first and second quarters after the crisis are the weakest in growth terms (i.e. 4Q2008 and 1Q2009). However, financial support policies enacted to date, plus the substantial amount of international reserves held by the country, should help Russia weather the depth of global crisis in 2009 and rebound to further growth by 2010.

A general recovery in Russia is expected to begin in 2010. Credit conditions are likely to loosen on the back of an expected recovery in the eurozone and US, as well as from an improvement in Russian banks' balance sheets, made possible through government capital injections in 2008 and 2009.

Russia remains an attractive strategic economic play. It accounted for 0.8% of nominal global GDP at the start of the century. The share has grown to 2.7% today and will probably increase further.

Significant progress has been made but many challenges lie ahead:

- overcoming spatial development of the regions;
- diversifying the economy;
- encouraging growth of SME;
- raising productivity growth;
- improving competitiveness;
- building human capital;
- improving governance.

With that the crisis also presents an opportunity to address the medium- to longer term challenges of competitiveness, economic diversification, and financial sector modernization which are necessary to boost growth and living standards.

This would ensure that Russia emerges from this global crisis with a stronger basis for dynamic, productivity-led growth and is better placed to take advantage of global integration. ●

2008 CALENDAR

December

- RAB capital increase by total amount of RUR 45 billion approved by the Government of the Russian Federation.
- General Shareholders meeting approved RAB joining the Canada Eurasia Russia Business Association and the Association of Farms and Agricultural Cooperatives of Russia.
- Ranked 4 by assets among the largest banks, according to the Profile magazine.
- RAB placed its series 05 non-convertible interest bearing bonds payable on demand worth RUR 10 billion maturing in 2018.

November

- Awarded National Banking Premium in the nomination Leader in Regional Branch Network Development. The bronze statuette of the winged lion symbolizes the highest quality of the financial institution services.
- RAB 2007 Annual Report was named among the best three reports in the nomination Best Annual Report in Financial Sector and became the laureate of the award in the nomination Best Presentation of Information in the Annual Report for Foreign Investors on X Annual Report Awards initiated by the rating agency Expert RA.

October

- Opening of RAB's Corporate University.
- National Bank of the Republic of Belarus issued a permit to establish a Representative Office of Russian Agricultural Bank in Minsk, Belarus.
- RUR 25 billion subordinated loan with 8% interest rate and final maturity in 2019 extended to Russian Agricultural Bank by the Government of the Russian Federation.
- Number 3 among the leading banks of the Russian Federation by growth of individual deposits in the ranking published by the Kommersant magazine.

September

- Ranked 4 by net assets among the largest banks in 1H2008, according to Russian Business Consulting.

August

- Number 4 by assets among the largest banks in 2Q2008, according to Interfax.
- Opening of the 78th regional branch in Chelyabinsk.
- Increase by the Government of the Russian Federation of the Bank's authorized capital by RUR 31.495 billion.

July

- Awarded the Diploma of the Ministry of Agriculture of the Russian Federation for the active investment activity in the framework of the Federal Program on Agribusiness Development 2008-2012.
- Number of RAB's clients reached 1.184 million, including 130 thousand legal entities and 1.054 million individuals.

- Chairman of the Board and CEO of Russian Agricultural Bank Yuri V. Trushin was honored with an Order for Achievements in the Development of Banking Industry in Russia.
- Long-term foreign currency deposit rating upgraded by Moody's to Baa1, positive outlook.
- Number 372 in terms of capital in the world's 1000 largest banks listing published in the July 2008 issue of The Banker magazine. RAB was ranked 10 among the largest banks of the Russian Federation and 11 among the largest banks of Central and Eastern Europe.
- Regional branch network includes 77 regional branches and 1,300 additional offices covering the whole territory of the Russian Federation and servicing over 1 million clients.

June

- RAB has extended loans to the total amount of over RUR 600 billion to the agribusiness and rural population within 8 years of its business activity. The Bank's share in the total volumes of agribusiness lending in the Russian Federation exceeds 54%.
- Successful placement of RUR 5 billion 7th bonds issue maturing in 2018.
- Named Best Local Trade Bank in Russia by Trade Finance Magazine in recognition of its leadership in trade finance operations on national and international markets.

May

- Ranked 5 by net assets among the largest banks in 1Q2008, according to Interfax.
- Issue of \$1.75 billion loan participation notes over two tranches – 5 and 10 year, priced to yield 7.125% and 7.75% correspondently. The issue is assigned A3 rating by Moody's and BBB+ long-term rating by Fitch.
- Signed Cooperation Agreement with the Ministry of Agriculture of the Russian Federation concerning the Implementation of the Federal Program on Agribusiness Development 2008-2012.
- Number of RAB's clients exceeded 1 million.

April

- Issue of CHF 150 million 6.263% Senior Eurobond maturing in April 2012. Ratings assigned: Moody's – A3, Fitch – BBB+.
- Chairman of the Board and CEO of Russian Agricultural Bank Yuri V. Trushin became the laureate of the all-Russia anniversary award The Best Banker of the Year in 2007.
- Laureate of the premium Financial Elite of Russia in the nomination Efficiency and Profitability, awarded based on Expert RA rating agency analysis.
- Opening of the 77th regional branch in Chukotka.
- Increase by the Government of the Russian Federation of the Bank's authorized capital by RUR 2 billion.

March

- The best depository bank working with rubles and number 4 depository bank working with Euros, according to Russian Business Consulting.
- Long-term foreign currency deposit rating Baa2 reviewed by Moody's for possible upgrade.

February

- Ranked number 5 in terms of net assets among the largest banks of the Russian Federation according to the Profile magazine.

January

- RUB 152.5 billion extended in the framework of the National Priority Project on Agribusiness Development.

KEY EVENTS AFTER THE REPORTING DATE

January 2009

- Number 4 by own capital among 200 largest banks of the Russian Federation, 5 in terms of lending to non-state enterprises, 8 in terms of lending to individuals and 10 in terms of attracting deposits from individuals in ranking published by the Profile magazine.

February 2009

- RAB's authorized capital increased by RUR 45 billion and reached RUR 106.223 billion.
- Russian Agricultural Bank and JSC Akron signed Agreement on the financial support of mineral fertilizers delivery to the domestic agribusiness in 2009-2010.

March 2009

- Russian Agricultural Fuel Company established with the purpose to secure timely provision of agribusiness producers with fuel. RAB possesses 90% of the Company.
- RAB's bonds Series 03, Series 06, Series 07 included in the first class quotation list "A" of the MICEX Stock Exchange. The listing indicates reliability, informational transparency and financial stability of the Bank.
- Representative Office opened in Belarus with the purpose of facilitation of the business contacts established between enterprises of the Russian Federation and the Republic of Belarus.
- RAB was ranked 3 among 100 most reliable banks of the Russian Federation according to banks listing published in the March 2009 issue of the Forbes magazine.

- Russian Agricultural Bank signed Cooperation Agreement with Belagroprombank, Republic of Belarus, with the view to boost bilateral economic relations and exchange of experience in the areas of banking operations and international trade development.

- Russian Agricultural Bank signed Cooperation Agreement on Implementation of the Federal Program on Agribusiness Development 2008-2012 with Altay Territory and the Republic of Adygeya.

April 2009

- Konstantin M. Kudakov appointed Member of the Management Board, Deputy Chairman of the Management Board of Russian Agricultural Bank. Earlier Konstantin M. Kudakov was Director of Branch Network Development Department of Russian Agricultural Bank.
- Russian Agricultural Bank and AgromachHolding signed Cooperation Agreement on implementation of the special-purpose program for financing of the procurement of agricultural machinery and/or equipment under its pledge.
- Fitch Ratings affirmed Russian Agricultural Bank's ratings at the current level.
- Russian Agricultural Bank ranked 3 among 100 most reliable banks of the Russian Federation according to the Finance magazine and number 4 by net assets and by cash balance on corporate clients' accounts according to the Profile magazine.

May 2009

- The Euromoney awarded Russian Agricultural Bank as the Best Managed Bank 2009 in the Russian Federation.
- Chairman of the Board and CEO of Russian Agricultural Bank Yuri V. Trushin became the laureate of the all-Russia anniversary award The Best Banker of the Year in 2008.
- Representative Office is opened in the Republic of Tajikistan.
- Russian Agricultural Bank signed Cooperation Agreement on Implementation of the Federal Program on Agribusiness Development 2008-2012 with the Karachayevo-Cherkessian Republic.
- Based on 1Q2009 results Russian Agricultural Bank was ranked 4 among the largest banks of the Russian Federation in terms of assets and capital, according to Interfax.

June 2009

- RAB priced a highly successful 5-year US\$1 billion bond - the first fully distributed benchmark Eurobond from Russia since July 2008. The offering was five times oversubscribed and priced at the tight end of the guidance - 9%. Moody's and Fitch rated the issue Baa1 and BBB, respectively. ●

MISSION AND STRATEGY STATEMENT

Building on Strong Record of Success

Mission of RAB:

- focus on availability of accessible, innovative and effective banking products and services for agribusiness engaged entities and rural population;
- financial support of sustainable development of agribusiness and rural territories;
- facilitation of development and operation of modern credit and financial system of the agribusiness sector of the Russian Federation.

Representing the cutting-edge agribusiness financing Russian Agricultural Bank pursues the following strategic objectives:

- facilitate federal programs implementation;
- expand access to banking services for agribusiness and the rural population;
- develop new products and lines of business tailored to the specific requirements of its target customers;
- strengthen presence in the agribusiness sector of the Russian economy;
- ensure investment appeal, efficiency, sustainability and resilient development;
- pursue high growth of agribusiness using new opportunities;
- follow principles of social and environmental responsibility.

These seven objectives have been central to RAB since its establishment in early 2000. Adhering to these strategic objectives and applying best international practices and technology has delivered RAB to the top 5 largest financial institutions of the Russian Federation.

In order to ensure its strategic objectives implementation the Bank strives to enhance its operations efficiency and introduces innovations. Nowadays RAB has become a modern competitive financial institution and has proved its standing of a reliable partner for Russian and foreign banks.

As the world economy works its way through current period of financial turmoil, RAB remains confident about its growth prospects. RAB has continuity of management and team-oriented employees with an ability to face demanding challenges.

RAB strength will continue to rest in its ability to combine long-term commitment to its clients, sound financial standing, extensive knowledge of agribusiness, government commitment, close relationships with local administrations, solid reputation and wide local presence.

Activity guidelines:

- a relentless focus on clients' needs – establishing new financial solutions and compelling value propositions to address clients' needs and promote relationship-based banking;
- recognition of teamwork importance – working together across businesses and regions to deliver added value to clients, fostering corporate culture full of vitality and conducive to innovation;
- integrity and sound management – complying with laws and regulations while maintaining the highest ethical standards;
- ensure reputation - maintaining, enhancing and monitoring solid reputation acting with professionalism, integrity and respect and serving as a reliable partner.

Financial targets:

- maintain a strong financial profile and competitive position;
- diversify operations in various regions and agricultural sub-sectors;
- increase share in the subsidized lending market;
- develop and increase customer accounts/deposits and fee and commission income.

Corporate development framework:

- implement modern banking and information technologies to improve efficiency and deliver high quality service;
- develop talent and maintain high performance standards across the whole branch network in order to ensure good banking practices and client service;
- maintain prudent policies in respect of management of operations expansion – costs control;
- continue to improve risk management standards;
- expand regional branch network.

RAB aims to offer its clients an original financial structure that closely matches their needs and concerns, and to enable them to become long-term partners in a structure built on the values of proximity, responsibility and solidarity.

In 2008, Russian Agricultural Bank generated strong performance based on its unique mandate in agribusiness lending in the Russian Federation, close and trusting relationships with rural population, regional and local administrations, diversified product line, wide distribution network with presence in key regions, robust capital position, high quality assets, well-managed balance sheet, high level of service quality, talented and highly experienced staff sharing a strong culture of teamwork and integrity.

RAB's existing achievements allow it to look forward to tomorrow's challenges clearly and confidently with ambition of becoming one of the top financial institutions operating in the Russian Federation and the leader in agribusiness lending. ●

HISTORICAL MILESTONES

Solid Foundation for Long-standing Growth

Agribusiness complex takes one of the particular places in the whole national economy of the Russian Federation. In Russia there are 10% of all the ploughed lands of the world. Farming gives about 40% of the yield production of agribusiness, livestock sector – more than 60%.

Modern agribusiness production systems are capital intensive. As such, a large portion of capital used in agribusiness is borrowed. Credit is necessary to facilitate input purchases and can be a significant cost of production. The availability and use of credit plays a significant role in the sustained profitability of agribusiness enterprises. In this regard, a symbiotic relationship exists between agricultural producers and their lenders; the health of one depends on the condition of the other.

In all countries, agribusiness credit operates with specific analyses meant to consider particular characteristics of the sector activity. Russia has developed financing methods that are adjusted to the needs of the agribusiness and of the farmers. Types of agribusiness financing are also adapted to the specific financial needs of those involved in agribusiness, which are determined by planting, harvesting and marketing cycles. Like seeds and chemicals, agribusiness credit options are changing and expanding with new and innovative products.

In the late 19th century, in Russia agriculture was struggling to find suitable credit, i.e. long-term, flexible and cheap. Thus, the agrarian credit system in Russia goes back to 1882 when the first specialized banks – ‘Peasant Land Bank’ and ‘Gentry Land Bank’ – were established. During the Soviet period about 90% of all long-term loans were extended to agribusiness. At that time the sector included 35,000 offices all over the USSR and employed 110,000 people.

Russian Agricultural Bank was set up in 2000 under the special Decree of the President of the Russian Federation with the mission to be the conductor of the state credit and financial policy in agribusiness sector, to facilitate a strong performance by clients, to invest in the core businesses and technology and to be the basis of the national credit and financial system of agribusiness in the Russian Federation.

In the period from 2000 to 2008, Russian Agricultural Bank has made considerable efforts to grow from the unknown newly established Bank to one of the top 5 financial institutions of the Russian Federation (scheme 1). It has

established the second largest branch network in the country and became a leader in agribusiness lending with 58% share (chart 6). Through its regional branches and additional offices RAB offers a highly varied range of financial services and products. Such a position nearby its broad customer base coupled with the diversity of its activities enables RAB to achieve stable results, and in doing so continue to respond to the changing needs of its clients.

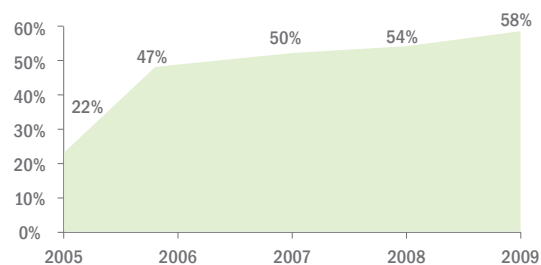
RAB continuously develops its business relations with financial institutions, international organizations and improves its products and services in accordance with international standards. RAB has a wide and well-structured correspondent network, which is expected to grow further.

Strong government support, significant role in the implementation of all federal programs on agribusiness development, large regional branch network, positive credit history and sound positioning on the international financial market will further allow RAB to enjoy strong and successful growth in accordance with its strategy.

Russian Agricultural Bank today:

- one of the major players within Russian banking arena;
- 58% market share in agribusiness lending in the Russian Federation;
- serving 27% of the country's population;
- employing more than 24,000 persons;
- countrywide presence through 78 regional branches and over 1,400 additional offices;
- recognized as reliable partner for Russian and foreign banks.

CHART 6. RAB MARKET SHARE IN AGRIBUSINESS LENDING IN THE RUSSIAN FEDERATION



Note: RAB estimations

SCHEME 1. KEY HISTORICAL EVENTS

2000

Set up in 2000 by the Presidential Decree to implement state policy in agribusiness and facilitate development of rural areas.

2001

Two state capital increases of RUR 430 million and RUR 2 billion.
Compensations distribution in Federal Program "Reconstruction of the economy in Chechnya".

2002

Launch of lending program for personal household plots owners.
Obtaining license on attraction of retail deposits.
State capital increase of RUR 994 million.

2003

Capital reached RUR 4.9 billion.
The Bank as a State Agent embarked on the program aimed at financial rehabilitation of agricultural enterprises.

2004

Moody's Interfax Rating Agency assigned RAB national scale ratings.
First Ruble bonds issue.

2005

Moody's Investors Service and Fitch Ratings assigned RAB ratings at investment grades.
First Eurobond issue of USD 350 million.
Capital increase of RUR 6.1 million.

2006

No 729 by The Banker.
No 2 by branch network.
State Agent in the National Project on Agribusiness Development.
Capital reached RUR 20.9 billion.
Over 40% share in agribusiness.
Joined Top 10 largest banks by total assets.

2007

No 472 by The Banker.
Over 50% share in Agribusiness.
Best Financial Borrower 2007 in the Central and Eastern Europe by Euromoney magazine.
No 6 by net assets and shareholder equity.
Authorized capital reached RUR 27.7 billion.

2008

No 372 by The Banker.
No 4 by capital and assets.
Key Bank in the Federal Program on Agribusiness Development 2008-2012.
Best Local Trade Bank in Russia by Trade Finance Magazine.
58% share in Agribusiness.
Capital increase by RUR 2 billion and RUR 31.5 billion.

CORPORATE GOVERNANCE

Transparency and Business Integrity



Yuri V. Trushin

Chairman of the Board and CEO



Stanislav G. Baranov

First Deputy Chairman of the Board



Gennady M. Antonov

Deputy Chairman of the Board



Arkady G. Kulik

Deputy Chairman of the Board



Valentin L. Kondurin

Deputy Chairman of the Board



Sergey A. Smirnov

Deputy Chairman of the Board



Konstantin M. Kudakov

Deputy Chairman of the Board



Oleg V. Nikonov

Member of the Board, Chief Accountant



Igor N. Baginsky

Member of the Board, Department Director



Oleg U. Avis

Member of the Board, Department Director

CORPORATE GOVERNANCE

Transparency and Business Integrity

Russian Agricultural Bank aspires to the highest standards of corporate governance as means of driving the performance of the business. RAB challenges and refreshes approach to corporate governance in order to keep well embedded and at the forefront of best practice development.

SUPERVISORY AND MANAGEMENT BOARDS

General Shareholder's Meeting is the highest level of management and ultimate decision making body of RAB. Supervisory Board performs the supervisory role within RAB. This means that the Board supervises the policy pursued by the Management Board. As a part of this task, the achievement of the Bank's objectives, the strategy, business risks, design and operation of the internal risk management and control systems, the financial reporting process and compliance with laws and regulations are discussed at length and tested regularly. In addition, the Supervisory Board has an advisory role in respect of the Management Board.

Management Board is responsible for the management of RAB. This includes responsibility for achievement of objectives of the Bank as a whole, its policy, results, compliance with all relevant laws and regulations, management of business risks and financing of operations. The Management Board reports

on all these aspects to the Supervisory Board. Members of the Management Board are appointed by the Supervisory Board.

Chairman of the Management Board and CEO of Russian Agricultural Bank has powers to act in the name of the Bank and to represent it towards third parties. Chairman of the Management Board is appointed by the Supervisory Board.

Corporate governance is a dynamic process. RAB regularly checks its corporate governance in light of new events, statutory requirements and developments in domestic and international standards, and makes appropriate adjustments.

To strengthen the support provided to the management of the Bank and to develop a new strategic vision in the current global environment, in 2008 Independent directors were appointed to the Supervisory Board. These changes were introduced with the purpose to follow recommendations of the Basel Committee that is:

- to increase transparency and management efficiency;
- to enhance expertise of the members of the Supervisory Board;
- to follow best international practices.

Status of the Supervisory Board was also upgraded due to nomination of the First Deputy Prime Minister of the Russian Federation to the position of Chairman of the Supervisory Board of Russian Agricultural Bank.

Supervisory Board

Victor A. Zubkov
Anatoly B. Ballo

First Deputy Prime Minister of the Russian Federation
Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

Sergei M. Guriev

Rector of Non-governmental educational institution "Russian Economic School (Institute)" (independent director)

Tatyana V. Paramonova

Representative of the President of the Russian Federation in the National Banking Council of the Bank of Russia, Adviser to the President of JSC "Russian railways" (independent director)

Elena B. Skrynnik
Alexander I. Sobol
Yuri V. Trushin

Minister of Agriculture of the Russian Federation
Deputy Chairman of the Management Board of JSC "Gazprombank"
Chairman of the Management Board and CEO, Russian Agricultural Bank

Management Board

Yuri V. Trushin
Stanislav G. Baranov
Gennady M. Antonov
Arkady G. Kulik
Valentin L. Kondurin
Sergey A. Smirnov
Konstantin M. Kudakov
Oleg V. Nikonov
Igor N. Baginsky
Oleg U. Avis

Chairman of the Board and CEO
First Deputy Chairman of the Board
Deputy Chairman of the Board
Deputy Chairman of the Board
Deputy Chairman of the Board
Deputy Chairman of the Board
Deputy Chairman of the Board
Member of the Board, Chief Accountant
Member of the Board, Department Director
Member of the Board, Department Director

COMMITTEES AND COMMISSIONS

The Supervisory Board has three standing committees:

- Audit Committee - reviews in detail RAB accounts and monitors its risk and internal control environment;
- Remuneration Committee - sets policy and approves the remuneration of senior executives;
- Strategic Planning and Development Committee – is responsible for setting and supervision of general and priority strategic objectives, for recommendations on dividend policy, and for appraisal of RAB's operations efficiency.

The Management Board is supported by a number of committees and commissions, including:

ALCO Committee

ALCO Committee is composed of First Deputy Chairman of the Management Board, who serves as Chairman of the Committee, Managing Directors of Treasury, Planning and Economy Department, Risk Assessment and Control Department, Finance and Taxation Department, Deputy Managing Director of Methodology and Credit Management Department and Chief Accountant. The ALCO Committee typically meets once per week.

ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on such matters as:

- implementation of the Bank's limits policy;
- adoption of internal procedures for regulating financial risk management;
- approval of the terms on which new funding is provided to RAB and the use of such funding.

ALCO Committee makes decisions independently, including funds allocation between the regional branches, setting limits and sub-limits to the regional branches and personal limits to the employees of the head office within the authorities provided by the Management Board.

Credit Committee

Credit Committee is headed by Deputy Chairman of the Management Board, and is made up of Managing Directors of Methodology and Credit Management Department and Legal Department, Deputy Chief Account, and Deputy Managing Directors of Risk Assessment and Control Department, Planning and Economy Department, and Security Department.

Credit Committee is independent from the Lending Department.

Credit Committee is responsible for approving the terms of individual credit transactions and preparing proposals for the improvement of the Bank's credit policy. Specifically, the Committee's main duties are:

- to establish and to modify criteria used by RAB in the analysis of asset quality and asset classification by risk category;
- to develop procedures for creation and use of reserves;
- to establish minimum interest rates for the Bank's loans;
- to review and analyze the results of inspections of RAB by external auditors, regulatory bodies and the Internal Control Service.

Credit Committee meets as often as three times a week, as needed.

In addition, RAB has credit committees at the regional branch level and credit committees at the additional office level that approve terms of individual credit transactions for regional branches and additional offices, respectively. Credit committees of regional branches also approve credit transactions of additional offices in excess of the established credit limits.

Technological Committee

Technological Committee is headed by the First Deputy Chairman of the Management Board, who serves as Chairman, and consists of representatives of Planning and Economy Department, Accounting and Financial Reporting Department, Security Department, Director of Information Technology Department, Managing Director of Methodology and Credit Management Department. Technological Committee meets as often as twice a month.

Technological Committee functions:

- to determine RAB's IT development strategy;
- to update existing and to develop new banking technologies;
- to purchase, design and introduce new soft- and hardware with the view to streamline technologies of the Bank's management.

Branch Network Committee

The Branch Network Committee is headed by Deputy Chairman of the Management Board, who serves as Chairman, and consists of Managing Directors of Branch Network Development Department, Human Resources Department, Cash Operations Department, Retail Lending Department, Deputy Managing Directors of Security Department, Finance and Taxation Department, Methodology and Credit Management Department and representative of Corporate Lending Department.

Branch Network Committee activity is aimed at:

- implementing RAB's branch network development policy;
- delivering proposals on its modernization;
- building system of efficient branch network management.

IFRS Committee

IFRS Committee is headed by Managing Director of Accounting and Financial Reporting Department and consists of representatives of Information Technology

Department, Capital Markets Department, Cash Operations Department, Finance and Taxation Department, Planning and Economy Department, Accounting and Financial Reporting Department, International Operations Department, Methodology and Credit Management Department, Retail Lending Department and Treasury.

IFRS Committee has the following competences:

- ensuring coordination of the Bank's units financial reporting based on IFRS;
- operational control over financial statements preparation;
- contacting external auditor.

Committee on Implementation of Agribusiness Development Programs

The Committee is headed by Chairman of the Board and CEO. Committee is comprised of Deputy Chairman, representatives of Accounting and Financial Reporting Department, Information Technology Department, Branch Network Development Department, Legal Department, Internal Control Service, Retail Lending Department, Treasury, and Finance and Taxation Department.

Committee was organized for coordination of the Bank's units and regional branches activities on implementation of Agribusiness Development Programs, starting from the National Priority Project on Agribusiness Development initiated in 2007 and further on the Federal Program on Agribusiness Development 2008-2012.

Corporate Development Committee

Corporate Development Committee is headed by Chairman of the Board and CEO and is comprised of Deputy Chairmen, representatives of Finance and Taxation Department, Accounting and Financial Reporting Department, Planning and Economy Department, Corporate Lending Department, Legal Department and Internal Control Service.

Corporate Development Committee activity is aimed at:

- reviewing RAB's development projects and the Bank's corporate development;
- establishing and restructuring the Bank's units;
- updating IT development strategy;
- developing internal normative base;
- updating existing and adopting new banking technologies.

Corporate Ethics Committee

Corporate Ethics Committee is headed by Deputy Managing Director of Planning and Economy Department and includes representatives of Finance and Taxation Department, Cash Operations Department, Corporate Lending Department, Internal Control Service, Human

Resources Department, Branch Network Development Department.

Corporate Ethics Committee activity is aimed at:

- promotion of corporate culture;
- control of compliance with principles and rules of corporate ethics.

Strategy Development Committee

Strategy Development Committee is headed by Deputy Chairman of the Management Board, who serves as Chairman, Managing Director of Planning and Economy Department, who serves as Deputy Chairman of the Committee. Other members of the committee are representatives of the following departments: Planning and Economy Department, Accounting and Financial Reporting Department, Human Resources Department, International Department, Credit Management Department, Technological Development Department, Corporate Lending Department, Retail Lending Department, Treasury, Branch Network Development Department, and representatives of the Academy of National Economy under the Government of the Russian Federation, who act as advisory of the project.

Strategy Development Committee is responsible for management, monitoring and coordination of the project "RAB Strategy Development".

Crisis Combating Committee

The Committee is headed by the First Deputy Chairman of the Management Board and comprised of two Deputy Chairmen of the Management Board, Managing Directors of Methodology and Credit Management Department, Finance and Taxation Department, Planning and Economy Department, Capital Markets Department, Corporate Lending Department, Risk Assessment and Control Department, Treasury and Chief Accountant.

Crisis Combating Committee was established in 2H2008 to deal with negative influence of financial instability.

Committee competences are defined as follows:

- to monitor and to estimate current economic situation in the Russian Federation and in the world;
- to work out a set of crisis combating measures at RAB to ensure its stable development;
- to coordinate the activity of RAB's departments on implementation of crisis combating measures.

Nomination Commission

Nomination commission is headed by Deputy Chairman of the Management Board, who serves as Chairman, and is comprised of Managing Directors of Human Resources Department, Legal Department, Branch Network Development Department, Planning and Economy

Department, Methodology and Credit Management Department, and representative of Finance and Taxation Department.

Nomination Commission is responsible for:

- conducting ongoing succession planning;
- delivering recommendations on candidates for appointment to executive positions in head office and regional branches.

Remuneration Commission

Remuneration Commission is headed by Director of Finance and Taxation Department, who serves as Chairman, Deputy Chairman of the Commission is Deputy Managing Director of Planning and Economy Department. Commission is comprised of Head of Internal Control Service, Managing Director of Human Resources Department, Deputy Managing Director of Legal Department, and Deputy Chief Accountant. Remuneration Commission allocates financial resources on salary payment in view of the number of employees and growth of salaries.

Occupational Safety and Health Commission

Commission is headed by Deputy Chairman of the Management Board, who serves as Chairman, and is comprised of representatives of Human Resources Department, Administrative Department, Legal Department, Cash and Non-Cash Operations Department, Information Technology Department and Security Department.

Occupational Safety and Health Commission is responsible for training and testing of health and safety requirements of employees.

Additional Social Security Commission

Additional Social Security Commission is comprised of representatives of Administrative Department, Human Resources Department, Finance and Taxation Department, and Accounting and Financial Reporting Department.

Commission is responsible for additional preferences and services offered to the employees in the framework

of their social security, including but not limited to health of employees and their kids, compensation of stay in the sanatorium facilities, recreation facilities and other.

Pension Commission

Commission is headed by Deputy Chairman of the Management Board and is comprised of Managing Directors of Human Resources Department and Finance and Taxation Department and representatives of Legal Department, and Chief Accountant.

Pension Commission is responsible for non-government pension fund of the Bank's personnel.

Scholarship Commissions

Commissions are headed by Deputy Chairman of the Management Board, who serves as Chairman, and is comprised of representatives of the University or Academy and representatives of RAB's Finance and Taxation Department, Human Resources Department and Legal Department.

Two Scholarship Commissions for Russian State Agrarian University – MTAA named after K.A. Timiryazev and for Finance Academy under the Government of the Russian Federation are organized in RAB with the purpose to select candidates from students and post-graduates to receive scholarships.

Operations Maintenance Commission

Commission is headed by Deputy Chairman of the Management Board, who serves as Chairman, and is comprised of Managing Directors of Finance and Taxation Department, Accounting and Financial Reporting Department, Planning and Economy Department, Information Technology Department and Head of Public Relations Department.

Operations Maintenance Commission was established in 2H2008 as part of the Bank's crisis combating program. It is responsible for strict control of expenses and compliance with budgeted costs estimation. ■

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

Strength, Diversity and Resilience

2 008 was split into two distinct periods. In the first six months of 2008, the robust growth of the Russian Federation economy continued, real GDP grew at a brisk pace of about 8%, reflecting a booming economy and strong macroeconomic fundamentals.

In the second part of the year the financial and economic turmoil being felt globally has placed a strain on both developed and emerging economies. After a decade of high growth, it has affected the Russian Federation, pushing economic growth off the cliff and posing a new challenge for banking sector performance.

Strong short-term macroeconomic fundamentals made the Russian Federation better prepared than many emerging economies to deal with the crisis. Prudent fiscal management and substantial financial reserves have protected the country from deeper consequences of this external shock. The government's policy response so far - swift, comprehensive, and coordinated - has helped limit the impact.

2008 became a mixed year for Russian Agricultural Bank and was marked by two major facts.

- First, the Bank met goals set in the business plan for 2008 in an unusually difficult business environment of the banking sector. The eventual outcome was profitable, controlled, balanced growth over the year.
- Second, the world banking sector as a whole was affected by the crisis. RAB YE2008 operations did not remain untouched by the financial turmoil. In this difficult and highly unstable environment RAB continued a full scale support of the agribusiness sector of the Russian Federation.

The effects of the financial market crisis required RAB to identify additional challenges in its operations and agribusiness market growing demand for credit and financial support.

RAB successful performance is based on client-oriented modernized and resilient mechanism of banking products and services provision. RAB promotes creation of a truly customer-centric culture. Aiming at improved customer satisfaction RAB establishes partner relationships with each client responding to individual needs and requirements, and developing and rendering individual services.

RAB strictly complies with all its obligations, provides high quality services and broadens range of banking products and services offered to its clients. All these allow the Bank to strengthen its position in the market by attracting new clients and growing turnover.

RAB YE2008 results confirm its strong market position and clients' loyalty (table 3).

Growing Scale of Business

- 58% market share in agribusiness lending in the Russian Federation;
- second largest branch network in the Russian Federation, including 78 regional branches and 1,414 additional offices;
- ranked 4 by capital and by assets among the largest banks, according to Russian Business Consulting and the Profile magazine;
- ranked number 372 in the Top 1000 World Banks listing, number 10 among the largest banks of the Russian Federation and number 11 among the largest banks of Central and Eastern Europe according to The Banker magazine.

TABLE 3. KEY PERFORMANCE INDICATORS

	YE2008	YE2007
Authorized Capital	RUR 62.0 billion \$2.1 billion	RUR 28.5 billion \$1.2 billion
Total Equity	RUR 67.8 billion \$2.3 billion	RUR 33.8 billion \$1.4 billion
Total Capital	RUR 101.9 billion \$3.5 billion	RUR 50.3 billion \$2.1 billion
Total Assets	RUR 713.1 billion \$24.3 billion	RUR 356.5 billion \$14.5 billion
Loan Portfolio	RUR 452.3 billion \$15.4 billion	RUR 291.6 billion \$11.9 billion
Profit before tax	RUR 3.3 billion \$0.1 billion	RUR 5.8 billion \$0.2 billion
Profit for the year	RUR 2.1 billion \$0.07 billion	RUR 4.4 billion \$0.18 billion
Personnel	24.5 thousand employees	19 thousand employees
Clients	over 1 million retail and 150.5 thousand corporate	800 thousand retail and 110 thousand corporate

Russian Agricultural Bank has now achieved six years of continuous positive and from year to year improving financial results. The Bank is well placed for further organic growth with broadly diversified businesses by asset class, by region and by client type.

This section is partly prepared in accordance with Russian Accounting Standards.

STRONG CAPITAL POSITION

In 2008, RAB's capital continued to grow both from federal and market sources. In April 2008 and in August 2008, RAB's capital was increased by RUR 2 billion (\$68 million) and RUR 31.5 billion (\$1.1 billion), respectively, and amounted to RUR 61.223 billion (\$2.1 billion) as at YE2008 according to Russian Accounting Standards. In October 2008, RAB received RUR 25 billion (\$851 million) subordinated loan from the Government. As a result its own capital amounted to RUR 106.2 billion according to Russian Accounting Standards (\$3.6 billion) (table 4).

TABLE 4. RAB CAPITALIZATION

Date	Capital Increase, RUR million	Authorized capital, RUR million
Jun-00 start-up	375	375
Mar-01	430	805
Jul-01	2,000	2,805
Dec-02	994	3,799
Jun-03	850	4,649
Sep-05	6,121	10,770
Feb-06	493	11,263
May-06	3,700	14,963
Dec-06	5,908	20,871
Dec-07	6,857	27,728
Apr-08	2,000	29,728
Aug-08	31,495	61,223
Total YE 2008		61,223
Feb-09	45,000	
Total		106,223

Note: according to Russian Accounting Standards as of March 1, 2009

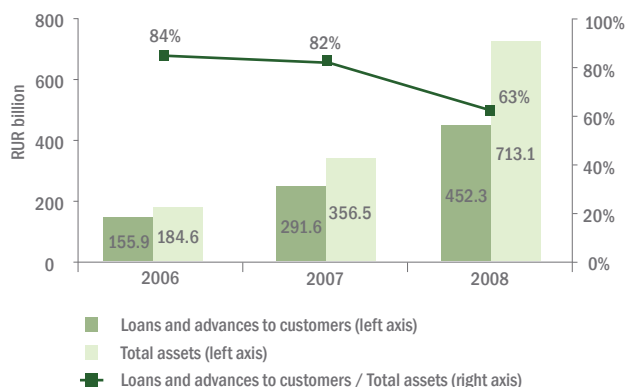
The Government is committed to funding further capital increases of RAB to support the lending activity under the Federal Program on Agribusiness Development 2008–2012.

Looking ahead RAB's capital position is strong, particularly following RUR 31.5 billion (\$1.1 billion) and RUR 45 billion (\$1.5 billion) of equity contributions, respectively, in August 2008 and February 2009. RAB believes that capital strength and liquidity are two of its key features, ensuring that it is positioned to seize new opportunities for agribusiness support wherever they arise.

UPWARD FINANCIAL TRENDS

In 2008, RAB showed substantial financial results: total assets amounted to RUR 713.1 billion (\$24.3 billion), loan portfolio reached RUR 452.3 billion (\$15.4 billion). RAB

CHART 7. STRONG ASSET GROWTH

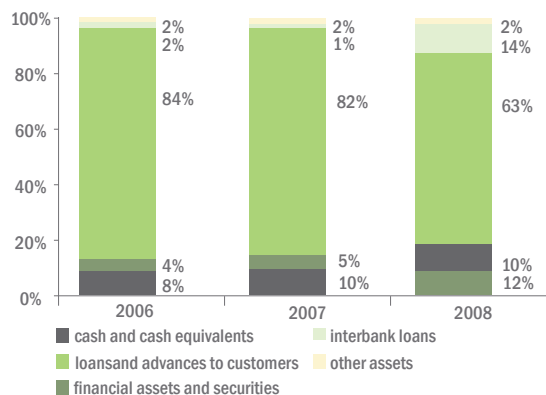


has achieved strong asset growth by 1.7 times in line with management's expectations and objectives (chart 7).

Assets vs. Liabilities – Well Structured Balance Sheet

The share of corporate and retail loans decreased by 19%, nevertheless they represent the major assets application with a 63% share of the total assets. Interbank loans volume increased to 14%, volume of cash and cash equivalents climbed to 12%. The share of financial assets and securities reached 10%. Other assets remained stable (chart 8).

CHART 8. ASSET STRUCTURE DYNAMICS



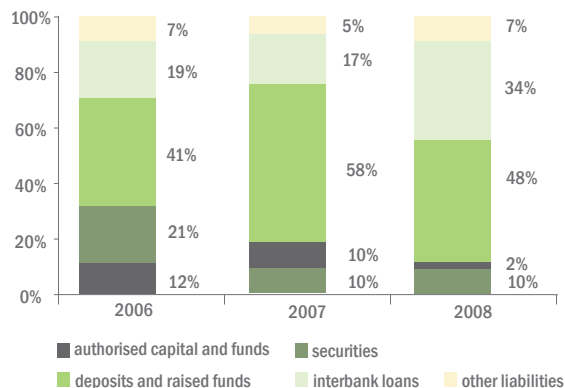
RAB liabilities are reasonably diversified (chart 9). Dominant positions in liabilities structure are kept by:

- deposits and other raised funds – 48%;
- interbank loans – 34%.

Incomes vs. Expenses - Improved returns

In 2008, interest income increased by RUR 23.5 billion (\$800 million) or 72% to RUR 56.1 billion (\$1.9 billion). This year-on-year increase was primarily due to 86.6%

CHART 9. LIABILITIES STRUCTURE DYNAMICS



increase in total average interest-earning assets that amounted to RUR 456.3 billion (\$15.5 billion). Interest income on loans and advances to customers increased by 66% and reached RUR 51.7 billion (\$1.8 billion), representing 92% of RAB's total interest income.

Investing in the future profitable and sustainable growth is a priority for RAB. In 2008, operating expenses remained under particular tightened control, with continued investments in new growth initiatives.

Interest expenses increased by 89% and reached RUR 29.5 billion (\$1 billion). Such increase resulted from the overall growth of interest-bearing liabilities utilized by RAB to fund its growing loan portfolio. Total administrative and other operating expenses grew 54%. Staff costs accounted for 60.4% of the total net increase in administrative and other operating expenses

RAB focuses on balancing growth and returns with expenses to maximize operating efficiency and value creation.

SUSTAINABLE LENDING BUSINESS

Being present in 79 regions of the Russian Federation - and at every point in-between - RAB is well-positioned to support its customers - rural population - wherever they do business.

From the financial standpoint, RAB achieved considerable results in relation to loan portfolio growth, confirming its market share in the major agribusiness segments and enhancing the quantitative and qualitative value of its customer base.

In the current situation when many financial institutions have suspended lending activities and in particular suspend lending to agribusiness RAB continued operations routinely and provided all necessary support to agribusiness and rural population.

Throughout 2008, the Bank's loan portfolio has grown in accordance with the business plan by 55% and reached

RUR 452.3 billion (\$15.4 billion) (chart 10). The volume of loans extended totaled RUR 334 billion (\$11.4 billion), including 1Q2008 - RUR 59 billion (\$2 billion), 2Q2008 - RUR 80 billion (\$2.7 billion), 3Q2008 - RUR 92 billion (\$3.1 billion), and 4Q2008 - RUR 103 billion (\$3.5 billion) according to Russian Accounting Standards. Over RUR 255 billion (\$8.7 billion) were allocated in 2008 in line with the Federal Program on Agribusiness Development 2008-2012.

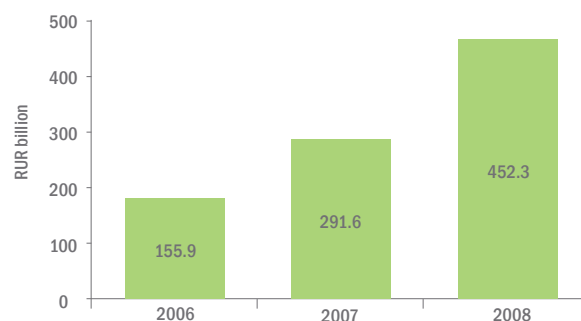
In total, RAB lending to agribusiness in 2008 grew to RUR 373.4 billion (\$12.7 billion) from RUR 246.4 billion (\$8.4 billion). 80% of RAB loan portfolio is extended to agribusiness and related subsectors.

Insofar the customer base is concerned: the total number of credit agreements reached 544.4 thousand - 1.3 times growth through the year. Traditionally agribusiness loans prevail in the Bank loan portfolio with an 80% share.

RUR 398.5 billion (\$13.6 billion) - 85% of loan portfolio - are granted to corporate clients. Retail portfolio amounted to RUR 58.5 billion (ca. \$2 billion) (12%).

In total, in 2008 RAB extended RUR 334 billion (\$11.4 billion), loan portfolio grew RUR 160.7 billion (\$5.5 billion).

CHART 10. LOAN PORTFOLIO DYNAMICS



RAB maintains high quality of loan portfolio and continuously improves it. The Bank takes the most effective and sustainable types of loan pledge. Loans pledge highly exceeds the loans extended.

The traditional conservative lending policy, in addition to rigorous criteria for identification of doubtful outcomes, allowed for limiting the amount of non-performing loans to only 1.8% according to Russian Accounting Standards and to 4% according to International Financial Reporting Standards despite the overall trend in the banking sector for accelerated NPL growth. 2009 focus - limited growth of overdue loans.

Today RAB is the key lender to agribusiness sector with 58% share. Namely, in lending to agricultural cooperatives RAB accounts for 90%, in lending to personal households - 75%, in lending to farms RAB's share exceeds 70%.

As a State Agent for agribusiness development RAB continued lending in the framework of the list of government agribusiness related programs and proved again its reputation of one of the most reliable financial institutions with fair trade practice.

RAB continued to function as a State Agent to implement the program on recovering of loans extended from 1992 to 2000 from the Russian federal budget and extra-budgetary sources, the Federal Law “On Financial Rehabilitation of Agricultural Enterprises” and financing of grain purchase and commodity interventions.

Lending Diversification

RAB is the only government-owned bank in the Russian Federation exclusively focused on providing services to agribusiness and rural population that makes up 27% of the total population of the Russian Federation.

RAB’s credit policy stipulates that at least 70% of the loan portfolio is devoted to agribusiness. 80% of RAB loans were extended to agribusiness in 2008. Upward dynamics was registered both in corporate and retail lending.

The Bank strengthened its market position by increasing lending to those sub-sectors of the agribusiness and regions

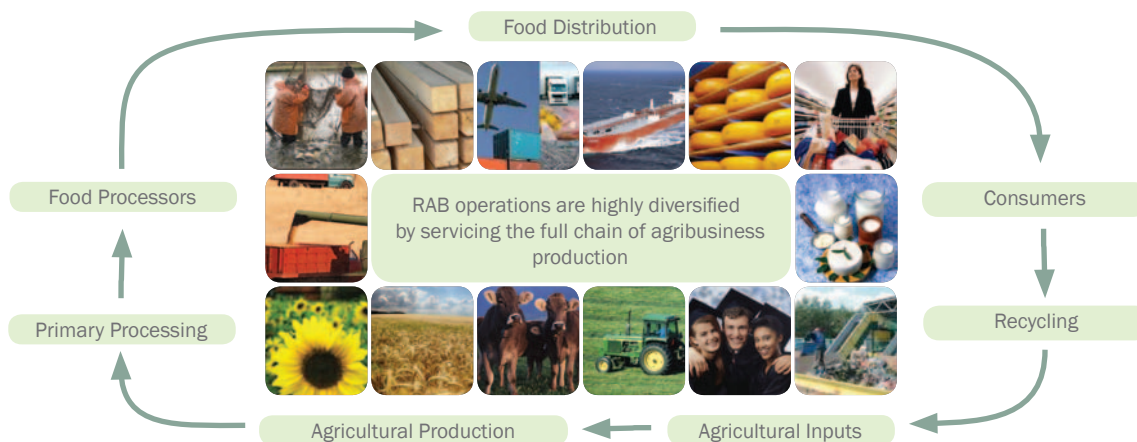
Agribusiness is a highly diversified sector with over 20 sub-sectors and related industries.

Agribusiness focus provides multiple areas for lending including the whole chain of agribusiness production (scheme 2).

- Agricultural inputs - equipment, machinery, construction, manufacture, port reconstruction, road construction, fertilizers production, fuel, etc.
- Agricultural production- animal breeding, including livestock, poultry, pork, sheep, horses, deer, fur-bearing animals, fishery, reindeer breeding, yak breeding, aquaculture; plant breeding including crops and perennial plants, growing cereal, edible oils, rape, grain, wheat, soy bean, corn, buckwheat, sunflower, feed crops, potato, rice growing, tea leaves, wine, vegetable growing, sugar beet and sugar cane; timber and wood production, etc.
- Primary processing - harvesting and storing, e.g. harvesters, elevators.
- Food processors - food and processing enterprises (dairy, meat, poultry, pork and other).
- Food distribution - trade enterprises, trade chains, supply chains, logistics.
- Recycling – processing of agribusiness waste, biowaste, waste of production and other.

RAB is also engaged in rural infrastructure development, mortgage lending and consumer lending, loans designed

SCHEME 2. THE AGRIBUSINESS PRODUCTION CHAIN



in which the demand for banking products remains largely unsatisfied through its network of regional branches and additional offices, as well as by improving the quality of its banking services and broadening the range of products and benefits provided to its customers.

In addition to strengthening its marketing and distribution capabilities, the lending business benefited from a diversified product range.

to promote the implementation of modern environment friendly technologies like biofuel production, drop irrigation, sewage treatment, etc. RAB has elaborated special innovative lending programs targeted to develop indigenous handicrafts and local agricultural particularities.

Russian Agricultural Bank will further provide large-scale credit and financial support to the national agribusiness and

rural population. It is planned that loan portfolio will amount to RUR 600 billion (\$20.4 billion) in 2009. At present special focus is given to financing of seasonal field works.

Corporate Lending

Lending to agribusiness producers, food and processing enterprises, wholesale and retail traders is a dominating area of RAB lending business. Corporate loan portfolio climbed to RUR 398.5 billion (\$13.6 billion), number of loans – to 42.4 thousand.

RAB now is the core lender to agribusiness producers in the Russian Federation. 60% of corporate loan portfolio is granted to agribusiness – RUR 281.4 billion (\$9.6 billion), including farmers - RUR 24.9 billion (ca. \$850 million) and food and processing enterprises – RUR 47.9 billion (\$1.6 billion).

Successful lending program elaborated by RAB envisages financing of the procurement of agricultural machinery and/or equipment. Under this program loans are secured by collateral of these machinery and/or equipment. In 2008, the number of loan agreements under this program and their total amount grew by 54% to 15,900 and RUR 63 billion (\$2.1 billion), respectively.

Another RAB program, which is of high demand among clients, is “Lending for purchase of pedigree livestock under its pledge”. In 2008, lending under this program increased by 32% to RUR 3.2 billion (\$109 million).

Russian Agricultural Bank offers to agricultural producers additional lending programs for purchasing grain-drying, feeding, milk and meat processing equipment, as well as second-hand self-propelled harvesting, road-building, municipal and sprinkling machinery. RAB also provides short-term lending programs for traders of machinery and equipment.

RAB supports implementation of modern environment friendly technologies and provides loans designed to promote biofuel production, drop irrigation, sewage treatment, etc. in agribusiness production and processing with a special emphasis on livestock breeding and fishing industries development. RAB has elaborated special innovative lending programs oriented at development of indigenous handicrafts and local agricultural particularities: reindeer breeding, yak breeding, horse breeding, aquaculture development lending, and etc.

By implementing a wide range of lending programs and offering a large-scale list of lending products RAB has developed a well diversified corporate loan portfolio both by product type, by maturity and region (chart 11).

Dynamic growth of lending is combined with high performance of the extended loans. Prevailing part of the loan portfolio, namely 92%, belongs to the 1st and 2nd quality categories. These are loans with zero profitability of default.

RAB provides its clients with new lending initiatives. At the beginning of April 2009 RAB launched automotive lending program for individuals purchasing cars manufactured in the Russian Federation. The program is based on the Government of the Russian Federation Decree and is implemented in the framework of crisis combating measures and support of national automotive manufacture. Its will also ensure higher living standards and social status of rural residents.

RAB believes that successful performance of loan portfolio in 2008 was among other ensured due to timely and adequate update of methodological approaches to lending. Following recessionary trends a list of programs, orders, rules and other on lending were brought into compliance with market situation.

CHART 11. CORPORATE LOAN PORTFOLIO DIVERSIFICATION BY PRODUCT, MATURITY AND REGION

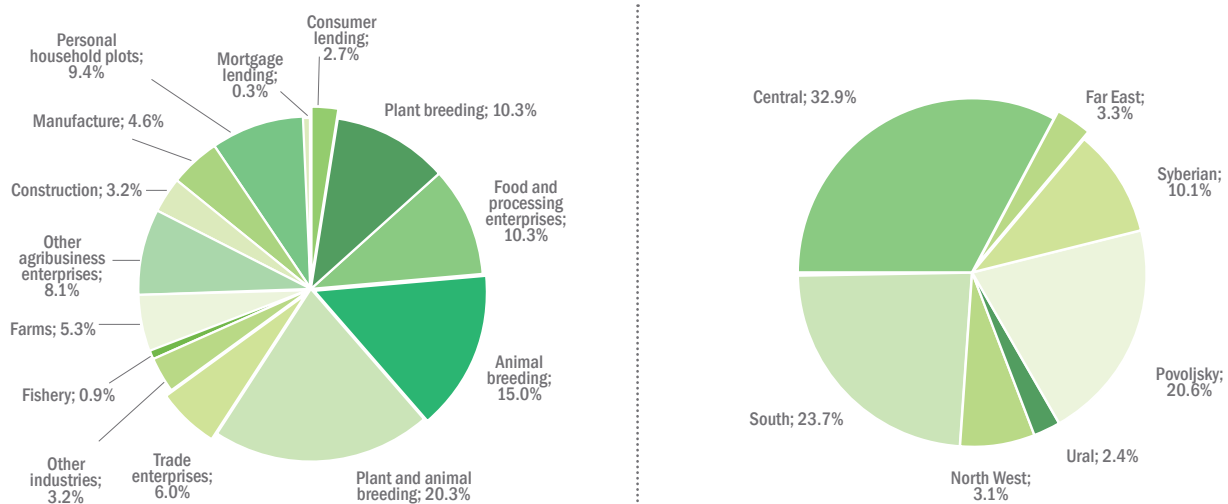
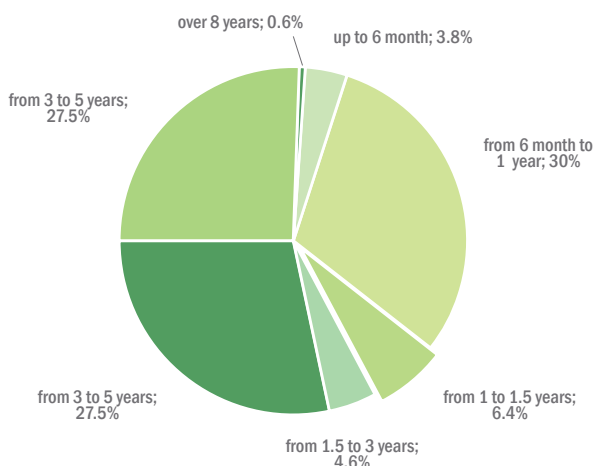


CHART 11. (CONTINUED)



In 2009, RAB is determined to continue focusing on agribusiness lending support by expanding the scale of lending to agricultural enterprises and rural population and ensuring achievement of the objectives outlined by the Government.

Cooperatives Development

Financial support of agricultural cooperatives is one of the priority business activities of RAB. As a part of its function of state agent for agribusiness development RAB assists credit consumer cooperatives development as an important part of rural areas economic and financial stabilization.

In 2008, RAB continued to grow scope of lending to cooperatives. Lending to consumer cooperatives grew by 1.2 times and to credit consumer cooperatives – by 1.3 times.

In 2008, consumer cooperatives were granted over 1 thousand loans to the total amount of RUR 4.6 billion (\$157 million). Cooperatives loan portfolio reached RUR 7.8 billion (\$265 million).

RAB's activity allows to:

- increase capitalization of cooperatives and their loan portfolio;
- develop SMEs in agribusiness;
- receive fixed dividends;
- minimize risks of micro-level financing.

RAB also provides information support to agricultural cooperatives, including legal and financial consulting services, through its network of regional branches and additional offices.

Agribusiness development depends heavily on situation in the agrimarkets. To support agricultural production sales market evolvement and formation of distribution system for small business RAB extended first loans for

foundation and expanding capacities of agricultural cooperatives markets.

Retail Lending

RAB offers a full range of lending services and products together with professional advice and effective management. These services are available through multiple distribution channels, including regional branches, additional offices and operating cash desks.

In 2008, RAB continued dynamic development of its retail lending programs. The number of loans extended amounted to 203 thousand to the total amount of RUR 30.4 billion (ca. \$1 billion). Retail loan portfolio reached RUR 58.5 billion (ca. \$2 billion) (chart 12).

Growing retail portfolio is strengthened by RAB elaborated branch network that allows covering almost all rural population.

Lending to personal household plots owners and farmers is one of the most demanded RAB's retail programs. In 2008, 127 thousand loan agreements to the amount of RUR 20 billion (\$681 million) were executed. The total number of such agreements exceeded 419 thousand to the amount of RUR 62 billion (\$2.1 billion). The average loan amount was RUR 147.2 thousand (\$5 thousand) and average term – 4.4 years.

Loans of up to two years in duration are granted for purchases of livestock, fodder, seeds, making of payments for leased land and to fund other expenses incurred in connection with personal farm production operations.

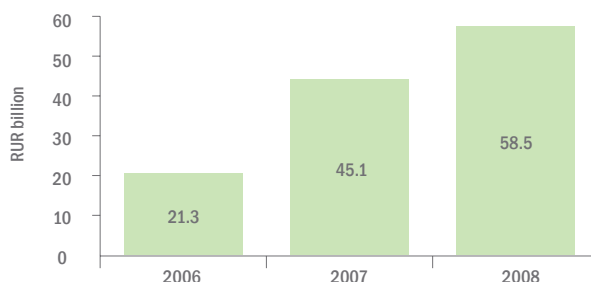
Loans of up to five years are granted for the purchases of machinery, livestock, land plots and construction and reconstruction of premises used in production or processing operations, as well as for other types of capital expenditures.

For rural settlements gasification RAB extended 2,287 loans to the amount of RUR 140.9 million (\$4.8 million). Total amount of gasification lending reached RUR 311.2 million (\$10.6 million).

In 2008, RAB extended 946 mortgage loans for the total amount RUR 677.7 million (\$23.1 million). Mortgage loan portfolio climbed to 2 881 loans, RUR 1,606.3 million (\$54.7 million).

Lending to individuals is an important aspect of financial

CHART 12. RETAIL LOAN PORTFOLIO



support of Russian agribusiness. Growing scale of RAB financial support and its growing importance for the implementation of the Federal Program for Agribusiness Development prescribe the Bank additional reliability for the social and economic development of agribusiness and social welfare of the rural areas.

In this context RAB's programs on credit and financial support of housing and utility infrastructure, construction and purchase of houses in the rural areas, gasification, water-supply facilities, utilities, purchase of household appliances and automobiles, and etc. become very important. In 2008, RAB extended over 63 thousand loans to the amount of RUR 8 billion (\$272 million) for social support of rural population.

RAB possesses the largest share in lending to small enterprises in agribusiness: 75% in lending to personal household plots, 70% - in lending to farmers, ca. 90% - in lending to agricultural consumer cooperatives.

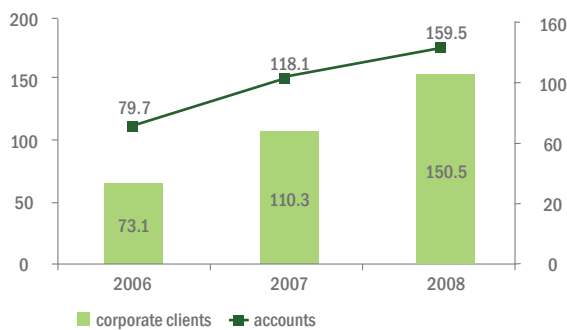
GROWING CUSTOMER BASE

The main goal of corporate governance at RAB is to offer the clients an original financial structure that closely matches their needs and concerns, and to enable them to become long-term partners in a structure build on the values of proximity, responsibility and solidarity.

RAB promotes the creation of a truly customer-centric culture aiming for improved customer satisfaction and customer retention. RAB does its best to allow its customers to receive dedicated and personalised follow-up. It offers enhanced service, attractive solutions and advice in both banking service and conduct of their own business when necessary.

RAB extends its network of additional offices – over 1,500 points of sale - throughout rural areas to provide access to its financial services to all potential clients. RAB's stability and reliability as a government-owned institution together with

CHART 13. CORPORATE CUSTOMERS BASE DYNAMICS

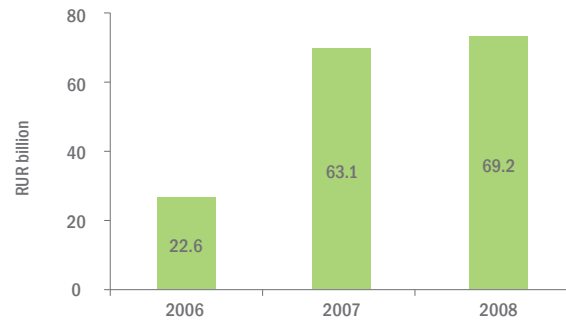


competitive products and services are of high attractiveness for rural population. Its customer-centric approach allowed the bank to attract new clients even in the unstable financial conditions characterising year 2008.

For the enhanced management of client needs a new Client Relations Department was established in 2008. New Department is focused on improvement management of client's accounts and improved customer satisfaction.

RAB clients are both corporate entities and individuals residing in rural and urban areas. In 2008, RAB attracted 40 thousand corporate clients; as a result number of corporate clients grew 36.4% and reached 150.5 thousands (chart 13), number of individuals – over 1 million. Corporate cash balance on settlement accounts grew RUR 3.9 billion (\$133 million), this is 13% compared to the previous year. Actual volume of corporate deposits grew RUR 2.2 billion (\$74.9 million) and climbed to RUR 36.6 billion (\$1.2 billion) (chart 14).

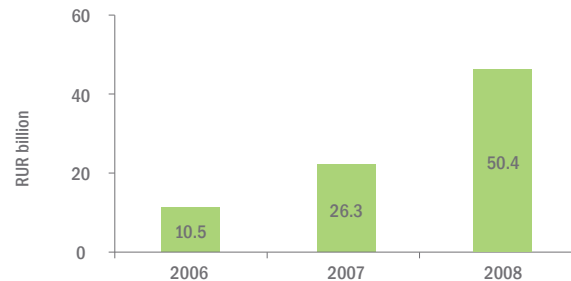
CHART 14. CORPORATE CUSTOMERS DEPOSIT BASE



The agribusiness market experience of RAB and its subsidiaries makes it possible to attract rural population deposits and savings. Number of retail clients exceeded 1 million, this is 25% growth from 800 thousand clients in 2007.

In 2008, RAB retail clients deposit base again showed significant upward growth – almost 2 times (chart 15).

CHART 15. RETAIL CUSTOMERS DEPOSIT BASE



In 2008, RAB customer accounts grew to RUR 154.5 billion (\$5.3 billion) from RUR 96 billion (\$3.3 billion) in 2007.

Having a very strong regional presence RAB provides banking services for individual clients, farmers, corporate customers and local authorities. Regional branches provide a full range of banking and financial products and services including corporate lending and retail lending, particularly mortgage loans and consumer finance, access to payments systems, maintenance of accounts and deposit taking, etc. These services are available through the local branch network and a range of supplementary channels – additional offices and operating cash desks.

NEW PRODUCTS INITIATIVES

RAB continuously provides its clients with new banking products and services. In 2008, the Bank continued offering innovative region-specialized lending programs oriented at development of indigenous handicrafts and local agricultural particularities: reindeer breeding, yak breeding, horse breeding, aquaculture development lending, and to support implementation of modern environment friendly technologies like biofuel production, drop irrigation, sewage treatment, etc.

Core breakthrough in the Bank's activity in 2008 was launch of payment cards and initiation of wheat futures market.

Payment Cards

In 2008, payment cards became one of the flagship products of the Bank that strengthened its position in the market. RAB extensive branch network will promote major distribution of the cards throughout the country.

In January 2008, RAB issued first local cards "Green card". Later during the year RAB issued its first VISA cards. During the year, 360 ATMs and 940 cash advance points were put in place and brought into operations. Number of cards in operation exceeded 50 thousand.

Now RAB offers a wide range of cards:

RSHB VISA Classic
RSHB VISA Platinum
RSHB VISA Country

RSHB VISA Gold
RSHB VISA Business
RSHB Local Card

In the 1Q2009, RAB arranged Internet banking service "Internet office", which right away yields careful attention of the clients. According to the Bank's estimations number of cards in circulation will reach about 300 – 400

thousand by YE2009, 1 – 1.5 million by YE2010, and with consequent annual increase by 1 million clients - from 5 to 7 million in 2015.

Customer Service

In 2008, RAB continued its efforts at improvement of customer satisfaction and customer retention. With this purpose a new Client Relations Department was established in the Bank. Client Relations Department does its best to allow customers to receive dedicated and personalised follow-up, and to enable them to become long-term partners in a structure build on the values of proximity, responsibility and solidarity.

Futures Market

In April 2008, Russian Agricultural Bank became one of the initiators of establishing trading in delivery futures on wheat launched by National Mercantile Exchange (NAMEX), part of Russia's MICEX (Moscow Interbank Currency Exchange) Group. The project was implemented with the support of Ministry of Agriculture of the Russian Federation, Administration of Krasnodar Region and Russian Grain Association. It was a major contribution to the development of Russia's grain industry and its financial markets. Russian Agricultural Bank as a member of the Section participated in the first trades. In the course of the year RAB under the instructions of its clients has concluded 14,500 futures transactions in wheat futures for the overall amount of RUR 5 billion (\$170 million). Total amount of transactions on NAMEX reached 80,000 contracts in wheat futures; this is about 5 million tons of wheat, for the overall amount of RUR 26 billion (\$885 million).

RAB has now achieved six years of continuous positive and from year to year improving financial results. The Bank is well placed for further growth with broadly diversified businesses by asset class, by region and by client type. In long term RAB sees significant further opportunities to grow organically in institutional, retail and high net worth channels, supplemented by branch network development including growth to CIS countries which strengthens business.

RAB present operations and franchise allow one to presume that RAB will continue to successfully implement its mission and facilitate its growth and efficiency along with profound changes in the national agriculture and social development of the Russian countryside. ●

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERNATIONAL OPERATIONS

Resilience in the Turbulent Markets

Russian Agricultural Bank is a reliable banking partner to major financial institutions around the world. The experience gained by the Bank in international activity, transparency acknowledged by the leading international rating agencies, as well as diversified investor base combined with the strong governmental support allowed the Bank to strengthen its positions in the international market.

While steering its business through turbulent times, RAB made significant commercial breakthroughs in most of its international business-lines, due to the efforts aimed at strengthening its relations with foreign financial institutions, investors, correspondent banks, export credit agencies and foreign agribusiness producers.

2008 – 1H2009 Highlights:

- Number 372 in the Top 1000 World Banks listing, the 10th among the largest banks of the Russian Federation and 11th among the largest banks of Central and Eastern Europe according to the publication in the July 2008 issue of The Banker magazine.
- Best Local Trade Bank in Russia according to the Trade Finance Magazine.
- Opening of Representative Office in Minsk, Belarus.
- Joined the Canada Eurasia Russia Business Association.

CORRESPONDENT RELATIONS

In the year under review RAB continued to strengthen its correspondent banks network and has further increased its operational efficiency. RAB's correspondent net today includes over 100 banks world-wide. In 2008, RAB opened JPY correspondent account with VTB Bank (Deutschland) AG, EURO correspondent account with VTB Bank (Austria) AG and USD correspondent account with Citibank N.A., USA. In its turn Russian Agricultural Bank opened loro/vostro accounts for 7 foreign banks.

With the view to maintaining financial stability in the volatile markets, hedging specific currency-related risks and meeting the demand of its clients with respect to Russian rubles, RAB signed series of ISDA-governed SWAP confirmations, cross-currency deposit exchange agreements, fully funded CDS and swaption agreements with international top-ranking banks, such as JPMorgan Chase Bank N.A., Barclays Bank PLC, Goldman Sachs Int., Dresdner Bank AG and FX-netting agreement with BNP Paribas.

For the purpose of further development of liquidity and risk management, Russian Agricultural Bank has re-established negotiations with a number of leading foreign banks for executing ISDA Master Agreements which shall assist reducing operational and legal risks of SWAP transactions and give RAB the possibility to broaden derivative relations with its correspondents

and to strengthen its presence in the relevant markets. The prospects of International Swaps and Derivatives Association membership are also being considered.

As a state agent for agribusiness development, Russian Agricultural Bank has taken a number of measures aimed at supporting international cooperation in this field. With the view of bilateral relations development, expansion of project development financing and technical re-equipment of agribusiness, food and processing industry RAB signed cooperation agreements with Uzbek AKB Microcreditbank, Turkmen State Bank of Commerce Dayhanbank and Golomt Bank of Mongolia.

In order to put into practice the decisions of Russian Government and its international agreements aimed at financing supply of agricultural machinery and equipment, chemical fertilizers, cattle, and other production from Russian exporters to its foreign partners, RAB signed agreements on interbank lending with three Mongol banks: ANOD Bank, Chinggis Khaan Bank Golomt Bank, and loan agreement with Belagroprombank.

RATINGS

Two international rating agencies - Moody's and Fitch Ratings – regularly assess the Bank's financial standing. Russian Agricultural Bank's ratings correspond to the sovereign credit rating of the Russian Federation and are all investment grade ratings.

Fitch

Long-term Issuer Default Rating	BBB, negative
Short-term Issuer Default Rating	F3
Individual	D
Support Rating	2
Support Rating Floor	BBB
National Long-term Rating	AAA(rus), stable

Senior unsecured debt rating	BBB
Subordinated debt rating	BBB-

Moody's

Long-term foreign currency deposit rating	Baa1, stable
Short-term foreign currency deposit rating	Prime-2, stable
Financial strength rating	E+, stable
National scale ratings	Aaa.ru long-term

Senior unsecured debt rating	Baa1
Subordinated debt rating	Baa2

TRADE AND STRUCTURED FINANCE

Against the background of the current liquidity deficit on the international financial markets trade finance is one of the most important sources of funds. Russian Agricultural

TABLE 5. TRADE FINANCE PROJECTS

\$35,500,000 EcoNiva Technique Foreign agricultural machinery purchase	\$46,000,000 OOO "AST" Foreign agricultural machinery purchase	\$4,000,000 OOO "Urozhay" Agricultural equipment purchase	€1,050,000 OAO "Nizhegorodagrosnab" Foreign agricultural machinery purchase	\$3,300,000 Yupiter-9 Agricultural equipment purchase
€6,311,250 Povolzhskaya agricultural company Foreign agricultural machinery purchase	€3,590,000 ZAO "Evropeyskaya Agrotehnika" Agricultural equipment purchase	\$3,212,729 Ajax-Agro Company Foreign agricultural machinery purchase	€2,092,500 Agrobureau VVC Foreign agricultural machinery purchase	RUR 83,000,000 FGU SP "Rus" Foreign agricultural machinery purchase
€11,530,000 OAO "Zhelezobeton" Production equipment purchase	€2,102,500 OOO "Grafital"Packaging equipment purchase	€6,700,000 OOO "Bashkirskiy M.Gafuri poultry complex" Poultry equipment purchase	€5,800,000 Poultry farm "Akashevskaya" Poultry equipment purchase	€1,130,000 Poultry farm "Zaokskaya" Poultry equipment purchase
€660,000 OOO "Sever" Poultry equipment purchase	\$680,000 Can making factory "Kholmanskaya" Tin-plate purchase	€1,904,000 OAO "DENEb" Purchase of soft drinks filling line	€722,500 Lemonade factory "Maykopskaya" Bottling equipment purchase	€1,900,000 Nalchikskaya macaroni mill Purchase of equipment
€4,500,000 Sibirskie Fermi Dairy unit equipment purchase	€6,000,000 Pig Complex "Ozersky" Pig complex equipment purchase	€850,000 Meat Corporation Pig complex equipment purchase	RUR 648,000,000 Kievo-Juraki APK Pig complex construction	€4,999,835 ZAO "Orelselprom" (Mosselprom) Pig complex construction
€3,400,000 SPK Kommunar Milk processing equipment purchase	€8,400,000 OOO "Krasnaya Gorka" (EuroService Group) Poultry complex and slaughter facility construction	€25,000,000 Confectionary plant "Krasnaya Zarya" Confectionary plant reconstruction	€5,200,000 OOO "Centarion" Construction of hotel-sanatory complex in Anapa	€3,655,000 OAO "Buinsky elevator" Purchase of seed production equipment
€2,500,000 SPK PZ "Starodvorsky" Pedigree livestock purchase	\$903,000 OOO "Absolut-Agro" Pedigree livestock purchase	RUR 1,000,000,000 OOO "Yantamoe" Plant oil delivery	\$70,000,000 OOO "Magma" Crude oil and refined products delivery	\$36,500,000 OOO "Shildinsky elevator" Wheat and meal delivery
\$34,500,000 OOO "Sinee more" Purchase of frozen fish / canned goods delivery	€1,600,000 ZAO "Krasny Oktyabr" Pedigree livestock purchase	€9,000,000 OOO "Chekhovskiy sad" Purchase of equipment for glasshouse complex	€1,180,000 Fuel biotechnology "Vologodskiy" Purchase of equipment for wood processing	€2,330,000 OOO "Kutuzovskoe" Agricultural equipment purchase
€1,780,000 OOO "Viktoria" Purchase of equipment for wood processing	\$880,000 Tikhookeanskaya fishing company Sea vessel purchasing	€1,430,000 Pig complex "Maksimovskiy" Pedigree livestock purchase	\$8,000,000 Trading house "OGO-Produkty" Grain purchase	

Bank offers agribusiness project financing. The Bank acts as arranger of this kind of loans that are critical for large-scale investment projects as facilitating long-term financing based on future cash flows.

Trade finance operations developed successfully in 2008, backed up by the Bank's international cooperation network.

In foreign trade finance RAB's customers in particular expect financing arrangements together with professional advice and effective management. The segment's full-range service capability represents a clear differentiating edge over the competition. By combining classical trade products with professional individual approach to the customers RAB is deliberately moving from a simple lending relationship towards the goal of offering structured solutions (table 5).

RAB offers a wide range of trade related services, including:

- Import L/C;
- Export L/C;
- Deferred Payment;
- Reimbursement Authorization;
- Reimbursement Undertaking;
- Guarantee Operations;
- Import Documentary Collection;
- Export Documentary Collection;
- Clean Collection;
- Post - Finance.

Structured finance transactions ensure high efficiency of the Bank's operations, since they do not multiply inflation

TABLE 6. EXPORT CREDIT AGENCIES - RAB PARTNERS

ASHRA	Israel	EDC	Canada	Euler Hermes	Germany	NEXI	Japan
ATRADIUS	Netherlands	EGAP	Czech Republic	FINNVERA	Finland	SACE	Italy
CESCE	Spain	EKF	Denmark	KUKE	Poland	SERV	Switzerland
COFACE	France	EKN	Sweden	OeKB	Austria	Sinusure	China
ECGD	UK	Ex-Im Bank	USA	ONDE	Belgium		

of the national currency. Project finance transactions are an additional source of the Bank's non-interest income.

RAB intensified its activity in the area of export-import financing and cooperated constantly with leading export credit agencies (ECAs) worldwide to cover risks. ECAs provide government-backed loans, guarantees and insurance covering both commercial and political risk. At the present day RAB is accredited and maintains relations with 19 export credit agencies (table 6).

In 2008, RAB focused on increasing trade finance operations efficiency and achieved substantial results in these endeavors. The volume of documentary operations, such as LC and guarantees showed significant growth. Structured finance operations amounted to \$846.9 million. 80 trade finance agreements were signed. LC operations totaled \$343.8 million and their number reached 142.

CAPITAL AND MONEY MARKETS

Debt Capital Markets business offers a comprehensive range of debt instruments for both reducing risks by placing funds in the market and raising additional funds, including REPO operations, ruble bonds, loan participation notes and trading in Russian Government and municipal debt securities, corporate debt securities, promissory notes and equities.

RAB envisages developing its asset management business using its wide regional branch network. RAB's funding policy is to meet funding requirements of the regional branches and the head office at an acceptable cost. The policy is characterized by the diversification of funding sources, flexibility of funding instruments and active investor relations. Apart from traditional refinancing via interbank borrowings, RAB raises liquidity by way of issuing paper in the main financial markets.

In 2008, RAB was an active player on both international and domestic capital markets and arranged several successful borrowings, which is an important achievement, especially given the current challenges and threats in the world financial markets.

- In June 2008, Russian Agricultural Bank placed in a full volume its 7th documentary interest-bearing bond payable on demand worth RUR 5 billion and maturing in 2018. On the run of the auction 46 investors placed orders in the total amount of RUR 6.662 billion.
- In December 2008, Russian Agricultural Bank placed RUR 10 billion 5th series non-convertible interest-bearing bond issue, maturing in 2018 that was brought to the market at MICEX. Effective yield of the bonds to the 3-years tender was 13.96%.
- In April 2008, Russian Agricultural Bank issued Senior CHF 150 million Eurobond with coupon 6.263% and the final maturity in 2012.
- In May 2008, Russian Agricultural Bank issued loan participation notes in the total amount of \$1.75 billion over two tranches and the final maturity in 5 and 10 years. The long 5 year tranche priced to yield 7.125% and the 10 year priced to yield at 7.75%. The notes were issued under the updated \$5 billion loan participation notes program for RSHB Capital S.A.

Facilities were made available for general corporate purposes including, but not limited to, providing select customers of RAB with trade-related finance.

The success of RAB's issues was underpinned by the bank's unique position in Russian banking sector, clearly defined business strategy, high level of commitment from the state to develop RAB and positive market conditions.

Investors took a keen interest in the loan participation notes that offer secure returns and the prospect of an attractive bonus.

For debt instruments such as bonds and REPO and for hedging products such as interest rate, currency and commodity derivatives, RAB will continue to expand its product range and strengthen its distribution capabilities.

COVENANTS

RAB ensures strict compliance with its obligations under domestic and international agreements and contracts to which it is a Party. In particular, the Bank abides by all the mandatory financial ratios, as well as covenants and other requirements under debt financing agreements:

- State share in RAB's capital continues to exceed by far the minimal threshold of 50% + 1 share.
- Capital Adequacy Ratio (in accordance with the IFRS) is constantly above 8%.
- Capital Adequacy (per CBR) is equal to or exceeds the minimum required by the Russian law (currently - 10%).
- Other economic ratios and requirements, including current, short - and long term and total liquidity ratios conform to the values prescribed by the Russian law.
- Long term, unsecured, unsubordinated debt obligations ratings are either equal to or exceed Baa3 by Moody's and BBB - by Fitch.
- No overdue taxes are allowed to exist, other than those that the Bank would be contesting in good faith in the framework of appropriate proceedings and in respect of which adequate reserves would be established.
- RAB does not enter into transactions to sell, lease, transfer or otherwise dispose of any asset the book value of which exceeds 10 per cent of the Bank's Total Assets; it ensures that none of its Material Subsidiaries do so.
- The Bank discloses all the information required by its contractual obligations.

Neither the Bank nor any of its subsidiaries are in default on any of their contractual obligations.

This allows the Bank to promote optimum terms of credit agreements with foreign financial institutions.

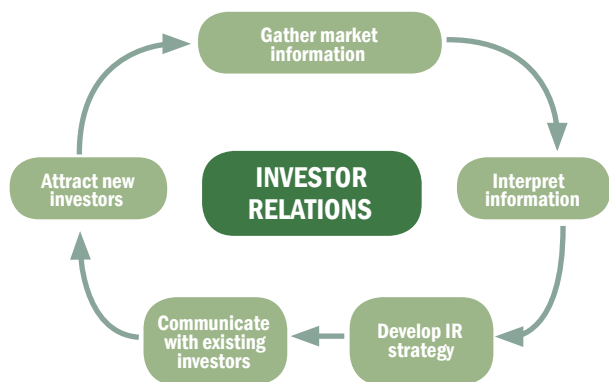
INVESTOR RELATIONS

RAB continued to apply and expand its targeted communication policy toward the capital market in the year under review. Reliable relationships with lenders are essential

for broadening access to the international capital market. Even in challenging times RAB continued to intensify contacts with analysts and especially with investors to meet their desire for in-depth information on the Bank's business activities.

The Bank's investor relations activity is aimed at making information on RAB business development and outlook available to investors and analysts. Through its policy

SCHEME 3. INVESTOR RELATIONS CIRCLE



of openness and transparency, RAB works to ensure that investors and analysts have correct and adequate information about the Bank and thus to create good and long-lasting relations (scheme 3).

RAB capital market communications in 2008 centered on various key themes: the Bank's strategy and business performance, efficiency-enhancing measures, new products, crisis combating policy, RAB positioning in the Russian banking market and the resulting opportunities for growth.

In 2008, the Bank conducted numerous investor relations events. This included a series of roadshows upon the release of financial reports. Alongside numerous investor group discussions and one-on-one meetings, the Bank held regular due diligence meetings, at which RAB Board members presented their personal area of responsibility and answered questions put by various investors and analysts in attendance. The high degree of transparency and the willingness of the Board members to answer investors' and analysts' questions were rated very highly.

RAB conducted non-deal roadshows, i.e. one-on-ones with institutional investors without any concrete intention to market a new issue, to make contact with existing and potential providers of debt capital.

The Bank provided a mass of information on its Investor Relations page on the Web. RAB's website contains the Bank's Charter and internal regulations, annual and quarterly reports, financial statements (consolidated and

interim), rating information and other data. RAB also provides information in the form of presentations, press releases, as well as at press conferences and meetings with investors, media and other individuals.

The Bank has significantly improved its transparency vis-à-vis the capital markets. This result will spur RAB on to make every effort to further optimize its investor relations work in 2009.

INTERNATIONAL BUSINESS COUNCILS MEMBERSHIP

RAB is an active member of Russian-Chinese Business Council, US-Russia Business Council and the International Confederation of Agricultural Credit (CICA) that adds to the Bank's potential to further develop its business and international cooperation in the sphere of lending to agribusiness.

In 2009, RAB joined the Canada Eurasia Russia Business Association (CERBA). As the member of CERBA the Bank will actively develop cooperation with financial institutions of Canada in the fields of international account settlement, trade finance, share their business experiences, as well as information in the area of banking business development and operational practices.

Such business councils membership allows RAB to take advantage of additional potential for business development, strengthening of relations with international organizations and investment funds, establishment of new business contacts and to obtain and analyze new market intelligence.

RAB sits in bilateral Intergovernmental commissions on economic, scientific and technological cooperation with Hungary, Israel, Norway, the Netherlands and Turkmenistan, co-chaired by the First Deputy Prime Minister and Chairman of RAB Supervisory Board Victor A. Zubkov, as well as in Intergovernmental commissions on trade and economic cooperation with Australia, Greece and Mongolia. RAB participation in the commissions work allows to expand the Bank's involvement in the global economic environment and to expand the number of foreign partners.

RAB representatives also contribute to the work of the Committee on International Activity of the Association of Russian Banks, thus sharing experience and best practice in the banking area.

In challenging times of significant market adjustments caused by the ongoing global financial turmoil the Bank continued to adapt its international operations to new market realities and remained true to its primary mission. ■

MANAGEMENT'S DISCUSSION AND ANALYSIS

RURAL AREAS DEVELOPMENT FACILITATION

State Agent for Agribusiness Development

Russian Agricultural Bank is an institution with a unique position in the market, fostering sustainable development of agribusiness sector of the Russian Federation. Through its regional branches and additional offices RAB has one of the widest financial distribution networks in Russia and offers a highly varied range of financial services and products.

Russian Agricultural Bank assists the Government of the Russian Federation in implementing federal policy in the agribusiness sector and is a State Agent for implementation of agribusiness development programs.

RAB is a core participant in all agribusiness innovative lending programs, including:

- fishery, fish farms, aquaculture and mariculture;
- timber and wood processing industry;
- environment friendly technologies: bio fuel, drop irrigation, sewage treatment;
- development of indigenous handicrafts and local agricultural particularities: reindeer breeding, yak breeding, horse breeding.

RAB is one of the core participants of federal projects and programs among financial institutions. RAB has Cooperative agreements for implementation of federal programs and agribusiness support with major administrations of republics and regions of the Russian Federation.

FEDERAL PROGRAM ON AGRIBUSINESS DEVELOPMENT 2008-2012

Federal Program on Agribusiness Development 2008-2012 reflects a new advanced level of implementation of agribusiness policy on the federal level.

Federal Program was introduced by the Government of the Russian Federation in July 2007 in the framework of implementation of the Federal Law "On the Development of Agriculture", adopted in December 2006. Year 2008 turned out very efficient for the Federal Program implementation.

Objectives of the federal program are:

- steady development of rural areas, improvement of working and living standards of rural population;
- improved competitiveness of domestic agriculture, backed by financial incentives;
- accelerated development of key agribusiness sub-industries;
- recultivation, protection and continued use of crop lands.

Russian Agricultural Bank is one of the main financial institutions supporting implementation of the Federal Program on Agribusiness Development 2008-2012.

In May 2008, the Bank signed Cooperation Agreement with the Ministry of Agriculture of the Russian Federation

on implementation of the Federal Program on Agribusiness Development 2008-2012. According to the Agreement the Bank provides loans to a wide range of agricultural producers, including farmers, personal household plot owners and credit consumer cooperatives. The Bank extends loans to increase the crop-bearing capacity of soils, to enhance training and further training of specialists in agribusiness, the development of non-agricultural productive activities in the rural areas. RAB also introduced special lending programs for the development of engineering infrastructure in the rural areas.

In 2008-2009, it was outlined in the Program that special focus should be given to dairy and meat livestock production. Federal and regional interest rate subsidies for these productions were increased to 100% from the federal budget and extra 3% from the regional budgets. RAB became a key bank to implement state policy of dairy and meat production facilitation.

Altogether RAB has elaborated over 20 special-purpose programs to implement goals of the Federal Program. In July 2008, the Bank was awarded the Diploma of the Ministry of Agriculture of the Russian Federation for the active investment activity in the framework of the Program.

Financial Support of the Federal Program on Agribusiness Development 2008-2012 Implementation

Initially the Government of the Russian Federation has allocated budgetary funds of RUR 551 billion (\$22 billion) to support the execution of the Program in 2008-2012. Additional RUR 855 billion (\$34 billion) will come through budgetary institutions and external sources. Planned budgetary fund for state support of the Federal Program implementation amounted to RUR 85.6 billion in 2008, and to RUR 100 billion in 2009.

In 2008, RAB executed loan agreements to the total amount of RUR 333.6 billion. Lending to the participants of the Federal Program reached RUR 255 billion, about 80% of the total amount of loans, including but not limited to:

- short-term lending – RUR 78 billion;
- investment projects – RUR 17 billion;
- reconstruction and modernisation of animal production units – RUR 15.9 billion.

RETAIL LENDING

Lending to individuals is an important aspect of financial support of Russian agribusiness. Growing scale of RAB financial support endues the Bank with additional responsibility for the social and economic development of agribusiness and social welfare of the rural areas.

In this context RAB's lending programs on housing and utility infrastructure, construction and purchase of houses in the rural areas, gasification, water-supply facilities, utilities, purchase of household appliances and automobiles, and other become very important. In 2008, RAB extended over 63 thousand loans to the total amount of RUR 8 billion for social support of rural population.

Lending to personal household plots owners and farmers is one of the most demanded RAB's retail programs. Lending to individuals involved in producing agricultural products on household land plots is done by providing fixed interest rate loans of up to five years. The aim of these loans is the development of the production, processing and distribution of agriproducts. Loans of up to two years in duration are granted for purchases of livestock, fodder, seeds, making of payments for leased land and to fund other expenses incurred in connection with personal farm production operations. Loans of up to five years are granted for the purchases of machinery, livestock, land plots and construction and reconstruction of premises used in production or processing operations, as well as for other types of capital expenditures.

In 2008, 127 thousand loan agreements with personal household plots owners to the amount of RUR 20 billion were executed. For rural settlements gasification RAB extended 2,287 loans to the amount of RUR 140.9 million. In 2008, RAB extended 946 mortgage loans for the total amount of RUR 677.7 million. Mortgage loan portfolio climbed to 2,881 loans totaling RUR 1,606.3 million.

RAB possesses the largest share in lending to small enterprises in agribusiness: 75% in lending to personal household plots, 70% - in lending to farmers, ca. 90% - in lending to agricultural consumer cooperatives.

SOCIAL AND SUSTAINABLE LENDING

Addressing issues that impact the rural society is a primary goal of the Bank. RAB conducts its business with regard to the living standards of the rural population, resilient growth of agricultural enterprises and sustainable development of the rural infrastructure.

RAB is involved in sustainability programs focused on the social aspects. The aims of these programs are to provide affordable financing to companies in agribusiness, to improve their financial performance so that the rural population may benefit from them.

RAB implements a list of socially important programs aimed at sustainable and comprehensive development of the agribusiness sector. It has established program "Sel'skoe podvorie" and also takes part in sustainability programs focused on the social aspects and initiated by the Government.

RAB is engaged in:

- **Program "Sel'skoe podvorie"** for financial support of the social and economic development of the rural areas. This program promotes lending to individuals residing in small towns and rural areas and involved in agricultural production.
- **Recovering of loans extended from 1992 to 2000 from the Russian federal budget and extra-budgetary sources to legal entities engaged in agribusiness.** In 2008, RAB recovered RUR 724.4 million. The total amount of loans recovered in the framework of the program reached RUR 5,463.6 million.
- **Implementation of the Federal Law "On Financial Rehabilitation of Agricultural Enterprises"**. RAB monitors financial standing of the enterprises participating in the rehabilitation. 5,644 restructuring agreements are executed as of January 1, 2009.
- **Financing of grain purchase and commodity interventions** as part of the price stabilization program of the state. For the purpose of the program implementation RAB budgeted RUR 36.1 billion of the Bank's funds, according to the decision of the Supervisory Board. Within 2008 RAB purchased for safe storage 5.3 million tons of grain, including 3.3 million tons (62%) of bread grain and 2 million tons (38%) of feeding grain. In total, RAB allocated RUR 24.6 billion for grain purchase and commodity interventions.
- **Lending to Consumer and Credit Consumer Cooperatives** as part of rural areas economic and financial stabilization. RAB assists credit consumer cooperatives development and cooperatives' market establishment. In 2008, loan portfolio allocated to cooperatives reached RUR 7.8 billion.

SUBSIDIZED LENDING

Agribusiness producers, agribusiness enterprises, farmers, agricultural consumer cooperatives and other agribusiness related entities receive compensation in the form of a subsidy from federal and/or regional budgets for a portion of their interest costs for the loan.

As a part of its crisis combating policy the Government of the Russian Federation by the Decree No. 90 dated February 4, 2009 approved an enhanced list of activities under which borrowers are eligible for a portion of their interest costs compensation and increased proportion of subsidized interest costs.

For a borrower to receive the compensation from the relevant budget, a loan must be granted to agricultural producers, farmers, SMEs, agricultural cooperatives, personal household plots, for the purchase of agricultural machinery or equipment, seeds, fodder, fertilizers or other similar products required for seasonal works and other products in compliance with the list approved by the Ministry of Agriculture of the Russian Federation. The borrower should also have a good credit history and be in good financial condition.

Since February 4, 2009, borrowers are eligible for increased interest rate subsidies amounting to:

Corporate enterprises:

- federal subsidies of 80% of the Central Bank of Russia's refinancing rate;
- regional subsidies of 20% of refinancing rate;
- meat and dairy production – 100% of refinancing rate federal subsidies and extra not less than 3% of refinancing rate regional subsidies.

Individuals and farmers:

- federal subsidies at 95% of the refinancing rate, and
- remaining 5% compensated by regional budgets.

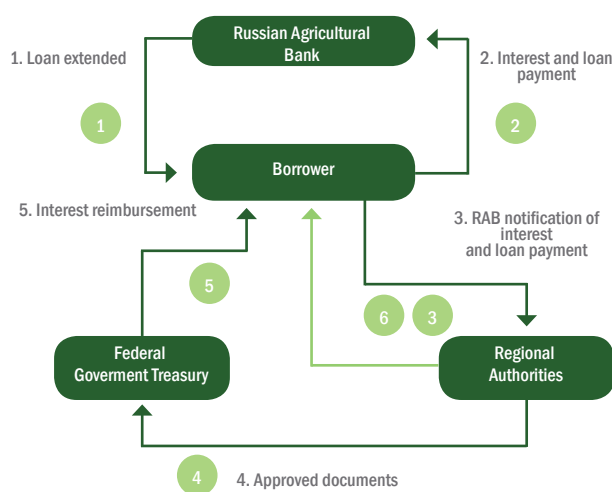
Subsidy calculation is based on the Bank of Russia's refinancing rate which is set at 12.5%, as of April 24, 2009.

Depending on the purpose of the loan and the category of the borrower, loans subject to subsidies may have maturities of up to ten years.

Subsidized lending allows RAB to improve the quality of the loan portfolio, as punctual payments on subsidized loans are stated in the Law as a condition to the compensation of the borrower's interest expenses by the state (scheme 4).

As a part of its crisis combating policy the Government of the Russian Federation has increased the amount of subsidies for compensation of interest expenses by RUR 17 billion (\$500 million) to RUR 62 billion (\$2 billion) in 2009.

SCHEME 4. SUBSIDISED LENDING PROCEDURE



In total, the scale of agribusiness budget support for 2009 was increased by more than 1.5 times to RUR 182.8 billion (\$5.5 billion) from RUR 115 billion (\$3.5 billion).

In 2009, RAB will continue to provide existent and to launch new banking products and services that promote sustainability and resilience of the national agribusiness and social development of the Russian countryside. ■

In 2009, Russian Agricultural Bank will proceed to expand credit and financial resources to agricultural producers and rural population and to increase credit availability. The Bank's priority objective will be implementation of the Federal Program on Agribusiness Development 2008-2012. Priorities of RAB lending policy in the midterm include additional funding of long-term projects in animal breeding, provision of facilities, which are put into operation, with working assets, and financing of state grain purchase and commodities interventions. All these tasks are aimed at providing financial funds to the national agribusiness amid current financial turbulence.

According to the Bank's calculations, the increase in animal breeding production by 2013 as stipulated in the Federal Program will be to a wide extent ensured due to capacity gains at those enterprises, which received RAB loans. According to expert estimations, the Federal Program indicators for milk production growth by 43% will be achieved by those complexes and farms that received RAB loans, for meat production – by more than 30%.

In 2009, the Bank plans to extend loans to the total amount of some RUR 400 billion. By year-end RAB gross loan portfolio is to reach RUR 600 billion. The Bank will further develop its regional branch network. During 2009 one plans to open 158 new additional offices.

While maintaining stable upward dynamics, RAB ensures high level of financial strength in order to protect the interests of its shareholder, clients and investors.

Among other RAB priorities for 2009 is lending to agricultural consumer cooperatives. By evolving agricultural consumer cooperatives system the Bank contributes to the development of market infrastructure serving farms, personal households and SME's and satisfies their demand for available funds, agriproducts distribution and processing.

The Bank has initiated and will further advance development of land mortgage lending system that will allow employing large potential of the land market in commercial and financial turnover.

RAB will facilitate implementation of state programs on development of dairy stock farming, animal breeding, fisheries and timber production.

At the beginning of April 2009, Russian Agricultural Bank launched automotive lending program for individuals purchasing cars manufactured in the Russian Federation. Implementation of the program will allow borrowers to expand their production facilities, to improve living standards in the rural areas, and to provide conditions for growth of demand for domestic automotive vehicles.

RAB will further enhance its payment cards business

development. In 2009, Russian Agricultural Bank plans to join MasterCard International System. The Bank will promote Internet banking service "Internet office" expanding the range of the services provided. Through its extensive branch network RAB will promote major distribution of the payment cards throughout the country. By year-end 2009 the number of cards issued should reach 300-400 thousand.

RAB will adhere to the following client service development strategy:

- improving customer satisfaction;
- expansion of the products and services range;
- business-processes optimization;
- further cooperation with municipal, regional and federal authorities on the elaboration and implementation of agribusiness development programs;
- further IT development to provide extensive client database and perfect client service.

For the enhanced management and understanding of client needs a new Client Relations Department was established in 2008. The activity of the newly established Department in 2009 will be focused on further improvement of clients relations and delivering high-quality services to them.

In 2008, RAB managed to boost and increase the efficiency of overdue loans repayment and prevention of non-performing loans growth by establishing a specialized Asset Management Department. In 2009, Assets Management Department will further ensure efficient problem asset management and repayment of overdue loans.

In order to promote its solid and sustainable operations and to carry out the functions outlined by the Government of the Russian Federation the Bank will give special focus to the following areas:

- increasing quality of lending and efficiency of overdue loans repayment and prevention of NPL growth;
- raising profitability of the Bank's transactions;
- promoting costs optimization;
- expanding client base and stimulating deposit based growth;
- enhancing risk management and IT;
- improving HR management.

Russian Agricultural Bank is facing large-scale and demanding challenges. The state has great expectations of the Bank providing lending to agribusiness. At the same time, one strives to ensure reliability and stability of the Bank itself. Therefore, the Bank will focus its efforts on solving this dual task in the coming year.

The crisis combating measures taken by the Bank and its sound results in the year under review evidence for the fact that RAB fully retains its manageability and finds itself on a solid basis. ●

CONTROLS AND PROCEDURES

Modern and Comprehensive

Russian Agricultural Bank's business model combines comprehensive internal control, risk management and disclosure controls and procedures with a strong, profitable and growing business, especially in corporate and retail lending, and expanding customer base. In the light of the most severe financial crisis experienced in decades, this broad base is the key to stability of the Bank's development.

INTERNAL CONTROL

The internal control is an important management tool, defined as all procedures and mechanisms undertaken by the Supervisory Board, Management Board, heads of business units and employees of the Bank to manage and to control operations and risks of all kinds and to ensure that all transactions are carried out in compliance with laws, regulations, internal and ethical standards.

The internal control system and procedures can be classified by their purpose:

- financial performance, based on effective and adequate use of the Bank's resources, and protection against the risk of loss;
- timely provision of comprehensive, accurate information required to take decisions and manage risks;
- compliance with internal and external regulations;
- prevention and detection of fraud and error;
- accuracy and completeness of accounting records and timely presentation of reliable accounting and financial information.

The Internal Control Service that adheres to the principles of consistency, independency, neutrality and professional competence, monitors and assesses compliance with internal procedures at all levels of RAB management on a daily basis. Internal Control Service reports to the Supervisory Board semi-annually and provides it with recommendations on the efficiency of risk management procedures.

RISK MANAGEMENT

The worldwide loss of confidence in securitized credit markets in 2008 underscored the necessity of a risk management system based on economic principles.

Effective risk management is fundamental to the success of RAB. The Bank defines risk management as the use of a comprehensive set of tools to deal with risks. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance, and that there is an appropriate balance between risk and reward.

RAB has a comprehensive and continuously enhanced

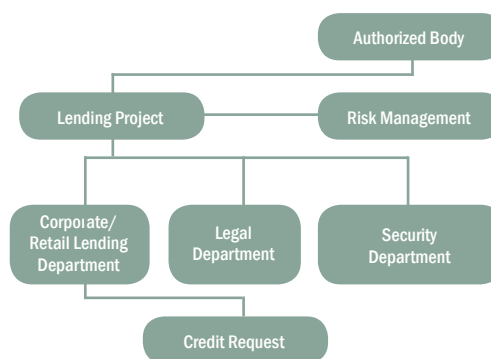
risk management system to monitor, evaluate and manage principal risks.

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to the Bank. Credit risk management principals include:

- centralized risk management system;
- formalised and documented risk evaluation, controlling and monitoring procedures;
- selected priorities of credit projects depending on lending targets, loan repayment sources, borrower's financial standing, credit history, etc.;
- loan portfolio diversification and limited credit risks;
- realistic risk assessment of loan loss provisions;
- mandatory collateral: type of property, property rights, personal guarantees or third party guarantees whenever appropriate;
- continuous risk monitoring.

RAB's **credit risk** management and control system is based on preliminary, current and consequent credit risk control. For the purpose of credit risk minimization loan portfolio concentration for a single branch is not exceeding 15% of total loan portfolio of RAB. Credit risks are allocated between regional branches based on volume of agribusiness production in the region and on the level of cooperation with local administrations. Regulatory acts of RAB define the general procedure and main principles of lending. Decision to extend the loan includes a set of approved steps (scheme 5).

SCHEME 5. CREDIT DECISION MAKING PROCEDURE



Market risk refers to the potential loss resulting from unfavorable market movements, which can arise from changes in market prices and rates, including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices.

Market risks include:

- interest rate risk - the risk of loss due to: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates;
- liquidity risk - the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. The objective of liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due, and that wholesale market access is coordinated and disciplined;
- foreign exchange risk - the risk of an investment's value changing due to changes in currency exchange rates;
- stock risk - the risk caused by changes in stock price due to market volatility.

RAB uses a comprehensive range of quantitative tools for monitoring and managing risks. As a matter of policy, the Bank continually assesses the appropriateness and the reliability of these tools in light of the changing risk environment.

The following tools are the most important ones that RAB currently uses to manage and report risks: value-at-risk analysis, liquidity gap analysis, GARCH analysis, stress tests, scenario analyses.

The key elements of the Bank's system of market risks assessment and management are establishing clear target figures for the assets and liability structures based on size, term, profitability/cost; procedure for establishing and firmly controlling compliance with limits on the Bank's acceptance of market risks; diversification of operations; evaluation of the economic capital necessary to cover market risks.

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to external events, human error, or the inadequacy or failure of processes, procedures, systems or controls.

The Bank has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled and is taken in compliance with the principles established by the regulatory acts of the Central Bank of Russia, and the Basel Committee on Banking Supervision.

Basel II implementation is one of the major plans of the Bank in the near future. RAB is now introducing a plan of measure for organization of the Bank's performance in compliance with Basel capital standards of the Basel Committee on Bank Supervision, which regulates finance and banking internationally.

Legal risk is a potential for loss arising from the uncertainty of legal proceedings, such as bankruptcy, and potential legal proceedings. Legal risk management policy is aimed at minimising possible losses to the Bank by ensuring compliance with the regulatory legal acts of the Russian Federation and the countries of non-resident clients and counterparties of the Bank, with the internal documents of the Bank and AML provisions.

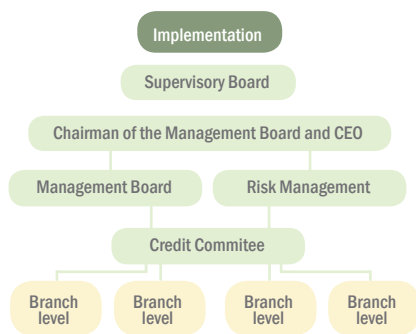
Reputational risk is the risk that negative publicity regarding the Bank's conduct or business practices will adversely affect its revenues, operations or customer base, or require costly limitation or other defensive measures. Reputational risk management policy is aimed at the safekeeping and maintenance of the Bank's business reputation with its clients, regulatory and supervisory authorities, financial market participants, state and local government authorities.

The Bank approved regulations for the risk evaluation and management system, which defines the goals, objectives and principles of the risk evaluation and management system, as well as risk classification. In the context of these regulations, a number of internal documents have been developed specifying risk management methods applied in the Bank's divisions. Risk management regulations and procedures are revised and updated on a regular basis. The system is integrated with the Bank's strategy and business planning processes.

Decision Making

Decision making authorities are allocated between RAB management bodies to assure appropriate risk management (scheme 6).

SCHEME 6. RISK MANAGEMENT POLICY AND PROCEDURES



- As implemented by (1) Treasury; (2) Risk Management; (3) Internal Audit.
- As approved by the Supervisory Board which also approves annual control plan for the Internal Audit.
- Supervisory Board approves loans that exceed Management Board limit of approx. \$64 million (RUR 2 billion).
- Credit Committee approves loans up to \$16 million (RUR 500 million).
- Risk Management Departments are organised in regional branches.
- Credit risk assessment procedure is extensive.
- Geography-specific limits are set for the aggregate amount of loans issued at branch level and types of loans in place.
- Loan portfolio size of any branch cannot exceed 15% of RAB's total loan portfolio.
- Single borrower limits at branch level are set from \$640 thousand to \$13 million and are reviewed on a regular basis.

The Supervisory Board is responsible for the following procedures related to risk management policy:

- defines general risk management policy and annual control plan in consistency with business strategy;
- reviews reports prepared by the Internal Control Service;
- approves large-scale lending transactions in excess of Management Board authorities;
- sets limits on interbank and securities market transactions based on business units and Risk Management Committee proposals.

The Management Board approves policies on reserves, financial risk management and credit risk management relating to transactions with affiliated parties, lending transactions that exceed the limits of authority of Credit Committee or the limits of authority of the regional branches.

ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on limits policy implementation, internal procedures for financial risk regulation, funds allocation. ALCO Committee makes decision independently, including funds allocation between the regional branches, setting limits and sub-limits to the regional branches within the authorities provided by the Management Board.

Credit Committee responsibilities include:

- approval of terms of individual lending transactions in excess of limits established for regional branches;
- preparation of proposals for credit policy improvement;
- establishment and modification of criteria for asset quality and asset classification by risk category, reserves policy and minimum interest rates;
- review of results of inspections by external auditors, regulatory bodies and Internal Control Service.

Credit committees are established at the regional branch and additional office level. At regional branches credit committees approve lending transactions of additional offices in excess of their limits. Credit committees are independent from Lending Departments of head office and regional branches.

In the coming year the Bank will continue developing, refining and optimizing risks assessing models. Further initiatives in 2009 will include the elaboration of new supervisory tools, regular procedural reviews, the awareness and training programs for all staff throughout the branch network and in the head office.

PREVENTING MONEY LAUNDERING, CORRUPTION AND TERRORIST FINANCING

RAB takes its responsibility to preserve the integrity of the financial system, and its own operations, very seriously.

According to laws and regulations of the Russian Federation as well as international recommendations, Russian Agricultural Bank is committed to high standards of Anti-money Laundering compliance and requires management and employees to adhere to these standards. RAB set up anti-money laundering policy and guidelines designed to prevent, detect, and combat money laundering and terrorist financing.

In accordance with Federal Law No.115-FZ dated August 7, 2001 "On countering legalization of proceeds from criminal activity (Money Laundering) and financing of terrorism" and regulatory documents of the Bank of Russia, Russian Agricultural Bank has established and operates a system of special internal control, which organizational principles are based on the FATF recommendations, standards of the Basel Committee on Banking Supervision of the Bank for International Settlements and on the Wolfsberg Principles.

Along with the Federal Law and the Central Bank's recommendations, this system is based on the Rules of Internal Control of Russian Agricultural Bank, specially developed for this purpose. Within the framework of the Rules, 10 programs of Internal Control are implemented.

To increase efficiency of risk management and to maintain business reputation, the management of Russian Agricultural Bank has extended measures to combat money laundering to all of its structural units, business lines, banking products and services.

Compliance officers were appointed at the Bank's head office and at its regional branches with a responsibility to combat legalization of proceeds from criminal activity (money laundering) and financing of terrorism.

Russian Agricultural Bank takes measures to identify its clients through the "Know Your Client" program. The Bank identifies and examines all clients to whom banking services are provided. RAB collects all necessary data and documents to identify its clients.

Within the framework of "Know Your Client" program RAB:

- obtains from a client information and documents that allow to identify a third party, in case the client opens an account (places money on deposit) in the name of a third party;
- does not open accounts for (accept deposits from) anonymous holders, i.e. without presentation by the person opening the account, either an individual or a legal entity, of documents necessary for their identification;
- does not open accounts for (accept deposits from) individuals without the physical presence of the person concerned, or of his/her official representative;
- takes appropriate and reasonable in the current circumstances measures to identify among its private clients, existing or perspective, foreign public officials and to determine the origin of their monetary funds or other property;

- uses questionnaires to draw up a file containing information about the client and his/her activities;
- specifies and identifies the beneficiary, i.e. the person on behalf of whom the client is acting. For this purpose, the Bank collects the data and documents that serve as a legal basis for banking operations and other types of transactions, as well as other relevant information and documents;
- on the basis of all the information and documents that allow to identify and examine the client, the Bank determines the client's and counterparties' spheres of business activity and evaluates level of risk of the client's potential involvement in legalizing proceeds from criminal activities and financing of terrorism.

Criteria for evaluation of the risk level of a client's potential involvement in legalizing proceeds from criminal activity and financing of terrorism are set by the Rules of Internal Control of Russian Agricultural Bank. If the Bank considers the risk of a client's involvement in legalizing proceeds from crime and financing of terrorism to be high, it will pay special attention to all transactions on the client's accounts.

All information received during the identification of the client and of the ultimate account beneficiary is regularly updated either as any changes are revealed, or according to the risk level of the client's involvement in legalizing proceeds from criminal activities (money laundering) and financing of terrorism.

While establishing correspondent relations Russian Agricultural Bank inquires whether the correspondent bank implements a policy on combating legalization of proceeds from criminal activities (money laundering) and financing of terrorism, including the client identification carried out by the correspondent bank and its implementation of KYC program.

If the correspondent bank does not implement such measures, Russian Agricultural Bank will refrain from establishing correspondent relations with such an institution.

Russian Agricultural Bank neither establishes nor maintains correspondent relations with non-resident banks that have no permanent governing bodies in countries

where they are registered. RAB also prevents establishment of correspondent relations with non-resident banks if there is evidence of their accounts being used by banks with no permanent governing bodies in countries where they are registered.

Russian Agricultural Bank monitors on a daily basis all operations via special automated banking system and, in accordance with the legislation of the Russian Federation, forwards information about transactions subject to anti-money laundering control to the Federal Financial Monitoring Service.

If a party, either an individual or a legal entity, performing a banking transaction, is known to be involved in extremist activities, the Bank suspends such operations.

Controlling divisions of the Bank's head office, regional branches of the Bank of Russia and the external auditor of Russian Agricultural Bank perform regular issue-related checks of the way the Bank and its regional branches establish and implement anti-money laundering control.

The anti-money laundering measures have been considerably improved over 2008 across the various units of the Bank. Effective risk management and optimized security systems meet the highest anti-money laundering standards and enable RAB to identify, analyze, and assess potential threats, and to take appropriate measures to avoid such risks.

Adherence to the RAB Anti-money Laundering Policy is the responsibility of all employees. RAB has an ongoing, formal compliance program to train and to update the respective employees in all indicated facts to prevent money laundering and terrorist financing. Anti-money laundering policy applies to head office and all regional branches.

Further initiatives in 2009 include elaboration of new supervisory tools, regular procedural reviews, awareness and training programs for all staff throughout the branch network and in the head office. These measures will further enhance the effectiveness of the Anti-money Laundering system of Russian Agricultural Bank. ■

INFORMATION TECHNOLOGY

Modern Banking IT Architecture

Information support is among the key factors driving the Bank's overall performance and operating results. Successful implementation of integrated design and comprehensive IT solutions heavily depend on an efficient technology landscape and availability of IT resources.

Today RAB employs modern banking IT architecture, standards and processes to improve efficiency and render high quality services, develop and upgrade professionalism of the personnel and maintain unified high standards of performance throughout the whole branch network. Thus RAB ensures well-structured management of all its activities.

In 2008, the Bank succeeded in further updating its system stability and functionality. It restructured the core application systems to address the needs of all business lines and reduced the operation risk following the data centralization, thereby enabling the provision of modern banking services and ensuring significant reduction in operating costs. Accounting, loans, deposits, payment systems, client relationships, securities, processing for international operations are some of the areas that were updated as new clients were brought in and new products introduced.

RAB maintains strong and secure operating platform, which allows to handle the increased volume of transactions and growing number of clients and to ensure safe and steady operation.

The pillars of the current IT system of RAB include:

- unified information technology system ABS-Biscuit, which offers an integrated solution for the head office, as well as regional branches and additional offices, and allows RAB to conduct real-time operations;
- Diasoft systems for accounting and handling of securities operations;
- "Bank-Client" system for remote client service;
- reserve servers for back-up records of each operational day.

Having a unified core banking platform ensures consistency of information across all banking units and helps to maintain high quality of data. It is therefore essential to ensure that the Bank effectively meets risk management requirements and effectively rides the credit crunch.

A specialized Technological Development Department is set up in the Bank to manage IT issues. It is responsible for managing technological development projects, contacting external IT consultants and suppliers, holding tenders and preparing contracts on IT development issues, testing business processes and providing proposals on banking activity optimization and elaborating internal performance quality standards for existing and new banking technologies.

A key focus for the Bank is a consistent and large-

scale application of up-to-date management and banking technologies, used in international banking practice. The process of technological modernization requires a number of significant transformations, involving all lines of the Bank's activity. Adopted in 2007 IT Strategy defines RAB's targeted IT-architecture and the programs for its development. The strategic plan on IT development includes over 50 interrelated projects, total value of which exceeds \$100 million.

Priority areas of IT Strategy implementation are:

- introduction of the full-service information system for the retail customers;
- implementation of information system for loan services;
- development of a unified information warehouse and financial reporting system, under IFRS and Basel II.

The implementation of these projects will allow RAB to improve the quality of services provided to the clients, introduce new banking products, increase the efficiency of the resources used, enable further reduction of operating risks and ensure the transition to new methods of capital adequacy assessment according to Basel II without strangling business growth.

Within the framework of IT development strategy, in 2008 RAB implemented Visa card issuing and servicing project – "Green card", the number of ATMs was increased to 100, the full-function processing centre of the Bank was certified in the VISA payment system. RAB has introduced Internet banking facilities to help those clients, who do not have access to traditional banking infrastructure.

RAB has launched such key projects as System of automation of sales of retail banking products (Oracle Siebel), Automated system of human resources management (SAP AG), Applications integration (IBM WebSphere), System of foreign public officials' identification on the basis of Factiva PFA, Common client database and other.

The projects are focused on:

- upgrading management and control system;
- centralization of information and information infrastructure;
- increasing efficiency of labour capacity;
- improving quality of client service.

During 2008 RAB purchased an informational system "Financial risk manager" for the analysis of the financial situation of partner banks, insurance companies, corporate clients, as well as subsidiary analysis.

RAB considers information technology to be an integral part of its operations and is committed to continue investment in information technology to support the efficiency of the growing scale of its operations and to ensure that the Bank maintains the highest possible management standards and transparency. ■

In 2008, RAB finalized process of a large-scale regional branch network development with the purpose of providing access to banking services to the rural population and agribusiness enterprises in all territories of the Russian Federation.

As of today, Russian Agricultural Bank possesses the second largest regional branch network in the Russian Federation. The Bank's regional branch network covers the whole territory of the country. RAB is focused mainly on providing credit and financial services to the rural regions, which population makes up 27% of the total population of the Russian Federation (scheme 7).

RAB believes that rural areas provide opportunities for business development. In the regions RAB expands its presence through organic growth of existing branches and opening of new branches, where a presence is deemed economically beneficial.

RAB pursues a strategy of sustainable, profitable growth by means of a unified approach to structuring the relations between the head office, regional branches and additional offices.

In 2008, RAB opened 2 regional branches, namely in Chukotka and Chelyabinsk, on the basis of a former subsidiary Bank, and 152 additional offices.

As of January 1, 2009, Russian Agricultural Bank possessed 78 regional branches and 1,414 points of sales including 1,364 additional offices, 41 operational cash desks and 9 out of the office cash counters in municipal entities (chart 16). In 176 rural settlements RAB is represented by 446 authorized representatives of the regional branches.

RAB's expansion is build upon well managed organic growth of the branch network guided by unsatisfied market demand for banking and financial services. Offices' opening is based on economic efficiency of the Bank presence in the

region. RAB performs an in-depth analysis of the region, number of potential clients, demand for financial services and other before making decision on office opening. New office can be opened only when analysis shows that it will reach break-even point or become profitable within 6 months from opening.

In 2008, RAB devoted much energy to improve customer satisfaction, including approaching clients in the region of residence, optimizing operations hours and delegating extra authorities to additional offices.

The expansion risks are well managed – RAB provides training programs for staff at all levels, employees of the head office conduct trainings at the branches.

RAB sets a high value on development of official relations with regional and local administrations. Regional branches and additional offices openings are strongly supported by the administrations as they enhance the agribusiness development in the regions. As of January 1, 2009, RAB signed 56 cooperation agreements aimed at agribusiness development with administrations of the constituent republics, regions and districts of the Russian Federation. 32 of these agreements were signed in the framework of Federal Program on Agribusiness Development 2008-2012 implementation.

Through the wide-spread branch network RAB participates in the financing of various regional programs aimed at economic and social development of the constituencies of the Russian Federation. The extensive branch network allowed RAB to win a 58% market share in the country's agribusiness lending.

In 2008, the expansion and optimization of RAB's regional branch network were aimed at:

- establishment of regional branches and additional offices in each rural district of the Russian Federation;

SCHEME 7. RAB CORE COMPETITIVE ADVANTAGE

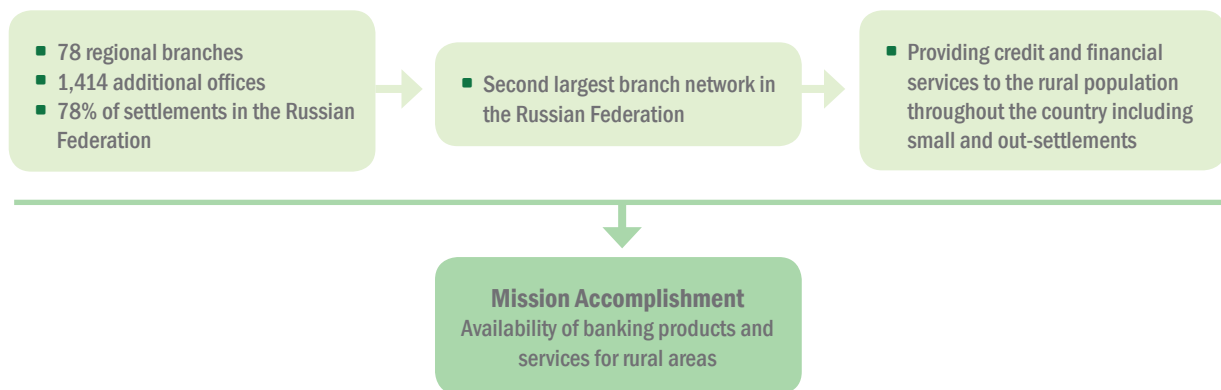
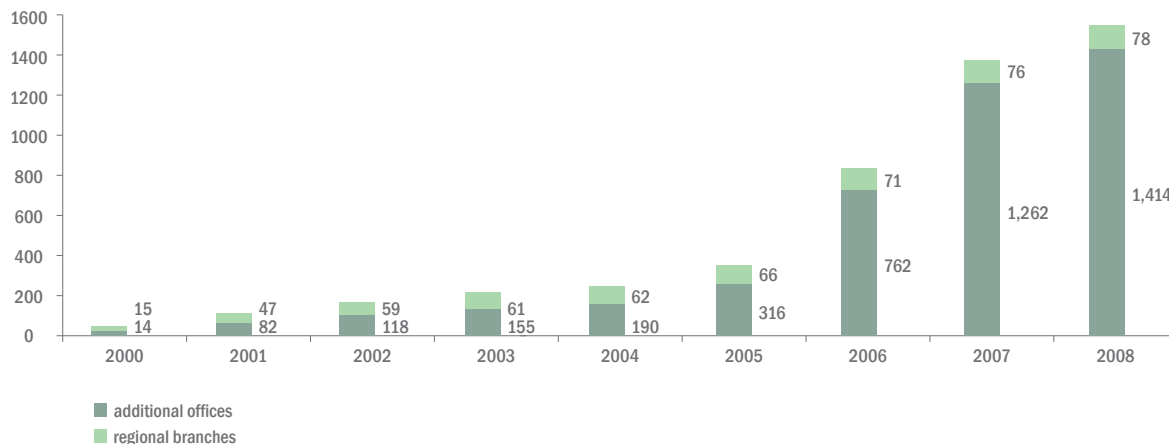


CHART 16. DYNAMICS OF BRANCH NETWORK DEVELOPMENT



- opening of operational cash-desks in small settlements;
- supporting the development of agricultural credit consumer cooperatives in accordance with the legislation (consulting, refunding, etc.);
- supporting the establishment of land mortgage agencies and rural infrastructure.

RAB made all necessary efforts to achieve its purposes. Today RAB's regional branch network covers the whole territory of the Russian Federation, credit and financial services are available for residents of small settlements, and agricultural credit consumer cooperatives have

received material impulse for further development. In 2009, RAB's regional branch network will be given special focus in the following areas:

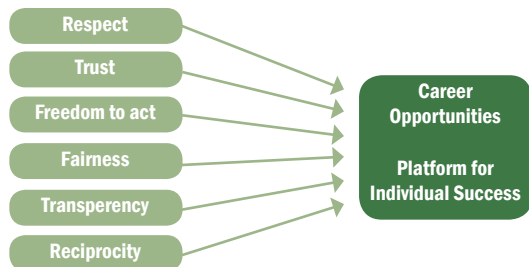
- further enhancement of the quality of client services;
- enlarging and unification of range and availability of banking products and services for clients;
- approaching clients in the region of residence;
- increasing operational efficiency;
- facilitating cooperation with clients;
- further development of land mortgage system and rural infrastructure;
- supporting domestic producers of machinery and equipment.

People are the most valuable asset of Russian Agricultural Bank. Managing people effectively is fundamental to the success of the business.

Precisely for this reason, the Bank views efficient Human Resources policy as a strategic objective underlying dynamic long-term development.

Engaging, developing and retaining a high-value workforce is therefore a priority at RAB and in 2008 the Bank continued to invest in its personnel. RAB strives to ensure that its personnel has the range of skills and experience necessary to meet client needs and to expand the Bank operations. Today RAB employs a talented team dedicated to the Bank's main goals (scheme 8).

SCHEME 8. ADVANTAGES OF WORKING AT RAB



Over the course of the reporting year RAB staff increased to 24,181 from 18,674 persons, with 5.2% employed in head office, 32.6% in regional branches and 62.2% in additional offices (table 7, chart 17).

TABLE 7. CHANGES IN RAB STAFF NUMBER

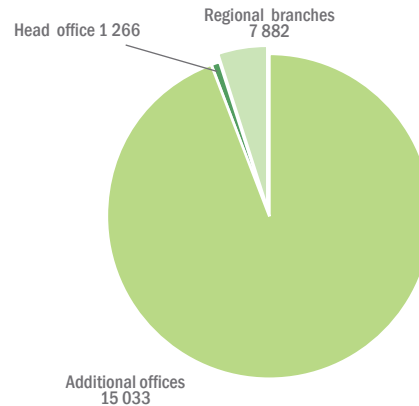
	2006	2007	2008
Head office	757	1,032	1,266
Regional branches	9,968	17,642	7,882
Additional offices	5,580	11,454	15,033
Total	10,725	18,674	24,181

The rise in the number of RAB employees was primarily due to the implementation of the Bank's growth initiatives. The active regional network development has resulted in RAB policy to recruit qualified human resources at each region.

RAB gives special focus to recruiting and developing necessary human resources at each region of its operations in order to continue providing services with close ties to the local community.

This section is partly prepared in accordance with Russian Accounting Standards.

CHART 17. SPLIT OF RAB STAFF BY NUMBER



RAB relies on the expertise, talent and commitment of its staff. The Bank enjoys the benefit of employing exceptionally dedicated and qualified personnel. 67% of RAB employees are university graduates and 50% of all staff members are people aged under 35 years. 120 employees have academic degree (charts 18, 19).

Recruitment

In a relatively short period of time RAB has become a network of close to 24,200 employees operating in all regions of the Russian Federation. To control this strong growth the Bank puts effort into personnel recruitment, retention and development.

Hiring is done on a competitive basis and primarily focuses on maintaining a balance between both experienced professionals and young specialists to work in the Bank's team.

Only with talented, vigorous and well-qualified people the Bank can achieve its ambitions of market leadership in the Russian Federation. That is why RAB employs and retains highly-educated and gifted students of the best agricultural universities. 1,316 students have undergone practical training both in head office and regional branches in 2008. Close relationship between the Bank and universities offers a straightforward access to highly qualified human resources. For the purpose of attracting talented students RAB extends special scholarships to students and post graduates of agricultural universities.

The Bank has a strong, talented and experienced management team. RAB puts the emphasis on hiring to managerial positions persons who possess a profound expertise and substantial banking experience. A special Nomination Commission is established in RAB, which conducts ongoing succession planning and recommends candidates for appointment to executive positions in head office and regional branches.

CHART 18. RAB STUFF SPLIT BY AGE

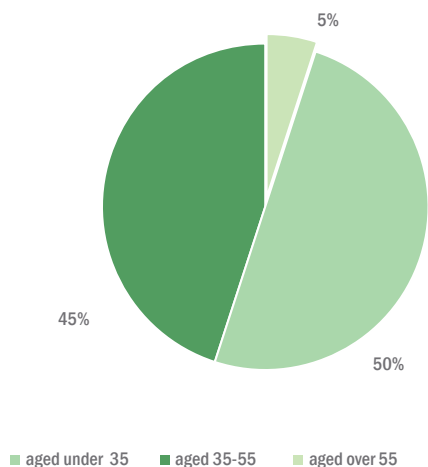
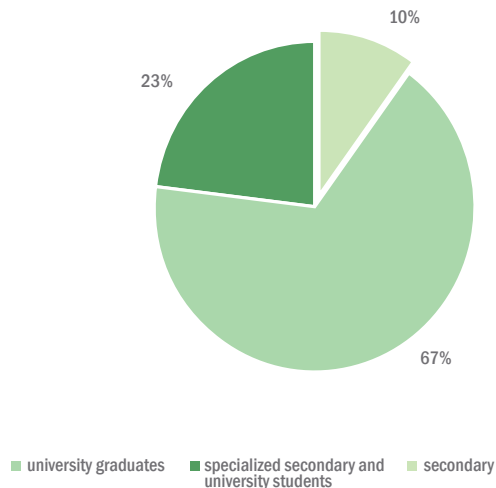


CHART 19. RAB STUFF SPLIT BY EDUCATION



Learning and Development

Helping employees unlock their full potential - by giving them opportunities to learn and advance toward their career goals – is a priority at RAB. The Bank has developed an employee succession plan to ensure continuous development and expansion of its operations (scheme 9).

The Bank makes significant investments to strengthen the range of internal and external courses available aimed at increasing staff efficiency. In 2008, employees of head office and regional branches participated in external corporate trainings with further transfer of obtained knowledge to other employees. Internal training is organized in close cooperation with leading educational institutions, both regional and in Moscow.

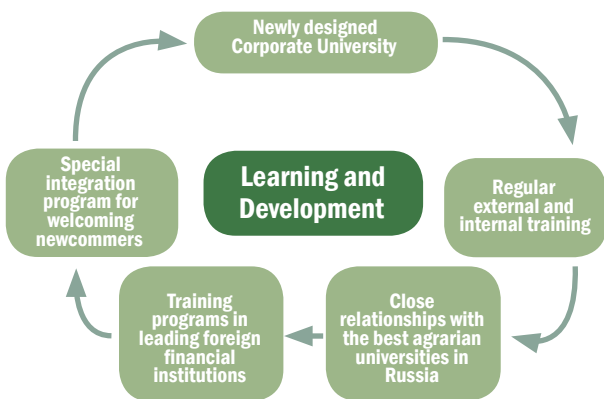
As one of the most dynamically developing financial institutions in Russia the Bank implements training

programs for employees abroad in cooperation with leading foreign financial institutions.

The Bank offers special integration traineeships for welcoming newcomers. New employees receive one-on-one advice and guidance from senior personnel, allowing them to efficiently absorb the essentials of working at RAB. Providing such orientation training and gaining their loyalty to the Bank are key aspects of these trainings.

The Bank promotes talent management and leadership development, understanding that both capabilities are important factors in ensuring high-quality client service and long-term business success. In 2009, RAB management development programs will continue to shape talented future leaders.

SCHEME 9. LEARNING AND DEVELOPMENT



Corporate University

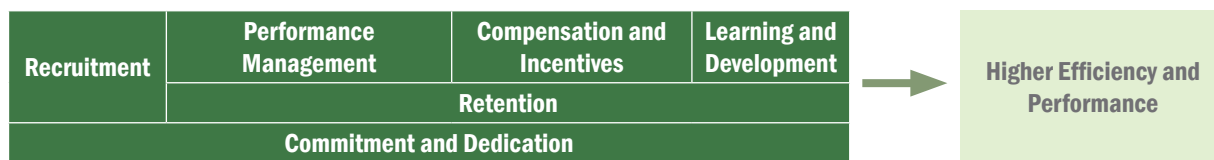
RAB is convinced that education is the most effective tool for fostering social and economic progress. In 2008, the Bank launched Corporate University, which offers a series of newly designed business-focused training and development programs for employees. In the framework of the Corporate University 5 training centers in Krasnodar, Tver, Kazan, Novosibirsk and Orel were opened throughout 2008.

In 2009, RAB will further strengthen university projects related to innovation and development of the new banking products and technologies.

Performance Management

RAB ensures an ongoing employee-manager dialogue. All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. This process supports staff development, links behavior to corporate values and

SCHEME 10. MANAGING HUMAN CAPITAL



helps ensure that employees have the skills required to meet clients' needs and implements RAB strategic goals.

Corporate Culture

Given the intensive development of the Bank's activity and the increase in the number of staff, special emphasis is put on the work to promote corporate culture that unites the Bank's staff and strengthens its team spirit. In the framework of the corporate culture development and promotion and optimization of staff motivation system RAB follows the Code of Corporate Conduct that outlines the rules of good conduct that staff members are expected to abide by.

The development of RAB's corporate culture, as well as the solution of other above-mentioned tasks of HR policy

will contribute to the professional advancement of each employee based on his or her competence, loyalty and commitment to the Bank.

All the above mentioned steps of managing human capital receive high appreciation and positive response from RAB's staff (scheme 10).

In 2009, RAB aims to strengthen its competitive advantages by nurturing and strengthening its personnel, by ensuring conditions that will help its employees to fully unlock their talents and potential to better meet clients' needs and deliver results for the Bank. ●

CORPORATE RESPONSIBILITY

Sustainable Value Creation

As a leading financial institution in the area of agribusiness lending Russian Agricultural Bank is confronted with the concerns and expectations of a wide and diverse range of stakeholders. Along with clients, investors and employees, various government regulators and regional municipalities and administrations can also be said to have a stake in the Bank. In a broader sense, the rural areas and local communities in which RAB has a presence are stakeholders too. RAB takes corporate responsibility to mean the process of understanding, assessing, weighing and addressing the concerns and expectations of these groups.

Being a State Agent for agribusiness development RAB is engaged in the whole agribusiness food chain development and therefore is responsible for food safety of the Russian Federation.

During 2008, RAB continued with a wide range of important and effective corporate responsibility related activities from charity, rural areas development and human rights to anti-money laundering. Even in difficult times, RAB remains a reliable partner for its stakeholders.

Social Responsibility

RAB, together with its employees, seeks to have a positive influence on the social and environmental wellbeing of the rural areas in which it operates, and on rural communities which make up to 27% of the total population of Russia. The Bank does this through its social programs.

RAB implements federal programs on livestock meat and milk production facilitation initiated early in 2009. In 2008, the Bank promoted innovative lending programs on fishery, fish farms, aquaculture and mariculture, and timber and wood processing industry.

With the purpose of developing local trades, native agricultural trends like stag breeding, yak breeding and horse breeding RAB has elaborated special lending programs. The Bank also provides loans promoting implementation of modern environment friendly technologies like biofuel production, drop irrigation, sewage treatment and likewise in agribusiness production.

Since August 2003, Russian Agricultural Bank has been participating in implementation of the federal program "Social Development of Rural Areas till 2010" insofar as it concerns the construction of dwelling houses, roads and gasification of the rural areas.

RAB provides affordable housing to young specialists in the rural areas, and extends student loans to rural population to be educated in specialized institutes and universities, preparing specialists for agriculture.

Investing in human capital is an important aspect of the Bank's activity. In 2008, RAB launched educational projects with the view to identify and develop talent. As a result 23 students from different institutes throughout the country were granted with special scholarships. To manage these projects two Scholarship Commissions were organized at the Bank - at Russian State Agrarian

University – MTAA named after K.A. Timiryazev and at Finance Academy under the Government of the Russian Federation.

RAB gives students from rural regions an opportunity to start their carrier in the Bank. With this purpose sixteen special Students' Financial Teams for students of agribusiness universities of the Russian Federation were organized. Teams' members got an opportunity to work at RAB's regional branches.

Sponsoring and supporting social, cultural and sporting activities via its broad regional branch network is an integral part of broader strategy of communication with society. In 2008, RAB participated and sponsored a series of sport and cultural event in the regions of its presence.

Charity is an integral part of RAB corporate responsibility strategy. As a state owned financial institutions RAB has elaborated strict approach for selecting objectives for its charitable activities.

In 2008, RAB joined efforts to revive the Voskresensky New Jerusalem Stauropelial Friary Monastery of the Russian Orthodox Church. President of the Russian Federation Dmitry Medvedev and Patriarch of Moscow and All Russia Alexy II initiated the establishment of the Charity Fund for Reconstruction of the Monastery. This initiative makes a major contribution to further development of national identity.

Besides the engagement of the Bank and its employees, RAB also provides its clients with the opportunity to contribute to charitable purposes. Any organization or individual can contribute to the process of restoring this unique historical and cultural monument of universal importance by making charitable donations for the restoration of the Monastery in all offices of Russian Agricultural Bank.

RAB facilitates financial support of the most underfinanced industry and population resulting in agribusiness development and improvement of living standards in rural areas.

Employee Responsibility

The Bank pays special attention to ensuring comfortable working conditions for its employees viewing it as part of its social obligations (scheme 11). To this end, the Bank provides its personnel with pension insurance and voluntary medical insurance on special favorable terms.

SCHEME 11. SOCIAL ENVIRONMENT OF RAB EMPLOYEES



Given the intensive development of the Bank's activity and the increase in the number of staff, special emphasis is put on promotion of corporate culture that unites the Bank's staff and strengthens its team spirit. With the purpose to promote corporate culture, to control compliance with principles and rules of ethics Corporate Ethics Committee was established at the Bank. In the framework of the corporate culture development and promotion and optimization of staff motivation system RAB follows the Code of Corporate Conduct that outlines the rules of good conduct that staff members are expected to abide by.

The development of RAB's corporate culture, as well as the solution of other above – mentioned tasks of HR policy contributes to the professional advancement of each employee based on his or her competence, loyalty and commitment to the Bank.

In 2008, a Corporate University with Educational Centers at a number of regional branches was established at the Bank. University is responsible for upgrade of head office and regional branches employees' professional knowledge and systematization of training process. It supports development of the distant education, and providing of methodological support

for employees in obtaining new skills and knowledge. Corporate University launched its activity with an orientation seminar "Introduction of the Bank to a new employee", which is now organized on a regular basis. Providing such orientation training and gaining personnel loyalty to the Bank are key aspects of these trainings.

RAB ensures an ongoing employee-manager dialogue. All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. RAB implements a special employee-succession plan under which successful employees can be promoted. With this purpose a special Nomination Commission was established at the Bank. Nomination Commission conducts ongoing succession planning and recommends candidates for appointment to executive positions in head office and regional branches. This process supports staff development, links behavior to corporate values and helps ensure that employees have the skills required to meet clients' needs and implements RAB strategic goals.

Employee engagement supports workforce retention and performance. RAB believes that good health and good employability form the key to successful career. Employees are actively engaged through communication and participation in different events of the Bank including social, cultural and sport activities.

RAB tries to make a comfortable communicating environment for every member of the team. Magazine "Agrocredit" is important means of internal communications for the Bank. The Bank's magazine provides employees with an opportunity to get a better understanding of the Bank's mission and strategy, its organization, regional branches performance, recent events and developments and perceive themselves as an integral part of the whole Bank's network.

In 2009, RAB aims to strengthen its competitive advantage by developing conditions that will help people to unlock their full potential.

RAB takes its responsibility very seriously and is committed to working for the common good through different social programs, donations, sponsorship in diverse areas of society, especially in agribusiness sector. ●

REGIONAL BRANCHES ADDRESSES

Adygea Regional Branch

Reg. Number: 3349/12 of 27.09.2000
385000, Maikop, 24
Krasnooktyabrskaya St.
Tel: +7 (8772) 52-30-24
Fax: +7 (8772) 57-12-01
E-mail: Director@adg.rshb.ru

Altay Regional Branch

Reg. Number: 3349/18 of 18.12.2000
656015, Altai Territory,
Barnaul, 80B Lenin Ave.
Tel/Fax: +7 (3852) 35-69-39
E-mail: afrshb@alt.ru

Amur Regional Branch

Reg. Number: 3349/23 of 18.12.2000
675000, Blagoveshchensk, 142 Lenin St.
Tel: +7 (4162) 22-18-00
Fax: +7 (4162) 22-18-01
E-mail: referent@amur.rshb.ru

Arkhangelsk Regional Branch

Reg. Number: 3349/48 of 04.10.2001
163000, Arkhangelsk,
34 Karl Libchnecht St.
Tel/Fax: +7 (8182) 65-38-42
E-mail: info@arhrshb.ru

Astrakhan Regional Branch

Reg. Number: 3349/17 of 18.12.2000
414000, Astrakhan, 34 Sverdlov St.
Tel: +7 (8512) 63-28-02
Fax: +7 (8512) 63-28-00
E-mail: rshb@astranet.ru

Bashkir Regional Branch

Reg. Number: 3349/62 of 26.04.2004
450077, Ufa, 70 Lenin St.
Tel/Fax: +7 (3472) 73-54-32
E-mail: info@bash.rshb.ru

Belgorod Regional Branch

Reg. Number: 3349/30 of 10.04.2001
308800, Belgorod, 24 Popov St.
Tel/Fax: +7 (4722) 32-80-29
E-mail: BRF@belg.rshb.ru

Bryansk Regional Branch

Reg. Number: 3349/69 of 14.09.2006
241007, Bryansk, 1/5 Begitskaya St.
Tel: +7 (4832) 68-19-22
Fax: +7 (4832) 68-19-65

Buryatia Regional Branch

Reg. Number: 3349/59 of 01.08.2002
670034, Ulan-Ude, 4A Khakhalov St.
Tel/Fax: +7 (3012) 44-20-64
E-mail: rshb@burnet.ru

Chechen Regional Branch

Reg. Number: 3349/34 of 10.04.2001
364051, Grozny, 10/77 Revolution Ave.
Tel: +7 (495) 228-14-40
Fax: +7 (8712) 22-28-01
E-mail: admin_chech@rshb.ru

Chelyabinsk Regional Branch

Reg. Number: 3349/78 of 07.08.2008
454090, Chelyabinsk, 35 Lenin Ave.
Tel: +7 (351) 263-78-51
E-mail: bank@chel.rshb.ru

Chita Regional Branch

Reg. Number: 3349/47 of 04.10.2001
672039, Chita,
Ingodninsky Administrative District,
21 Alexandro-Zavodskaya St.
Tel: +7 (3022) 36-99-10
Fax: +7 (3022) 36-99-85
E-mail: referent@chita.rshb.ru

Chukotka Regional Branch

Reg. Number: 3349/77 of 07.04.2008
689000, Anadyr, 47 Lenin St.
Tel: +7 (427-22) 2-88-65
Fax: +7 (427-22) 2-90-24

Chuvash Regional Branch

Reg. Number: 3349/11 of 27.09.2000
428032, Cheboksary, 31 President's Blvd.
Tel: +7 (8352) 66-24-64
Fax: +7 (8352) 42-37-48
E-mail: RF@chuvashia.rshb.ru

Dagestan Regional Branch

Reg. Number: 3349/4 of 27.09.2000
367000, Makhachkala,
54a Gamidov Ave.
Tel/Fax: +7 (8722) 51-71-01, 51-71-02
E-mail: rsb@dinet.ru

Gorno-Altai Regional Branch

Reg. Number: 3349/70 of 06.10.2006
649000, Republic Altay, Gorno-Altai,
68 Kommunistichesky Ave.
Tel: +7 (38822) 2-47-49

Jewish Regional Branch

Reg. Number: 3349/29 of
22.03.2001
679000, Birobidjan,
6 Komsomolskaya St.
Tel/Fax: +7 (42622) 4-02-84
E-mail: rshbbir@on-line.jar.ru

Ivanovo Regional Branch

Reg. Number: 3349/38 of
29.05.2001
153012, Ivanovo,
44 Suvorov St.
Tel: +7 (4932) 41-41-42 (int. 1001)
Fax: +7 (4932) 41-41-42 (int. 1007)
E-mail: ivrshb@ivanovo.rshb.ru

Irkutsk Regional Branch

Reg. Number: 3349/66 of 13.10.2005
664040, Irkutsk,
180 Rosy Luxembourg St.
Tel/Fax: +7 (3952) 44-42-75
E-mail: rshb@irk.ru

Ingush Regional Branch

Reg. Number: 3349/42 of 21.06.2001
386102, Nazran, 31A Moskovskaya St.
Tel: +7 (8732) 22-64-96
Fax: +7 (8732) 22-53-12
E-mail: ingrshb@list.ru

Kabardino-Balkaria Regional Branch

Reg. Number: 3349/44 of
26.06.2001
360030, Nalchik, 10A Kouliev Ave.
Tel: +7 (8662) 47-77-94, 40-60-19
Fax: +7 (8662) 40-00-13
E-mail: kbr@kbal.rshb.ru

Kaliningrad Regional Branch

Reg. Number: 3349/55 of
06.03.2002
236016, Kaliningrad,
51V Alexander Nevsky St.
Tel/Fax: +7 (4012) 55-62-71
E-mail: info@klngd.rshb.ru

Kalmyk Regional Branch

Reg. Number: 3349/36 of
20.04.2001
358003, Elista, Y. 87 Klykov St.
Tel/ Fax: +7 (84722) 2-46-16, 6-43-58
E-mail: rshb@elista.ru

Kaluga Regional Branch

Reg. Number: 3349/27 of 13.02.2001
248001, Kaluga, 9A Kirov St.
Tel: +7 (4842) 57-50-03
Fax: +7 (4842) 57-11-68
E-mail: rsb@kaluga.ru

Kamchatka Regional Branch

Reg. Number: 3349/53 of
08.02.2002
683023, Petropavlovsk-Kamchatsky,
63 Pobedy Ave.
Tel: +7 (4152) 46-78-00
Fax: +7 (4152) 46-79-46
E-mail: rshb@mail.kamchatka.ru

Karachay-Cherkessia Regional Branch

Reg. Number: 3349/31 of 10.04.2001
369000, Cherkessk,
19 Kavkazskaya St.
Tel/Fax: +7 (87822) 6-03-32
E-mail: rschb@mail.svkchr.ru

Karelia Regional Branch

Reg. Number: 3349/21 of 18.12.2000
185910, Petrozavodsk,
50 Pervomaisky Ave.
Tel/Fax: +7 (8142) 70-34-57
E-mail: krlrshb@karelia.ru

Kemerovo Regional Branch

Reg. Number: 3349/56 of
06.03.2002
650025, Kemerovo,
109 Kommunisticheskaya St.
Tel: +7 (3842) 25-45-97
Fax: +7 (3842) 25-45-89
E-mail: office@kemerovo.rshb.ru

Khabarovsk Regional Branch

Reg. Number: 3349/75 of 01.10.2007
680000, Khabarovsk,
22 Shevchenko St.
Tel/Fax: +7 (4212) 31-66-52, 32-56-58
E-mail: priem@hab.rshb.ru

Khakasia Regional Branch

Reg. Number: 3349/37 of 20.04.2001
655017, Abakan,
115 Pushkin St.
Tel/Fax: +7 (3902) 25-44-60
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Kirov Regional Branch

Reg. Number: 3349/22 of 18.12.2000
610017, Kirov, 5 Gorkiy St.
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Fax: +7 (8332) 54-16-99
E-mail: kirrshb@rshb.kirov.ru

Komi Regional Branch

Reg. Number: 3349/74 of 05.06.2007
167000, Syktyvkar,
112/1 Pervomayskaya St.
Tel/Fax: +7 (8212) 44-83-79, 44-80-19
E-mail: filial@komi.rshb.ru

Kostroma Regional Branch

Reg. Number: 3349/51 of 11.01.2002
156602, Kostroma, 37 Marshal Novikov St.
Tel/Fax: +7 (4942) 37-35-20
E-mail: kosrshb@kmtm.ru

Krasnodar Regional Branch

Reg. Number: 3349/3 of 27.09.2000
350038, Krasnodar,
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2 Korolenko St.
Tel: +7 (861) 253-66-15
Fax: +7 (861) 253-66-25, 251-10-02
E-mail: rshb@ugtel.ru

Krasnoyarsk Regional Branch

Reg. Number: 3349/49 of 13.12.2001
660017, Krasnoyarsk, 33 Perensona St.
Tel/Fax: +7 (3912) 67-67-00
E-mail: info@krsn.rshb.ru

Kurgan Regional Branch

Reg. Number: 3349/45 of 27.07.2001
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Tel/Fax: +7 (3522) 41-20-19
E-mail: rshb@kurgan.rshb.ru

Kursk Regional Branch

Reg. Number: 3349/32 of 10.04.2001
305004, Kursk,
12 Sadovaya St.
Tel/Fax: +7 (4712) 51-38-71, 39-05-80
E-mail: rshb@kursknet.ru

Lipetsk Regional Branch

Reg. Number: 3349/24 of 18.12.2000
398600, Lipetsk, 2 Skorokhodov St.
Tel/Fax: +7 (4742) 72-24-87
E-mail: office@lip.rshb.ru

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Reg. Number: 3349/40 of 13.06.2001
685000, Magadan,
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Fax: +7 (4132) 60-64-05
E-mail: rshb@online.magadan.su

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Reg. Number: 3349/16 of
29.09.2000
424000, Yoshkar-Ola, 116 Volkova St.
Tel: +7 (8362) 45-23-55
Fax: +7 (8362) 63-81-21
E-mail: rshb@mari-el.ru

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430000, Saransk,
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Tel: +7 (8342) 29-23-00
Fax: +7 (8342) 29-23-99
E-mail: info@mrd.rshb.ru

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Reg. Number: 3349/63 of 28.01.2005
127550, Moscow,
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Tel: +7 (495) 644-02-41
Fax: +7 (495) 644-02-30
E-mail: referent@rshb.ru

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Reg. Number: 3349/33 of 10.04.2001
183032, Murmansk, 11 Pavlov St.
Tel/Fax: +7 (8152) 25-86-61
E-mail: murmrshb@polarnet.ru

Nizhny Novgorod Regional Branch

Reg. Number: 3349/39 of 13.06.2001
603022, Nizhniy Novgorod,
3 Kulibina St.
Tel/Fax: +7 (831) 211-62-70
E-mail: nnrshb@mts-nn.ru

North Ossetia Regional Branch

Reg. Number: 3349/26 of
09.02.2001
362040, Vladikavkaz,
2 Kantemirov St.
Tel: +7 (8672) 53-22-81
Fax: +7 (8672) 53-44-30
E-mail: rshb@osetia.ru

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8/33 Fedorovsky Rouchey St.
Tel/Fax: +7 (8162) 63-22-21
E-mail: rshbngd@novgorod.net

Novosibirsk Regional Branch

Reg. Number: 3349/25 of 09.02.2001
630007, Novosibirsk, 13 Fabrichnaya St.
Tel/Fax: +7 (383) 218-30-35
E-mail: bank@nsk.rshb.ru

Omsk Regional Branch

Reg. Number: 3349/9 of 27.09.2000
644099, Omsk, 3 Krasny Pout St.
Tel/Fax: +7 (3812) 24-34-23
E-mail: post@rshb.com.ru

Orenburg Regional Branch

Reg. Number: 3349/5 of 27.09.
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Orel Regional Branch

Reg. Number: 3349/10 of 27.09.2000
302030, Orel, 60 Dubrovinskiy Emb.
Tel: +7 (4862) 43-41-05
Fax: +7 (4862) 54-33-79
E-mail: ref@orel.rshb.ru

Penza Regional Branch

Reg. Number: 3349/15 of 29.09.2000
440018, Penza,
39 Bekeshskaya St.
Tel: +7 (8412) 42-18-73
Fax: +7 (8412) 42-18-45
E-mail: info@penza.rshb.ru

Perm Regional Branch

Reg. Number: 3349/76 of 14.12.2007
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Reg. Number: 3349/54 of 08.02.2002
690091, Vladivostok,
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E-mail: Referent@rshbprim.ru

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Samara Regional Branch

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E-mail: rshb@stavropol.net

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Reg. Number: 3349/73 of
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620151, Sverdlovsk Region,
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Tel: +7 (343) 371-41-65
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E-mail: rsxb73@mail.ru

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Fax: +7 (843) 570-53-34

Tomsk Regional Branch

Reg. Number: 3349/64 of
11.05.2005
634050, Tomsk,
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Reg. Number: 3349/57 of 06.03.2002
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Fax: +7 (39422) 1-41-01
E-mail: rshb@tuva.ru

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Reg. Number: 3349/1 of 27.09.2000
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Tel/Fax: +7 (4872) 37-07-91
E-mail: filial@tula.rshb.ru

Tyumen Regional Branch

Reg. Number: 3349/71 of 29.12.2006
625003, Tyumen, 24/3 Republic St.
Tel: +7 (3452) 45-64-45
Fax: +7 (3452) 64-00-54

Udmurt Regional Branch

Reg. Number: 3349/28 of
26.02.2001
426057, Izhevsk, 112 V. Sivkov St.
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E-mail: rshb@udmlink.ru

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Fax: +7 (8422) 41-07-76

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E-mail: vologda@metacom.ru

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Reg. Number: 3349/14
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Fax: +7 (4732) 55-36-39
E-mail: vrf@vrn.rshb.ru

Yakutsk Regional Branch

Reg. Number: 3349/60
of 11.02.2003
677000, Yakutsk, 28/1 Kourashov St.
Tel/Fax: +7 (4112) 34-37-73
E-mail: office@yarshb.sakhanet.ru

Yaroslavl Regional Branch

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Tel/Fax: +7 (4852) 32-12-44
E-mail: rshb@yaroslavl.ru

ABBREVIATIONS AND GLOSSARY

ALCO - Asset and Liability Management Committee.

AML/CFT - Anti-money laundering/combating the financing of terrorism.

ATM - Automated teller machine.

BASEL II - Revised capital adequacy framework of the Basel Committee which has replaced the former Basel I regulations especially on the calculation of the regulatory risk position.

CAPITAL ADEQUACY RATIO - Key figure for banks expressing in % the ratio between their capital according to Basel II and their regulatory risk position comprised of credit risks, market risks and operational risks. The minimum total capital ratio to be complied with is 8 %.

CASH FLOW STATEMENT - Calculation and presentation of the cash flow generated or consumed by a company during a financial year as a result of its business, investing and financing activities, as well as the reconciliation of holdings of cash and cash equivalents (cash reserve) at the beginning and end of a financial year.

COLLATERAL - Assets pledged as security for a loan or other obligation. Collateral can take many forms, such as cash, highly rated securities, property, inventory, equipment and receivables.

COST/INCOME RATIO - The ratio of operating costs and general expenses to net income. The lower the cost/income ratio, the more efficiently a company is operating. Also called "efficiency ratio".

CREDIT RISK - Risk that customers may not be able to meet their contractual payment obligations.

DERIVATIVE PRODUCTS - Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all derivative instruments.

FOREIGN EXCHANGE CONTRACTS - Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

HEDGING - A strategy under which transactions are effected with the aim of providing cover against the risk of unfavorable price movements (interest rates, prices, commodities).

IFRS INTERNATIONAL FINANCIAL REPORTING STANDARDS - Financial Reporting Rules of the

International Accounting Standards Board to ensure globally transparent and comparable accounting and disclosure. Main objective is to present information that is useful in making economic decisions, mainly for investors.

IMPAIRMENT - Unscheduled write-down of the value of assets such as loans and advances, securities, intangible assets, and property and equipment in the amount by which the amortized cost or cost less depreciation exceeds the amount recoverable in the market.

INVESTOR RELATIONS - Systematic and continuous two-way communication between companies and both current and potential providers of capital. Information is supplied on major corporate events, financial results, business strategy and the capital market's expectations of management. One objective of investor relations activities is to ensure that a company's equity is appropriately valued by the market.

IT - Information technology.

KYC PROGRAM - "Know Your Client" program for clients identification in the framework of the Rules of Internal Control.

LIBOR - London Inter-Bank Offered Rate. The short-term interest rate that creditworthy international banks charge each other for loans.

LIQUIDITY RISK - Risk to the earnings and capital arising from the bank's potential inability to meet matured obligations without incurring unacceptably high losses.

MARKET RISK - Arises from the uncertainty concerning changes in market prices and rates (including interest rates, share prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

NETTING AGREEMENTS - Contracts between two parties that under certain circumstances - e.g. insolvency - mutual claims from outstanding business can be offset against each other. The inclusion of a legally binding netting agreement reduces the default risk from a gross to a net amount.

OPERATIONAL RISK - Potential for incurring losses in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, projects, external influences and customer relationships. This definition includes legal and regulatory risk.

RATING - Standardized assessment of the creditworthiness of companies, countries or of

debt instruments issued by them, on the basis of standardized qualitative and quantitative criteria carried out by specialized agencies. The rating process forms the basis for determining the probability of default, which in turn is used in calculating the capital needed to back the credit risk.

REPO TRANSACTIONS - Abbreviation for repurchase agreements; these are combinations of spot purchases or sales of securities and the simultaneous forward sale or repurchase of these securities in an agreement involving the same counterparty.

RETURN ON ASSETS - Annualized income divided by average assets.

RETURN ON EQUITY - Annualized income divided by average equity.

RISK - Financial institutions face a number of different risks that expose them to possible losses. These risks include credit risk, market risk, operational risk, liquidity and funding risk, reputation risk, regulatory and legal risk, environmental risk, insurance risk, strategic risk, competitive risk and systemic risk.

RISK-WEIGHTED ASSETS - Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

STANDBY LETTERS OF CREDIT AND LETTERS OF GUARANTEE - Assurances given by the Bank that it will make payments on behalf of clients to third parties. The Bank has recourse against its clients for any such advanced funds.

STRESS TEST - A simulating procedure designed to assess the impact of extreme market scenarios on the Bank's overall exposure to risk.

SWAPS - In general: exchange of one payment flow for another. Interest rate swap: exchange of interest payment flows in the same currency with different terms and conditions (e.g. fixed or floating). Currency swap: exchange of interest payment flows and principal amounts in different currencies.

TIER 1 AND TIER 2 CAPITAL RATIOS - Measures of the capital adequacy of a bank as determined in accordance with specific regulatory guidelines. Tier 1 ratio refers to core capital while Tier 2 ratio refers to supplementary capital.

TOTAL CAPITAL RATIO - Total capital of the bank expressed as a percentage of total risk-weighted commitments. The minimum standard set by the Bank for International Settlements is 8%.

VALUE AT RISK (VAR) - A technique which uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount. ●

CORPORATE INFORMATION

Name in Russian:

Открытое акционерное общество «Российский Сельскохозяйственный банк»

Name in English:

Russian Agricultural Bank

Date of Registration: April 24, 2000

Registration Authority: Central Bank of the Russian Federation

Registered Address of Head Office: 3 Gagarinsky Pereulok, 119034 Moscow, Russia

Tel/Fax: + 7 495 363 06 53

SWIFT: RUAGRUMM

Telex: 485493 RSB RU

Internet website: www.rusagrobank.com

E-mail: fininst@rshb.ru, ir_rusagrobank@rshb.ru

Licenses:

General Banking License number 3349 of 25.07.2007

License number 077-08455-100000 of 19.05.2005 of the professional security market player to fulfill brokerage activity

License number 077-08456-010000 of 19.05.2005 of the professional security market player to fulfill dealer activity

License number 077-08461-000100 of 19.05.2005 of the professional security market player to fulfill depositary activity

Appointed Auditor

ZAO PricewaterhouseCoopers Audit

Address: 52, bld. 5 Kosmodamianskaya Nab., 115054 Moscow, Russia

Nostro Correspondent Accounts of Russian Agricultural Bank

Correspondent	Currency	Account No.	SWIFT
JPMorgan Chase Bank, NY	USD	400-807408	CHAS US 33
Commerzbank AG, Frankfurt am Main	EUR	400886853100EUR	COBA DE FF
DZ Bank AG, Frankfurt am Main	EUR	EUR 0000140450	GENO DE FF
	USD	USD 0001140450	
VTB Bank (Deutschland) AG, Frankfurt am Main	EUR	0104678396	OWHB DE FF
	USD	0104678412	
	GBP	0104678420	
	NOK	0104678438	
	CHF	0104678446	
Belagroprombank, Minsk	BYB	1702080840014	BAPBBY 2X

GUIDE TO RAB WEBSITE

Russian Agricultural Bank

www.rusagrobank.com

The screenshot shows the main navigation menu with 'REPORTS', 'FEEDBACK', and 'INVESTOR RELATIONS' highlighted. The central content area features a map of Russia with the text 'Sovereign Bank Wide Regional Branch Network Government Agent for Agribusiness Development'. Below the map, there are news items with dates and brief descriptions.

English version of the Website provides the Bank's foreign partners and investors with updated information on RAB's activity.

This screenshot displays the 'REPORTS' section, specifically the 'IFRS' (International Financial Reporting Standards) reports. It lists various reports from 2001 to 2012, including annual reports and financial statements.

Reports section of the Website includes three subsections – Annual Reports since 2000, financials in accordance with IFRS since 2001 and presentations outlining RAB performance.

The screenshot shows a 'Feedback' form with fields for 'Gender', 'Firstname', 'Lastname', and 'Company'. There is also a 'Contact Us' button.

Feedback form allows to contact directly the Bank's IR Service.

This screenshot shows the 'INVESTOR RELATIONS' section. It features two main sub-sections: 'Key Investment Highlights' and 'Recent Events and Developments'. The highlights section lists various achievements such as being ranked in the top 1,000 banks globally and receiving awards. The recent events section lists updates to ratings and awards.

This section of the Website includes recent developments, investment highlights and key financial information.

This screenshot displays the 'Ratings' section, showing ratings from Fitch and Moody's. It includes details such as 'Long-term foreign currency rating - BBB', 'Short-term foreign currency rating - F1', and 'National long-term rating - AAA(st)', along with support ratings.

This screenshot shows a more detailed view of the 'Moody's' ratings section, listing various ratings for different types of deposits and bonds, such as 'Long-term foreign currency deposit rating - Baa1, stable' and 'National scale short-term rating - RBS-1'.

RAB ratings history is available at Website

Please contact us at IR_RusAgroBank@rshb.ru or fill in the Feedback form



Russian Agricultural Bank

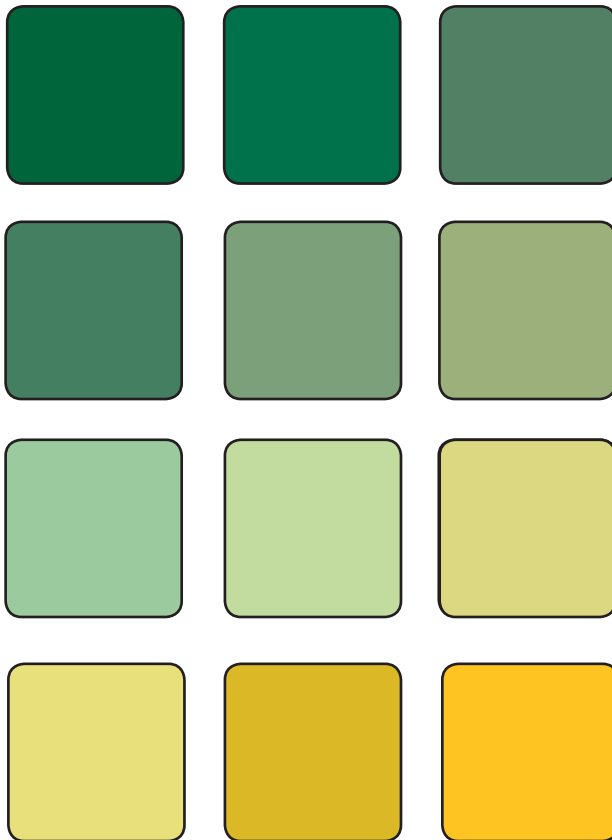
www.rusagrobank.com



Russian Agricultural Bank

International Financial Reporting Standards
Consolidated Financial Statements
and Independent Auditor's Report

31 December 2008



RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Consolidated
Financial Statements and Independent Auditor's Report

31 December 2008

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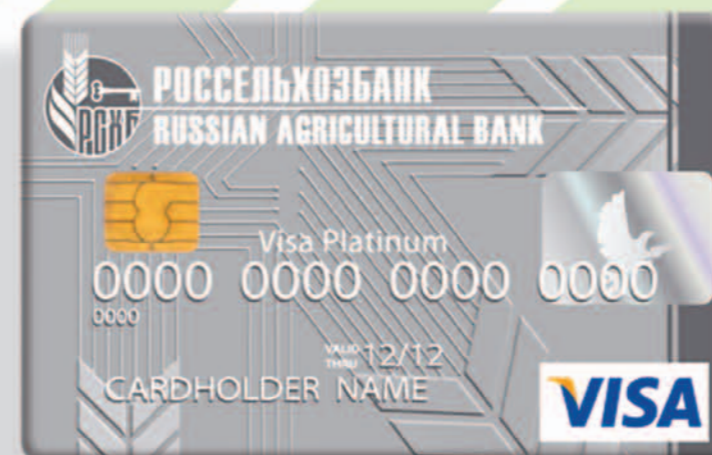
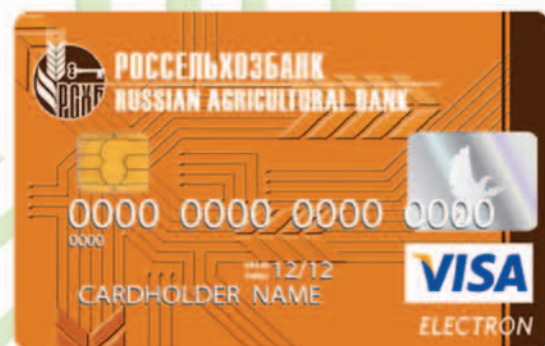
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank:

- 1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in 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

- 2 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

ZAO PricewaterhouseCoopers Audit

Russian Agricultural Bank Group Consolidated Balance Sheet

	Note	31 December 2008	31 December 2007
<i>In thousands of Russian Roubles</i>			
Assets			
Cash and cash equivalents	7	83 177 384	33 990 183
Mandatory cash balances with the Central Bank of the Russian Federation		962 895	2 441 967
Trading securities	8	17 667 682	12 056 055
Repurchase receivable	8	-	98 326
Other securities at fair value through profit or loss	9	4 438 652	-
Derivative financial instruments	32	30 777 358	276 806
Due from other banks	10	96 879 909	1 627 975
Loans and advances to customers	11	452 300 667	291 583 137
Investment securities available for sale	12	4 793 190	1 156 720
Investment securities held to maturity	13	10 206 528	5 495 475
Deferred income tax asset	27	14 412	5 815
Intangible assets	14	740 820	347 353
Premises and equipment	14	8 932 397	6 924 308
Current income tax prepayment		176 491	51 518
Other assets	15	2 045 459	404 563
Total assets		713 113 844	356 460 201
Liabilities			
Derivative financial instruments	32	4 252 538	3 559 959
Due to other banks	16	243 101 845	61 302 829
Customer accounts	17	154 495 007	95 957 714
Promissory notes issued	18	9 845 488	32 361 154
Other borrowed funds	19	175 914 283	95 288 645
Syndicated loans	20	10 531 712	15 572 209
Deferred income tax liability	27	569 135	692 694
Other liabilities	21	1 105 772	580 923
Subordinated debts	22	45 539 944	17 320 463
Total liabilities		645 355 724	322 636 590
Equity			
Share capital	23	61 972 833	28 477 833
Revaluation reserve for premises		952 179	911 151
Revaluation reserve for Investment securities available for sale		(1 504 419)	(1 658)
Retained earnings		6 337 188	4 435 587
Net assets attributable to the Bank's equity holders		67 757 781	33 822 913
Minority interest		339	698
Total equity		67 758 120	33 823 611
Total liabilities and equity		713 113 844	356 460 201

Approved for issue and signed on behalf of the Management Board on 13 May 2009.



Y.V. Trushin
Chairman of the Management Board




O.V. Nikonov
Chief Accountant

Russian Agricultural Bank Group Consolidated Income Statement

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Interest income	24	56 082 208	32 603 226
Interest expense	24	(29 519 563)	(15 573 943)
Net interest income		26 562 645	17 029 283
Provision for loan impairment	10,11	(9 495 348)	(3 112 996)
Net interest income after provision for loan impairment		17 067 297	13 916 287
Gains less losses/ (losses net of gains) from trading securities		173 785	(189 242)
Losses net of gains from other securities at fair value through profit or loss		(1 079 136)	-
Gains less losses from disposal of investment securities available for sale		4 265	-
(Losses net of gains)/ gains less losses from trading in foreign currencies		(1 175 364)	63 268
Foreign exchange translation (losses net of gains)/ gains less losses		(32 106 241)	5 660 275
Gains less losses/ (losses net of gains) from derivative financial instruments	32	33 500 103	(4 156 845)
Fee and commission income	25	2 233 652	1 136 187
Fee and commission expense	25	(213 287)	(102 003)
Provision for other assets	15	(36 140)	(7 981)
Gains from early redemption of other borrowed funds and buy-back of subordinated debts	19,22	1 122 128	-
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project		-	8 468
Other operating income		102 981	107 715
Administrative and other operating expenses	26	(16 258 790)	(10 593 349)
Profit before tax		3 335 253	5 842 780
Income tax expense	27	(1 281 907)	(1 488 953)
Profit for the year		2 053 346	4 353 827
Profit attributable to:			
Equity holders of the Bank		2 053 685	4 353 671
Minority interest		(339)	156
Profit for the year		2 053 346	4 353 827
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted	35	52	208

Russian Agricultural Bank Group Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Bank				Total	Minority interest	Total equity
		Share capital	Revaluation reserve for premises	Revaluation reserve for available for sale securities	Retained earnings			
<i>In thousands of Russian Roubles</i>								
Balance at 31 December 2006		21 620 833	-	-	308 366	21 929 199	557	21 929 756
Premises:								
-Revaluation		-	1 198 883	-	-	1 198 883	-	1 198 883
Securities available for sale:								
-Revaluation of securities	12	-	-	(2 182)	-	(2 182)	-	(2 182)
Income tax recognised in equity	27	-	(287 732)	524	-	(287 208)	-	(287 208)
Net income/ (loss) recognised directly in equity		-	911 151	(1 658)	-	909 493	-	909 493
Profit for the year		-	-	-	4 353 671	4 353 671	156	4 353 827
Total recognised income / (loss) for 2007		-	911 151	(1 658)	4 353 671	5 263 164	156	5 263 320
Share issue	23	6 857 000	-	-	-	6 857 000	-	6 857 000
Dividends declared	28	-	-	-	(226 450)	(226 450)	(15)	(226 465)
Balance at 31 December 2007		28 477 833	911 151	(1 658)	4 435 587	33 822 913	698	33 823 611
Premises:								
-Revaluation		-	24 195	-	-	24 195	-	24 195
-Realised revaluation reserve	14	-	(32 854)	-	32 854	-	-	-
Securities available for sale:								
-Revaluation of securities	12	-	-	(1 881 224)	-	(1 881 224)	-	(1 881 224)
-Disposals of securities	12	-	-	2 882	-	2 882	-	2 882
Income tax recognised in equity	27	-	49 687	375 581	(6 570)	418 698	-	418 698
Net income/ (loss) recognised directly in equity		-	41 028	(1 502 761)	26 284	(1 435 449)	-	(1 435 449)
Profit / (loss) for the year		-	-	-	2 053 685	2 053 685	(339)	2 053 346
Total recognised income / (loss) for 2008		-	41 028	(1 502 761)	2 079 969	618 236	(339)	617 897
Share issue	23	33 495 000	-	-	-	33 495 000	-	33 495 000
Dividends declared	28	-	-	-	(178 368)	(178 368)	(20)	(178 388)
Balance at 31 December 2008		61 972 833	952 179	(1 504 419)	6 337 188	67 757 781	339	67 758 120

Russian Agricultural Bank Group Consolidated Statement of Cash Flows

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Cash flows from operating activities			
Interest received		55 216 614	32 341 424
Interest paid		(27 376 876)	(13 713 088)
Losses incurred from trading in securities		(186 232)	(51 779)
Gains from early redemption of other borrowed debts and buy-back of subordinated debts		1 122 128	-
(Losses incurred)/income received from trading in foreign currencies		(1 175 364)	63 271
Income received/(losses incurred) from derivative financial instruments		3 692 130	(1 344 542)
Fees and commissions received		2 451 375	1 132 712
Fees and commissions paid		(233 089)	(94 830)
Income received from the Ministry of Agriculture of the Russian Federation		-	8 468
Other operating income received		101 975	95 778
Staff costs paid		(10 090 104)	(6 669 645)
Administrative and other operating expenses paid		(4 690 648)	(3 327 393)
Income tax paid		(1 120 338)	(656 180)
Cash flows from operating activities before changes in operating assets and liabilities		17 711 571	7 784 196
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		1 479 072	(724 544)
Net increase in trading securities		(16 881 906)	(5 454 581)
Net increase in other securities at fair value through profit or loss		(4 431 255)	-
Net (increase)/decrease in due from other banks		(89 642 711)	1 196 089
Net increase in loans and advances to customers		(167 705 502)	(138 835 282)
Net (increase)/decrease in other assets		(478 693)	8 787
Net increase in due to other banks		161 759 856	26 926 176
Net increase in customer accounts		55 535 245	61 301 304
Net decrease in promissory notes issued		(21 316 384)	(6 601 790)
Net decrease in other liabilities		(25 036)	(999)
Net cash used in operating activities		(63 995 743)	(54 400 644)
Cash flows from investing activities			
Acquisition of premises and equipment	14	(3 064 462)	(3 585 545)
Proceeds from disposal of premises and equipment		10 930	3 961
Dividend income received		658	900
Acquisition of intangible assets	14	(513 541)	(238 992)
Acquisition of investment securities available for sale	12	(1 548 861)	(1 156 725)
Proceeds from disposal of investment securities available for sale	12	1 269 957	-
Acquisition of investment securities held to maturity		(12 778 212)	(5 477 725)
Proceeds from redemption of investment securities held to maturity		15 777 975	-
Net cash used in investing activities		(845 556)	(10 454 126)
Cash flows from financing activities			
Proceeds from other borrowed funds	19	66 949 928	60 371 412
Repayment of other borrowed funds	19	(11 847 921)	-
Proceeds from syndicated loans	20	-	13 430 872
Repayment of syndicated loans	20	(6 971 751)	-
Proceeds from subordinated debt	22	25 000 000	5 180 200
Buy-back of subordinated debt	22	(185 568)	-
Issue of ordinary shares	23	33 495 000	6 857 000
Dividends paid	28	(178 388)	(226 465)
Net cash from financing activities		106 261 300	85 613 019
Effect of exchange rate changes on cash and cash equivalents		7 767 200	(383 761)
Net increase in cash and cash equivalents		49 187 201	20 374 488
Cash and cash equivalents at the beginning of the year		33 990 183	13 615 695
Cash and cash equivalents at the end of the year	7	83 177 384	33 990 183

RUSSIAN AGRICULTURAL BANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2008

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) for the year ended 31 December 2008 for Open Joint-Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”). Refer to Note 37 for information about the subsidiaries.

Principal activity. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises.

The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2007: 76) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky lane 3.

The number of the Group’s employees at 31 December 2008 was 24 511 (31 December 2007: 19 025).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, thousands of Russian Roubles (“RR thousands”), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.25 at 30 April 2009.

Due to increased market volatility, one-day MosPrime rate fluctuated between 3.38% p.a. and 22.67% p.a. during the period from 1 July 2008 till 31 December 2008.

International reserves of the Russian Federation decreased from USD 556 813 000 thousand at 30 September 2008 to USD 427 080 000 thousand at 31 December 2008 to USD 383 905 000 thousand at 30 April 2009.

RUSSIAN AGRICULTURAL BANK GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2008

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 111.41 at 27 August 2008 to USD 41.83 at 31 December 2008 and USD 48.57 at 30 April 2009.

The Government of the Russian Federation has undertaken a number of measures to support the Russian financial market during the period from September to December 2008, including the following:

- the Bank of Russia reduced mandatory reserves ratio to 0.5%;
- the guarantee repayment of individual deposits under the State deposit insurance scheme was raised up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments;
- the Bank of Russia significantly extended the list of assets which can be pledged under repurchase agreements with the Bank of Russia;
- the Bank of Russia is committed to partially compensate losses that could be incurred by a number of Russian top-10 banks on inter-bank lending market;
- the Government of the Russian Federation is committed to provide up to RR 950 000 000 thousand as subordinated loans to support liquidity of the Russian financial market.

Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the future financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. In the fourth quarter 2008 several banks from Russian top-50 banks list were acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

Impact on borrowers: Borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for borrowers may also have an impact on management’s cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral: The amount of provision for impaired loans is based on management’s appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Russia for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Fair value of financial assets and liabilities: The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Valuation of property measured at fair value: The market in Russia for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 16 Property, Plant and Equipment has been updated to reflect market conditions at the reporting date.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial recognition of financial instruments at fair value, the revaluation of premises, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivable and derivative financial instruments). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group's equity.

Purchases and sales of minority interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as a gain or loss directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the consolidated statement of changes in equity.

RUSSIAN AGRICULTURAL BANK GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2008

Financial instruments — key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (please see accounting policy for income and expenses).

Initial recognition of financial instruments. Trading securities, investment securities available for sale, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial

assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

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Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. The Group may reclassify financial assets into this category from fair value through profit or loss or available for sale categories in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other non-financial and financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Revaluation recognized by method of proportion changes in cost and accumulated depreciation of revalued premises. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the

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latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At each reporting date management assesses whether there is any indication of impairment of equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

	Useful lives in years
Premises	40
Equipment	5 - 20
Leasehold improvements	10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued by the Group include promissory notes denominated in Russian Roubles, US Dollars and Euro. They are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Syndicated loans. Syndicated loans include the amounts attracted in US Dollars and Euro by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

- a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

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- c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, an Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains/losses from derivative financial instruments. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commission on agency services are recognised based on the applicable service contracts. Income received from the Ministry of Agriculture and expenses incurred related to the Bank's participation in the national project "Development of Agro-Industrial Sector" are recognised by reference to the stage of completion of the services.

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. The consolidated companies' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 (2007: USD 1 = RR 24.5462), EUR 1 = RR 41.4411 (2007: EUR 1 = RR 35.9332).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money

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loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired and share capital issued prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated income statements.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in accounting policies. The accounting policies applied in the preparation of these consolidated financial statements are consistent with the accounting policies applied in the preparation of consolidated financial statements of the Group for the year ended 31 December 2007, except for the application of new standards, which became effective from 1 January 2008, described in Note 5.

Changes in accounting estimates. The Group changed its accounting estimates for useful life of one class of premises and equipment – “leasehold (premises) improvement”, and starting from 1 January 2008, applies an annual depreciation rate of 10% (31 December 2007: 2.5%). In case of applying annual depreciation rate of 2.5%, the depreciation amount for 2008 would be less by RR 102 033 thousand.

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Group’s Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in

the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 247 331 thousand (31 December 2007: RR 156 739 thousand) higher or RR 266 891 thousand (31 December 2007: RR 151 320 thousand) lower.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 33.

Leasehold (premises) improvements' depreciation. The Group estimates the useful lives of leasehold (premises) equipment taking into consideration repeated extension of lease contracts, implementation of the policy of gradual purchase of the earlier leased buildings into the Group's ownership as well as "substance over form" principle.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Revaluation of premises. Premises of the Group are stated at revalued amounts. The fair value of premises was determined by an independent appraiser based mainly on the comparative sales method. There is a lack of observable data on this market and the appraiser used certain judgments for identification of comparative sales and adjustments to them. As a result of revaluation the value of premises in 2008 decreased by RR 454 641 thousand (2007: increased by RR 1 270 012 thousand). At 31 December 2008 the carrying amount of premises would have been RR 4 266 453 thousand (2007: RR 2 826 528 thousand) had the assets been carried at cost less depreciation.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Capital adequacy ratio. Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires Management judgement, for example, treatment of off-balance sheet commitments.

Related party transactions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in identification of related parties to be disclosed in the consolidated financial statements. Refer to Note 36.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- **IFRIC 11, IFRS 2—Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008); and
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables).

The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. Refer to Notes 8 and 12 for the details of the reclassifications made.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to the standard to have a material effect on its consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income.

The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to have any effect on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendment to have any effect on its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group does not expect the amendment to have any effect on its consolidated financial statements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group does not expect the amendment to have any effect on its consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign

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operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these consolidated financial statements as the Group does not apply hedge accounting.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group does not expect the amendment to affect its future consolidated financial statements.

Improving Disclosures about Financial Instruments — Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its consolidated financial statements.

Embedded Derivatives — Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group is currently assessing the impact of the amendment on its future consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	2008	2007
Cash on hand	5 503 536	2 991 048
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- Russian Federation	5 404 246	8 008 658
- Other countries	41 172 594	2 279 030
Settlement accounts with MICEX, RTS and NCC	3 212 030	102 358
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	43 530	923 610
Total cash and cash equivalents	83 177 384	33 990 183

As at 31 December 2008 cash equivalents of RR 43 530 thousand (2007: RR 923 610 thousand) are effectively collateralized by securities purchased under reverse sale and repurchase agreements at a fair value of RR 58 635 thousand (2007: RR 1 029 897 thousand). The Group has a right to sell or repledge these securities.

As at 31 December 2008 correspondent accounts and deposits with other banks with maturities less than one month included the balance with one foreign bank with rating AA- (S&P) in the amount of RR 41 103 938 thousand or 49% of total cash and cash equivalents (31 December 2007: another foreign bank with rating AA- (S&P) in the amount of RR 2 210 020 thousand or 7% of total cash and cash equivalents).

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Analysis by credit quality of cash and cash equivalents is as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Current and not impaired		
Cash on hand	5 503 536	2 991 048
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Correspondent accounts and deposits with other banks with maturities less than one month:		
– OECD banks and their subsidiary banks	41 175 867	4 381 798
– top 30 Russian banks (by net assets) and their subsidiary banks	4 879 940	4 152 803
– other Russian banks	520 669	1 753 087
– other non-resident banks	364	-
Settlement accounts with MICEX, RTS and NCC	3 212 030	102 358
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month		
– top 30 Russian banks (by net assets) and their subsidiary banks	43 530	823 504
– other Russian banks	-	100 106
Total cash and cash equivalents	83 177 384	33 990 183

Geography analysis and interest rate analysis of cash and cash equivalents is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivable

<i>In thousands of Russian Roubles</i>	2008	2007
Trading securities		
Corporate bonds	17 312 961	3 525 374
Municipal bonds	354 721	1 007 708
Federal loan bonds (OFZ)	-	3 080 494
Corporate Eurobonds	-	2 875 834
Promissory notes	-	1 454 768
Corporate shares	-	111 877
Total trading securities	17 667 682	12 056 055
Repurchase receivable		
Municipal bonds	-	98 326

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt securities outstanding at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	16 490 263	-	822 698	17 312 961
Municipal bonds	354 721	-	-	354 721
Total debt trading securities	16 844 984	-	822 698	17 667 682

* or ratings of other analogous rating agencies.

Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	2 272 711	-	1 252 663	3 525 374
Federal loan bonds (OFZ)	3 080 494	-	-	3 080 494
Corporate Eurobonds	1 533 652	1 342 182	-	2 875 834
Promissory notes	796 674	184 471	473 623	1 454 768
Municipal bonds	1 007 708	-	-	1 007 708
Total debt trading securities	8 691 239	1 526 653	1 726 286	11 944 178
Repurchase receivable				
Municipal bonds	98 326	-	-	98 326

* or ratings of other analogous rating agencies.

If a security's rating is unavailable the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from June 2009 to December 2013 (2007: from April 2008 to March 2017), coupon rate from 9.8% to 13.5% p.a. (2007: from 6.7% to 13.5% p.a.) and yield to maturity or to next repricing date from 1.8% to 13.5% p.a. (2007: from 6.8% to 16% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from September 2010 to June 2017 (2007: from May 2008 to June 2015), coupon rate from 6.8% to 8.0% p.a. (2007: 6.8% to 10.0% p.a.) and yield to maturity from 2.0% to 7.3% p.a. (2007: from 6.0% to 7.8% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Geographical and interest rate analyses of trading securities and repurchase receivable are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Note 36.

The Group reclassified the following financial assets from held for trading category during 2008 (Note 5):

<i>In thousands of Russian Roubles</i>	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
<i>Reclassified into held to maturity</i>			
Federal loan bonds (OFZ)	4 140 651	7 825 327	5.7 - 7.3
Municipal bonds	1 200 928	1 697 637	7.1 - 9.2
Corporate bonds	979 905	1 410 745	6.7 - 10.1
Corporate Eurobonds	792 917	1 299 959	7.0 - 8.8
<i>Reclassified into available for sale</i>			
Municipal bonds	53 506	56 372	7.0
Corporate bonds	2 792 246	3 867 730	7.3 - 15.4
Corporate Eurobonds	1 958 563	2 918 227	6.2 - 11.6
Corporate shares	12 210	12 210	-
Total	11 930 926	19 088 207	

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The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

At 31 December 2008, the carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

<i>In thousands of Russian Roubles</i>	Carrying value	Fair value
<i>Reclassified into held to maturity</i>		
Federal loan bonds (OFZ)	4 126 378	3 590 218
Municipal bonds	1 201 081	914 428
Corporate bonds	982 200	805 639
Corporate Eurobonds	994 846	688 143
<i>Reclassified into available for sale</i>		
Municipal bonds	51 024	51 024
Corporate bonds	2 180 572	2 180 572
Corporate Eurobonds	1 351 836	1 351 836
Corporate shares	5 025	5 025
Total	10 892 962	9 586 885

The fair value gain or loss on these financial assets recognised in profit or loss up to the date of reclassification, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

<i>In thousands of Russian Roubles</i>	The fair value gain/(loss) recognised up to the date of reclassification		Income recognised after reclassification		Losses that would have been recognised if the assets had not been reclassified
	2007	6 months 2008	Interest income	foreign exchange gains less losses	
<i>Reclassified into held to maturity</i>					
Federal loan bonds (OFZ)	158 394	(114 205)	150 117	-	(536 160)
Municipal bonds	36 546	(27 830)	50 829	-	(286 653)
Corporate bonds	47 090	(33 156)	38 411	-	(176 561)
Corporate Eurobonds	(18 343)	(23 444)	34 803	207 994	(306 703)
<i>Reclassified into available for sale</i>					
Municipal bonds	-	(889)	2 818	-	(2 515)
Corporate bonds	(8 987)	(9 343)	142 366	-	(483 727)
Corporate Eurobonds	(100 258)	12 729	92 028	505 926	(1 119 127)
Corporate shares	(1 812)	(6 447)	-	-	(7 185)
Total	112 630	(202 585)	511 372	713 920	(2 918 631)

9 Other Securities at Fair Value Through Profit or Loss

<i>In thousands of Russian Roubles</i>	2008	2007
Other securities at fair value through profit or loss		
Credit Linked Notes	4 438 652	-
Total other securities at fair value through profit or loss	4 438 652	-

International credit rankings of issuers of the above notes were not less than BB- as at 31 December 2008.

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because key management personnel assess performance of the investments based on their fair values in accordance with a documented strategy.

In April 2008, the Group purchased a 3 times Leveraged Credit Linked Note (CLN) from one OECD bank in the nominal amount of USD 167 000 thousand with maturity on 3 April 2013 and semi-annual coupon at the rate of LIBOR + 6.4% p.a. The Note has two embedded derivatives – put/call option at 3 April 2011 and Credit Default Swap (CDS) linked to another Russian state-owned bank. At the same time the Bank obtained a loan from the issuer of this CLN in the total amount of USD 500 000 thousand. In accordance with the respective agreement, the Issuer has the option to accelerate the Note in full as the result of a trigger event occurring on or prior to the maturity date. The trigger event is described as an event when CDS spread on the above state-owned bank becomes greater than specified rates, and in such case the Group has an option to place a surety deposit with this OECD bank. To prevent the occurrence of early redemption of the Note, the Group placed deposits with an OECD bank in the total amount of USD 334 000 thousand in three tranches in September-October 2008; they mature in April 2011 and pay a daily coupon rate equal to the Overnight Deposit Rate published by Federal Reserve System. The Group will have an option to withdraw the deposit with accrued interest at the maturity date or at any date when the CDS spread on the reference state-owned bank is less than the specified rates. In February 2009 the counterparties unwound this instrument with no significant gain or loss.

In May 2008, the Group purchased a Credit Linked Note from another OECD bank in the nominal amount of RR 2 500 000 thousand at the net price of 19.5% of nominal amount with maturity on 30 May 2023 and zero coupon. The Note has an embedded CDS linked to the Bank.

Geography analysis and interest rate analysis of other securities at fair value through profit or loss is disclosed in Note 30.

10 Due from Other Banks

<i>In thousands of Russian Roubles</i>	2008	2007
Current term placements with other banks	96 879 909	1 627 975
Total due from other banks	96 879 909	1 627 975

In 2008 no provision for impairment of due from other banks was created (2007: nil).

Analysis by credit quality of amounts due from other banks is as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Current and not impaired		
OECD banks and their subsidiary banks	74 406 732	173 413
Top 30 Russian banks (by net assets) and their subsidiary banks	14 843 631	150 596
Other Russian banks	4 568 964	958 859
Other non-resident banks	3 060 582	345 107
Total current and not impaired	96 879 909	1 627 975

Analysis of amounts due from other banks by collateral is as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Unsecured interbank loans	71 274 943	1 151 398
Interbank loans collateralised by:		
- guarantee deposits	23 687 131	-
- other assets	1 917 835	303 164
- securities	-	173 413
Total due from other banks	96 879 909	1 627 975

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As at 31 December 2008 the Group has placements with three foreign and one Russian banks with aggregated balances of RR 77 622 828 thousand, or 80% of total due from other banks (2007: three Russian banks with aggregated amount of RR 901 845 thousand, or 55% of total due from other banks).

For the estimated fair value of due from other banks refer to Note 33.

Geographical and interest rate analyses of due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

11 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	2008	2007
Loans to legal entities		
- Loans to corporates	398 546 191	247 233 851
- Lending for food interventions	10 442 420	3 189 928
- Investments in agricultural cooperatives	702 110	663 912
- Deals with securities purchased under "reverse-repo agreements"	621 824	2 466 091
Loans to individuals	58 545 109	45 130 912
Total loans and advances to customers (before impairment)	468 857 654	298 684 694
Less: Provision for loan impairment	(16 556 987)	(7 101 557)
Total loans and advances to customers	452 300 667	291 583 137

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate from 1/2 to 2/3 of the rate of refinancing of the Bank of Russia of the contributions made. The Group's management has an intention to make cooperative member contributions for the period of 5 to 8 years and at the end to withdraw its contributions.

At 31 December 2008, loans and advances to customers of RR 621 824 thousand (2007: RR 2 466 091 thousand) are effectively collateralised by securities purchased under reverse repo agreements with a fair value of RR 815 787 thousand (2007: RR 2 832 727 thousand). The Group has the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

<i>In thousands of Russian Roubles</i>	2008				2007		
	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	Loans to corporates	Loans to individuals	Total
Provision for loan impairment at 1 January	6 525 072	-	576 485	7 101 557	3 861 793	195 723	4 057 516
Provision for loan impairment during the year	8 763 578	19 647	712 123	9 495 348	2 732 234	380 762	3 112 996
Loans and advances to customers written off during the year as uncollectible	(39 918)	-	-	(39 918)	(68 955)	-	(68 955)
Provision for loan impairment at 31 December	15 248 732	19 647	1 288 608	16 556 987	6 525 072	576 485	7 101 557

In 2008 no provision for “Lending for food interventions” and “Reverse repo agreements” was created (2007: nil).

The economic sector structure of the credit portfolio is as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Amount	%	Amount	%
Agriculture	281 419 132	60	178 741 880	60
Manufacturing	72 123 847	15	39 079 200	13
Individuals	58 545 109	13	45 130 912	15
Trading	32 158 604	7	20 449 398	7
Construction	14 819 092	3	6 177 875	2
Other	9 791 870	2	9 105 429	3
Total loans and advances to customers (before impairment)	468 857 654	100	298 684 694	100

As at 31 December 2008 included in gross amount of loans are loans in the amount of RR 292 910 376 thousand (2007: RR 193 523 446 thousand), where borrowers are eligible for interest subsidies from Federal and regional budgets. Subsidies are paid directly to the borrowers.

As at 31 December 2008, the aggregate amount of loans to individuals included loans in the amount of RR 43 811 536 thousand issued to individuals — sole farmers (2007: RR 35 300 549 thousand).

For the estimated fair value of loans and advances to customers refer to the Note 33.

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of the borrower’s activities taking into account its financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower’s financial position the Group applies a system of coefficients according to which the borrower’s financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the effective Methodology of financial assets impairment evaluation the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category “*collectively assessed for impairment*”.

As a *loss event* the Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

for loans issued to legal entities (including individual entrepreneurs – sole farmers):

- significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the Methodology of evaluation and analysis of the Group’s borrower financial position taking into consideration their industry, organisational and legal specifics);
- violation of contract – principle or interest overdue by more than 5 days;

for loans issued to individuals:

- significant financial difficulty of the borrower – changes in the scoring of the borrower’s financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual’s deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
- violation of contract – principle or interest overdue by more than 30 days.

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As a *default* of a borrower/debtor the Group recognises objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

for legal entities (including individual entrepreneurs – sole farmers):

- the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
- the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
- the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
- the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
- the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
- loans overdue by over 365 days;

for individuals:

- death of the debtor in the absence of heirs and inheritance;
- the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
-good financial position	-	10 442 420	621 824	-	-	11 064 244
Total current and not impaired	-	10 442 420	621 824	-	-	11 064 244
2. Collectively assessed for impairment						
Current						
-good financial position	183 772 483	-	-	702 110	-	184 474 593
-average financial position	132 823 107	-	-	-	-	132 823 107
-included in portfolios of similar risk loans	40 558 851	-	-	-	56 667 454	97 226 305
-loans whose terms were renegotiated	5 519 688	-	-	-	737 625	6 257 313
Overdue						
-overdue by: less than 6 days for legal entities, less than 31 days for individuals	1 148 464	-	-	-	433 964	1 582 428
Total collectively assessed for impairment	363 822 593	-	-	702 110	57 839 043	422 363 746
3. Individually assessed for impairment						
-watch list	16 483 829	-	-	-	-	16 483 829
-poor financial position	1 960 528	-	-	-	-	1 960 528
-6 to 30 days overdue	1 412 671	-	-	-	-	1 412 671
-31 to 90 days overdue	4 543 246	-	-	-	194 242	4 737 488
-91 to 180 days overdue	3 639 426	-	-	-	159 337	3 798 763
-181 to 365 days overdue	3 799 608	-	-	-	240 780	4 040 388
-over 365 days overdue	2 884 290	-	-	-	111 707	2 995 997
Total individually assessed for impairment	34 723 598	-	-	-	706 066	35 429 664
Total loans and advances to customers (before impairment)	398 546 191	10 442 420	621 824	702 110	58 545 109	468 857 654
Provision for loan impairment	(15 248 732)	-	-	(19 647)	(1 288 608)	(16 556 987)
Total loans and advances to customers	383 297 459	10 442 420	621 824	682 463	57 256 501	452 300 667

Loans included in the watch list are in the process of restructuring and renegotiation.

Analysis of loans by credit quality at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	3 189 928	2 466 091	663 912	-	6 319 931
Total current and not impaired	-	3 189 928	2 466 091	663 912	-	6 319 931
2. Collectively assessed for impairment						
Current						
- good financial position	132 538 538	-	-	-	-	132 538 538
- average financial position	81 562 811	-	-	-	-	81 562 811
- included in portfolios of similar risk loans	25 783 619	-	-	-	44 158 347	69 941 966
- loans whose terms were renegotiated	1 469 860	-	-	-	397 832	1 867 692
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	493 930	-	-	-	99 531	593 461
Total collectively assessed for impairment	241 848 758	-	-	-	44 655 710	286 504 468
3. Individually assessed for impairment						
- poor financial position	1 458 730	-	-	-	-	1 458 730
- 6 to 30 days overdue	176 845	-	-	-	-	176 845
- 31 to 90 days overdue	1 053 547	-	-	-	147 758	1 201 305
- 91 to 180 days overdue	1 135 315	-	-	-	164 710	1 300 025
- 181 to 365 days overdue	732 473	-	-	-	95 965	828 438
- over 365 days overdue	828 183	-	-	-	66 769	894 952
Total individually assessed for impairment	5 385 093	-	-	-	475 202	5 860 295
Total loans and advances to customers (before impairment)	247 233 851	3 189 928	2 466 091	663 912	45 130 912	298 684 694
Provision for loan impairment	(6 525 072)	-	-	-	(576 485)	(7 101 557)
Total loans and advances to customers	240 708 779	3 189 928	2 466 091	663 912	44 554 427	291 583 137

<i>In thousands of Russian Roubles</i>	2008	2007
Current loans	444 032 606	291 821 976
Loans whose terms were renegotiated	6 257 313	1 867 692
Overdue loans	18 567 735	4 995 026
Provision for loan impairment	(16 556 987)	(7 101 557)
Total	452 300 667	291 583 137

Overdue loans represent not only past due payments but also outstanding balance of such loans.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated.

Loans collateral

The Group uses various types of collateral, including mortgage, warranty, banking guarantee, government guarantees of a Russian Federation and municipal guarantees.

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights.

Banking guarantee, warranty and other means provided for by the contract or the law may be used as additional collateral.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights perfection by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management;
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) relates to the following types: real estate – 37% (2007: 32%), equipment — 21% (2007: 24%) and goods in turnover – 17% (2007: 17%).

According to the Group's internal policy documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts;
- for individuals – overdrafts and loans issued within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs “Consumer loans”; “Loans to the sole farmers”, “Reliable Customer”.

The Group has developed internal methodology, on the basis of which fair value of collateral should be determined. The value of collateral presented below was calculated based on this methodology:

<i>In thousands of Russian Roubles</i>	2008	2007
Collateral in respect of loans to corporate customers individually assessed for impairment		
- real estate	16 955 737	2 102 964
- equipment	12 639 674	2 189 122
- goods in turnover	10 520 748	818 389
- motor vehicles	3 211 240	963 083
- farm animals, poultry	2 439 744	454 832
- future crop	1 958 164	233 272
- other assets	214 126	99 310
Total value of collateral in respect of loans to corporate customers individually assessed for impairment	47 939 433	6 860 972

Loans to individuals individually assessed for impairment are secured with various types of collateral with value determined based on the Group's internal methodology of RR 353 687 thousand (2007: RR 248 835 thousand) as well as by guarantees of third parties with nominal value of RR 2 400 348 thousand (2007: RR 667 353 thousand).

Actual realization cost of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed above.

Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

12 Investment Securities Available for Sale

<i>In thousands of Russian Roubles</i>	2008	2007
Corporate bonds	3 042 899	-
Corporate Eurobonds	1 547 690	155 220
Municipal bonds	146 134	-
State Eurobonds	51 442	-
Corporate shares	5 025	-
Municipal Eurobonds	-	1 001 500
Total investment securities available for sale	4 793 190	1 156 720

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	1 543 307	365 727	1 133 865	3 042 899
Corporate Eurobonds	1 172 929	374 761	-	1 547 690
Municipal bonds	95 110	51 024	-	146 134
State Eurobonds	51 442	-	-	51 442
Total debt investment securities available for sale	2 862 788	791 512	1 133 865	4 788 165

* or ratings of other analogous rating agencies.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Municipal Eurobonds	1 001 500	-	-	1 001 500
Corporate Eurobonds	155 220	-	-	155 220
Total debt investment securities available for sale	1 156 720	-	-	1 156 720

* or ratings of other analogous rating agencies.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from February 2009 to March 2017, annual coupon rate from 7.2% to 15% and yield to maturity from 7.6% to 32.9% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in USD, issued by major Russian companies. As at 31 December 2008 these bonds have maturity dates from August 2009 to February 2017 (2007: from April 2014 to August 2037), annual coupon rate from 7.5% to 10.9% (2007: from 7.3% to 9.3%), payable semi-annually, and yield to maturity from 15.0% to 39.4% p.a. (2007: from 7.3% to 8.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities through the vehicle companies. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from April

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2009 to June 2012, annual coupon rate from 9.8% to 11% and yield to maturity from 8.8% to 17.9% p.a., depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian bonds denominated in USD. As at 31 December 2008 these bonds have maturity date in March 2010, annual coupon rate 7.5%, payable semi-annually, and yield to maturity 10.1% p.a.

The movements in investment securities available for sale are as follows:

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Carrying amount at 1 January		1 156 720	-
Purchases		1 548 861	1 156 725
Additions as the result of reclassification		4 816 525	-
Disposal as the result of reclassification		(221 524)	-
Fair value gains less losses		(1 881 224)	(2 182)
Realised revaluation reserve		2 882	-
Interest income accrued	24	357 519	1 635
Interest income received		(280 673)	-
Proceeds from disposal		(1 269 957)	-
Exchange differences gains less losses relating to securities		564 061	542
Carrying amount at 31 December		4 793 190	1 156 720

Geographical and Interest rate analysis of investment securities available for sale is disclosed in Note 30. Information on related party debt investment securities available for sale is disclosed in Note 36.

The Group reclassified the following financial assets from the available-for-sale category during 2008 (Note 5):

<i>In thousands of Russian Roubles</i>	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
<i>Reclassified into held to maturity</i>			
Corporate Eurobonds	221 524	738 896	8.2
Total	221 524	738 896	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices, which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

At 31 December 2008, the carrying amounts and fair values of financial assets that have been reclassified to investment securities available for sale and which were not yet sold or otherwise derecognised, were as follows:

<i>In thousands of Russian Roubles</i>	Carrying value	Fair value
<i>Reclassified into held to maturity</i>		
Corporate Eurobonds	277 640	184 048
Total	277 640	184 048

The fair value gain or loss on these financial assets up to the date of reclassification, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

In thousands of Russian Roubles	The fair value loss recognised up to the date of reclassification		Income recognised after reclassification		Losses that would have been recognised if the assets had not been reclassified
	2007	6 months 2008	Interest income	foreign exchange gains less losses	
<i>Reclassified into held to maturity</i>					
Corporate Eurobonds	-	(17 035)	10 429	59 053	(93 592)
Total	-	(17 035)	10 429	59 053	(93 592)

13 Investment Securities Held to Maturity

<i>In thousands of Russian Roubles</i>	2008	2007
Federal Loan bonds (OFZ)	4 126 378	-
Promissory notes	1 929 619	5 495 475
Corporate Eurobonds	1 537 973	-
Corporate bonds	1 350 847	-
Municipal bonds	1 261 711	-
Total investment securities held to maturity	10 206 528	5 495 475

Analysis by credit quality of investment securities held to maturity at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal Loan bonds (OFZ)	4 126 378	-	-	4 126 378
Promissory notes	124 831	1 763 651	41 137	1 929 619
Corporate Eurobonds	1 537 973	-	-	1 537 973
Corporate bonds	1 350 847	-	-	1 350 847
Municipal bonds	1 261 711	-	-	1 261 711
Total investment securities held to maturity	8 401 740	1 763 651	41 137	10 206 528

* or ratings of other analogous rating agencies.

Analysis by credit quality of investment securities held to maturity at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Promissory notes	981 079	3 334 127	1 180 269	5 495 475

* or ratings of other analogous rating agencies.

If a security's rating is unavailable the issuer's rating is used.

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The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have impaired securities held to maturity, no provisions for impairment of these securities were established.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. These OFZ have maturity dates from May 2010 to February 2036, annual coupon rate from 5.8% to 10.0%, payable quarterly or semi-annually, and yield to maturity from 6.9% to 11.4% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from January to August 2009 (2007: from January to December 2008). As at 31 December 2008 yield to maturity ranges from 9.5% to 25.4% p.a. (2007: from 7.0% to 11.1% p.a.).

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2008 these bonds have maturity dates from May 2010 to August 2037, annual coupon rate 6.7% to 9.6%, payable semi-annually, and yield to maturity from 12.3% to 20.8% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from January 2009 to September 2020, annual coupon rate from 6.7% to 8.5% and yield to maturity from 5.8% to 20.8% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by denominated in Russian Roubles bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2008 these bonds have maturity dates from December 2010 to December 2015, annual coupon rate from 7.0% to 9.0% and yield to maturity from 8.8% to 26.7% p.a., depending on the type of the bond issue, the issuer and the market conditions.

For the estimated fair value of securities held to maturity refer to Note 33.

Geographical and interest rate analyses of securities held to maturity are disclosed in Note 30.

14 Premises, Equipment and Intangible Assets

	Note	Premises	Leasehold (premises) improvements	Office and computer equipment	Land	Total premises and equipment	Intangible assets	Total
<i>In thousands of Russian Roubles</i>								
Cost at 1 January 2007		1 049 910	572 513	1 068 849	701	2 691 973	287 177	2 979 150
Accumulated depreciation		(19 070)	(14 801)	(238 732)	-	(272 603)	(117 080)	(389 683)
Carrying amount at 1 January 2007		1 030 840	557 712	830 117	701	2 419 370	170 097	2 589 467
Additions		1 832 282	588 327	965 703	199 233	3 585 545	238 992	3 824 537
Disposals		-	(4 109)	(3 514)	-	(7 623)	-	(7 623)
Depreciation charge	26	(36 594)	(15 500)	(219 773)	-	(271 867)	(61 736)	(333 603)
Changes in value resulting from revaluation		1 270 012	-	-	-	1 270 012	-	1 270 012
Changes in depreciation resulting from revaluation		(71 129)	-	-	-	(71 129)	-	(71 129)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661
Cost at 31 December 2007		4 152 204	1 156 311	2 016 772	199 934	7 525 221	526 169	8 051 390
Accumulated depreciation		(126 793)	(29 881)	(444 239)	-	(600 913)	(178 816)	(779 729)
Carrying amount at 31 December 2007		4 025 411	1 126 430	1 572 533	199 934	6 924 308	347 353	7 271 661
Additions		1 512 829	286 899	1 227 361	37 373	3 064 462	513 541	3 578 003
Disposals		-	(17 117)	(10 415)	-	(27 532)	-	(27 532)
Depreciation charge: before revaluation	26	(72 904)	(132 039)	(356 794)	-	(561 737)	(120 074)	(681 811)
Depreciation charge: realised revaluation reserve	26	(32 854)	-	-	-	(32 854)	-	(32 854)
Changes in value resulting from revaluation		(454 641)	-	-	-	(454 641)	-	(454 641)
Changes in depreciation resulting from revaluation		20 391	-	-	-	20 391	-	20 391
Carrying amount at 31 December 2008		4 998 232	1 264 173	2 432 685	237 307	8 932 397	740 820	9 673 217
Cost at 31 December 2008		5 210 392	1 423 259	3 212 573	237 307	10 083 531	1 039 710	11 123 241
Accumulated depreciation		(212 160)	(159 086)	(779 888)	-	(1 151 134)	(298 890)	(1 450 024)
Carrying amount at 31 December 2008		4 998 232	1 264 173	2 432 685	237 307	8 932 397	740 820	9 673 217

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of premises at 31 December 2008 was RR 676 080 thousand (2007: RR 350 386 thousand).

Carrying amount of premises without revaluation at 31 December 2008 is RR 4 266 453 thousand (2007: RR 2 826 528 thousand), including cost in amount of RR 4 395 021 thousand (2007: RR 2 882 192 thousand) and accumulated depreciation of RR 128 568 thousand (2007: RR 55 664 thousand). Premises were independently valued as at 31 December 2008. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, who hold a relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Office and computer equipment include equipment under finance lease. Carrying amount of these equipment at 31 December 2008 is RR 5 572 thousand, including cost in the amount of RR 6 749 thousand and accumulated depreciation in the amount of RR 1 177 thousand (2007: nil).

15 Other Assets

<i>In thousands of Russian Roubles</i>	2008	2007
Non-financial assets		
Reposessed collateral	1 009 988	-
Prepayment for services	455 042	276 796
Inventory	347 832	-
Rent prepayment	54 127	42 707
Prepaid taxes	33 453	7 194
Financial assets		
Settlements on funds transfer operations	33 772	47 560
Other	161 949	46 400
Provision for impairment of other financial assets	(50 704)	(16 094)
Total other assets	2 045 459	404 563

Reposessed collateral consists mainly of the production premises and the land.

Movements in the provision for impairment of other financial assets are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Provision for impairment of other financial assets at 1 January	16 094	8 113
Provision for impairment of other financial assets during the year	36 140	7 981
Other financial assets written off during the year as uncollectible	(1 530)	-
Provision for impairment of other financial assets at 31 December	50 704	16 094

For the estimated fair value of other financial assets refer to the Note 33.

Geographical analysis of other assets is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

16 Due to Other Banks

<i>In thousands of Russian Roubles</i>	2008	2007
Term borrowings from other banks	137 256 028	61 150 114
Term borrowings from CBRF	105 827 199	-
Correspondent accounts and overnight placements of other banks	18 618	66 687
Sale and repurchase agreements	-	86 028
Total due to other banks	243 101 845	61 302 829

As at 31 December 2008 the Group had balances due to two foreign banks with aggregated amount of RR 48 877 102 thousand, or 20% of total due to other banks (2007: due to four foreign banks with aggregated amount of RR 42 381 414 thousand, or 69% of total due to other banks).

For the estimated fair value of due to other banks refer to the Note 33. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

17 Customer Accounts

<i>In thousands of Russian Roubles</i>	2008	2007
State and public organisations		
- Current/settlement accounts	5 069 326	5 944 482
- Term deposits	29 876 987	612 574
Other legal entities		
- Current/settlement accounts	32 568 197	28 712 038
- Term deposits	36 561 987	34 339 386
- Sale and repurchase agreements with securities	23 317	-
Individuals		
- Current/demand accounts	7 360 635	4 101 043
- Term deposits	43 034 558	22 248 191
Total customer accounts	154 495 007	95 957 714

State and public organisations exclude state-owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Amount	%	Amount	%
Individuals	50 395 193	33	26 349 234	27
State and public organisations	34 946 313	23	6 557 056	7
Financial services and pension security	19 430 250	12	4 715 363	5
Construction	12 582 956	8	11 825 755	12
Insurance	12 132 537	8	9 180 334	10
Agriculture	11 291 366	7	8 327 735	9
Trading	5 625 194	4	4 303 028	5
Manufacturing	3 965 189	3	19 159 207	20
Leasing	741 981	-	3 295 912	3
Real estate	470 515	-	257 026	-
Other	2 913 513	2	1 987 064	2
Total customer accounts	154 495 007	100	95 957 714	100

As at 31 December 2008, the Group had two customers with balances above RR 6 800 000 thousand (2007: one customer with balances above RR 3 400 000 thousand). The aggregate balance of these customers was RR 36 094 883 thousand, or 23% of total customer accounts (2007: RR 13 552 721 thousand, or 14% of total customer accounts).

For the estimated fair value of customer accounts refer to Note 33.

Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

18 Promissory Notes Issued

<i>In thousands of Russian Roubles</i>	2008	2007
Promissory notes issued	9 845 488	32 361 154
Total promissory notes issued	9 845 488	32 361 154

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 12% p.a. and maturity dates from January 2009 to November 2018 (2007: promissory notes denominated Russian roubles, US Dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 10% p.a. and maturity dates from January 2008 to September 2014).

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As at 31 December 2008, promissory notes issued, which were initially purchased by four counterparties, amounted RR 9 317 572 thousand or 95% of total promissory notes issued by the Group (2007: four counterparties initially purchased promissory notes of RR 30 938 318 thousand or 96% of total promissory notes issued by the Group).

For the estimated fair value of promissory notes issued refer to Note 33.

Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 30.

19 Other Borrowed Funds

<i>In thousands of Russian Roubles</i>	2008	2007
Eurobonds issued	132 239 264	64 994 398
Bonds issued on domestic market	43 675 019	30 294 247
Total other borrowed funds	175 914 283	95 288 645

As at 31 December 2008, the Group's other borrowed funds included Eurobonds denominated in US dollars and Swiss francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	349 500	29 November 2005	29 November 2010	-	6.875%	6 months	13.69%
US Dollars	694 500	16 May 2006	16 May 2013	-	7.175%	6 months	16.83%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	23.33%
US Dollars	1 225 000	14 May 2007	15 May 2017	-	6.299%	6 months	15.25%
Swiss Francs	150 000	30 April 2008	30 April 2012	-	6.263%	1 year	19.76%
US Dollars			14 January 2014				
• tranche A	747 200	29 May 2008	29 May 2018	-	7.125%	6 months	18.11%
• tranche B	932 729	29 May 2008	29 May 2018	-	7.750%	6 months	15.72%
Bonds issued in domestic market							
Russian Roubles		22 February 2006	16 February 2011	-	7.850%	3 months	8.39%
Russian Roubles	7 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	14.70%
Russian Roubles	10 000 000	10 October 2007	27 September 2017	9 October 2009	9.750%	6 months	7.78%
Russian Roubles	6 201 117	22 February 2008	9 February 2018	24 February 2009	8.750%	6 months	9.92%
Russian Roubles	5 000 000	17 June 2008	5 June 2018	18 June 2009	8.300%	6 months	12.07%
Russian Roubles	5 000 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%

In November — December 2008, the Group bought back from the market and redeemed before maturity date Eurobonds issued through its special purpose vehicle, RSHB Capital S.A., in the total amount of USD 101 071 thousand with maturity in 2010, 2013, 2014, 2017 and 2018. As a result the Group recognized a gain from early redemption of own bonds in the total amount of RR 1 047 140 thousand.

As at 31 December 2007 other borrowed funds comprise the following issues:

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/next repricing date
Eurobonds issued							
US Dollars	350 000	29 November 2005	29 November 2010	-	6.875%	6 months	6.2%
US Dollars	700 000	16 May 2006	16 May 2013	-	7.175%	6 months	6.6%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	4.1%
US Dollars	1 250 000	14 May 2007	15 May 2017	-	6.299%	6 months	7.0%
Bonds issued on domestic markets							
Russian Roubles	3 000 000	8 December 2004	4 June 2008	-	7.200%	3 months	8.1%
Russian Roubles	7 000 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.1%
Russian Roubles	10 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	8.0%
Russian Roubles	10 000 000	10 October 2007	27 September 2017	10 October 2008	8.200%	6 months	8.5%

For the estimated fair value of other borrowed funds refer to Note 33.

Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

20 Syndicated Loans

At 31 December 2008, syndicated loans attracted by the Group totalled RR 10 531 712 thousand (2007: RR 15 572 209 thousand).

In October 2006 the Group attracted a syndicated loan in Euro from ten OECD banks with the total amount of Euro 75 000 thousand with maturity in October 2009 and current effective interest rate 3MEURIBOR + 1.15% p.a.

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 000 thousand, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B). In October 2008 Group redeemed at a stated time the first tranche (tranche A) of syndicated loan in total amount of USD 270 000 thousand.

For the estimated fair value of syndicated loans refer to Note 33.

Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 30.

21 Other Liabilities

<i>In thousands of Russian Roubles</i>	2008	2007
Non-financial liabilities		
Accrued staff costs	571 672	409 708
Taxes payable other than on income	116 392	66 559
Other	196 674	104 656
Financial liabilities		
Fair value of sureties issued	219 521	-
Other	1 513	-
Total other liabilities	1 105 772	580 923

Geographical analysis of other liabilities is disclosed in Note 30.

22 Subordinated Debts

As at 31 December 2008, the Group's subordinated debts totalled RR 45 539 944 thousand (2007: RR 17 320 463 thousand).

In September 2006, the Group attracted a subordinated debt totalling USD 500 000 thousand in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2007: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 33.64% p.a. (2007: 7.4% p.a.). The Group has an option to terminate this subordinated debt in the last five years before its maturity date. In November 2008 the Bank buy-back from the market subordinated eurobonds issued by RSHB Capital S.A. in the total amount of RR 185 568 thousand. These subordinated eurobonds were netted in these consolidated financial statements.

In June 2007, the Group attracted a subordinated debt totalling USD 200 000 thousand maturing in June 2017. The Group has an option to terminate in advance subordinated debt in last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 000 thousand with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law N°173-FZ "About supplementary measures to support financial system of the Russian Federation".

For the estimated fair value of subordinated debts refer to Note 33.

Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

23 Share Capital

The Group's share capital issued and fully paid comprises:

<i>In thousands of Russian Roubles except for number of shares</i>	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2007	20 871	20 871 000	21 620 833
New ordinary shares issued	6 857	6 857 000	6 857 000
At 31 December 2007	27 728	27 728 000	28 477 833
New ordinary shares issued	33 495	33 495 000	33 495 000
At 31 December 2008	61 223	61 223 000	61 972 833

The Group's issued and fully paid authorised share capital comprises 61 223 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each share carries one vote.

In 2008, the Bank increased its share capital by issuing 33 495 ordinary shares with the total nominal amount of RR 33 495 000 thousand. All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Interest income		
Loans and advances to customers	51 674 429	31 143 506
Due from other banks	1 314 465	141 291
Trading securities	908 826	926 393
Cash equivalents	733 634	372 651
Securities held to maturity	715 614	17 750
Other securities at fair value through profit or loss	377 721	-
Securities available for sale	357 519	1 635
Total interest income	56 082 208	32 603 226
Interest expense		
Other borrowed funds	(9 320 435)	(4 980 493)
Term deposits of other banks	(8 311 585)	(3 193 049)
Term deposits of legal entities	(3 576 964)	(1 136 670)
Term deposits of individuals	(3 158 825)	(1 335 437)
Promissory notes issued	(1 737 854)	(3 122 920)
Subordinated debts	(1 543 866)	(1 089 398)
Term deposits of CB RF	(1 158 448)	-
Syndicated loans	(665 991)	(697 654)
Current/settlement accounts	(45 595)	(17 840)
Other	-	(482)
Total interest expense	(29 519 563)	(15 573 943)
Net interest income	26 562 645	17 029 283

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in the total amount of RR 3 093 155 thousand (2007: RR 565 857 thousand).

25 Fee and Commission Income and Expense

<i>In thousands of Russian Roubles</i>	2008	2007
Fee and commission income		
Commission on cash transactions	1 724 122	738 069
Commission on settlement transactions	278 402	289 529
Agency fees for debt collection and currency control	78 903	98 757
Other	152 225	9 832
Total fee and commission income	2 233 652	1 136 187
Fee and commission expense		
Commission on cash collection	(138 010)	(59 639)
Commission on settlement transactions	(36 178)	(39 389)
Commission on guarantees received	(11 514)	-
Other	(27 585)	(2 975)
Total fee and commission expense	(213 287)	(102 003)
Net fee and commission income	2 020 365	1 034 184

26 Administrative and Other Operating Expenses

<i>In thousands of Russian Roubles</i>	Note	2008	2007
Staff costs		10 382 222	6 961 850
Rental expenses		1 350 674	796 816
Other costs of premises and equipment		737 625	566 386
Taxes other than on income		620 212	388 532
Depreciation of premises and equipment	14	594 591	271 867
Security services		474 060	299 151
Loss on revaluation of fixed assets (premises)		458 446	-
Supplies and other materials		275 211	237 993
Communications		234 588	207 332
Advertising and marketing services		222 844	157 849
Amortization of intangible assets	14	120 074	61 736
Expenses relating to participation in the national project		-	7 301
Other		788 243	636 536
Total administrative and other operating expenses		16 258 790	10 593 349

Included in staff costs are statutory social security and pension contributions of RR 1 668 244 thousand (2007: RR 1 001 796 thousand), and also contributions to a non-state pension fund in the amount of RR 160 291 thousand (2007: RR 62 056 thousand).

27 Income Taxes

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	2008	2007
Current tax	995 365	904 524
Deferred tax	286 542	584 429
Income tax expense for the year	1 281 907	1 488 953

The income tax rate applicable to the majority of the Group's income is 24% (2007: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Russian Roubles</i>	2008	2007
IFRS profit before tax	3 335 253	5 842 780
Theoretical tax charge at statutory rate (2008:24%; 2007: 24%)	800 461	1 402 267
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible interest expenses	372 751	1 335
- Non deductible staff costs	114 640	28 448
- Non deductible charity costs	5 129	22 522
- Other non deductible expenses	163 098	53 430
- Other non-temporary differences	-	1 202
- Income on government securities taxed at different rates	(35 013)	(20 251)
Impact of change in tax rate to 20% effective from 1 January 2009	(139 159)	-
Income tax expense for the year	1 281 907	1 488 953

The Group has not recorded a deferred tax liability in respect of temporary differences of RR 4 591 thousand (2007: RR 20 379 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and for calculation of profit tax. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%), except for income on government securities that is taxed at 15% (2007: 15%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

<i>In thousands of Russian Roubles</i>	31 December 2007	(Charged)/ credited to profit or loss	(Charged)/ credited directly to equity	31 December 2008
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(730 842)	(713 653)	-	(1 444 495)
Premises and equipment	(457 451)	(748)	43 117	(415 082)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(165 289)	(24 651)	-	(189 940)
Accruals on due to other banks	(30 326)	(27 354)	-	(57 680)
Intangible assets	(34 077)	(6 667)	-	(40 744)
Promissory notes issued	(5 167)	3 545	-	(1 622)
Accruals on loans	168 763	353 662	-	522 425
Provision for loan impairment	347 075	161 906	-	508 981
Fair valuation of securities	88 101	(200 091)	375 581	263 591
Accrued staff costs	93 969	24 042	-	118 011
Fair value of guaranties issued	-	43 904	-	43 904
Other	38 365	99 563	-	137 928
Net deferred income tax asset/(liability)	(686 879)	(286 542)	418 698	(554 723)
Recognised deferred income tax asset	5 815	8 597	-	14 412
Recognised deferred income tax liability	(692 694)	(295 139)	418 698	(569 135)
Net deferred income tax asset/(liability)	(686 879)	(286 542)	418 698	(554 723)

<i>In thousands of Russian Roubles</i>	31 December 2006	(Charged)/ credited to profit or loss	(Charged)/ credited directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(83 643)	(647 199)	-	(730 842)
Premises and equipment	(78 647)	(91 072)	(287 732)	(457 451)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(76 082)	(89 207)	-	(165 289)
Intangible assets	(8 961)	(25 116)	-	(34 077)
Accruals on due to other banks	(29 420)	(906)	-	(30 326)
Promissory notes issued	(9 470)	4 303	-	(5 167)
Provision for loan impairment	343 879	3 196	-	347 075
Accruals on loans	58 869	109 894	-	168 763
Accrued staff costs	48 543	45 426	-	93 969
Fair valuation of securities	5 855	81 722	524	88 101
Other	13 835	24 530	-	38 365
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)
Recognised deferred income tax asset	184 758	(178 943)	-	5 815
Recognised deferred income tax liability	-	(405 486)	(287 208)	(692 694)
Net deferred income tax asset/(liability)	184 758	(584 429)	(287 208)	(686 879)

28 Dividends

<i>In thousands of Russian Roubles</i>	Note	2008 Ordinary shares	2007 Ordinary shares
Dividends payable at 1 January		-	-
Dividends declared during the year		178 368	226 450
Dividends paid during the year		(178 368)	(226 450)
Dividends payable at 31 December		-	-
Dividends per share declared during the year	23	6,0	10,8

29 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on the basis of two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, operations on capital markets, foreign currency and derivative products, transactions with securities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set out below:

<i>In thousands of Russian Roubles</i>	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	51 421 043	8 119 926	-	59 540 969
Total revenues	51 421 043	8 119 926	-	59 540 969
Total revenues comprise:				
- Interest income	48 266 252	7 815 956	-	56 082 208
- Fee and commission income	1 930 524	303 128	-	2 233 652
- Gain from early redemption of other borrowed debts and buy-back of subordinated debts	1 122 128	-	-	1 122 128
- Other operating income	102 139	842	-	102 981
Total revenues	51 421 043	8 119 926	-	59 540 969
Total expenses comprise:				
- Interest expense	(26 351 978)	(3 167 585)	-	(29 519 563)
- Fee and commission expense	(213 287)	-	-	(213 287)
- Other administrative and operating expenses	(15 434 333)	(824 457)	-	(16 258 790)
- Provisions	(8 819 365)	(712 123)	-	(9 531 488)
Total expenses	(50 818 963)	(4 704 165)	-	(55 523 128)
Intra-segment results	591 540	(591 540)	-	-
Total expense	(50 227 423)	(5 295 705)	-	(55 523 128)
Segment result	1 193 620	2 824 221	-	4 017 841
Unallocated net losses				(682 588)
Income tax expense				(1 281 907)
Profit for the year			-	2 053 346
Segment assets	655 541 009	57 348 479	-	712 889 488
Current and deferred tax assets	-	-	224 356	224 356
Total assets	655 541 009	57 348 479	224 356	713 113 844
Segment liabilities	594 275 004	50 395 193	-	644 670 197
Current and deferred tax liabilities	-	-	685 527	685 527
Total liabilities	594 275 004	50 395 193	685 527	645 355 724
Other segment items				
Capital expenditure	(3 293 910)	(284 093)	-	(3 578 003)
Depreciation	(657 921)	(56 744)	-	(714 665)

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Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

<i>In thousands of Russian Roubles</i>	Commercial banking	Retail banking	Unallocated funds	Total
External revenues	28 865 212	4 990 384	-	33 855 596
Total revenues	28 865 212	4 990 384	-	33 855 596
Total revenues comprise:				
- Interest income	27 760 364	4 842 862	-	32 603 226
- Fee and commission income	989 246	146 941	-	1 136 187
- Income from the Ministry of Agriculture of the Russian Federation for participation in the national project	8 468	-	-	8 468
- Other operating income	107 134	581	-	107 715
Total revenues	28 865 212	4 990 384	-	33 855 596
Total expenses comprise:				
- Interest expense	(14 238 506)	(1 335 437)	-	(15 573 943)
- Fee and commission expense	(102 003)	-	-	(102 003)
- Other administrative and operating expenses	(9 860 266)	(733 083)	-	(10 593 349)
- Provisions	(2 740 215)	(380 762)	-	(3 120 977)
Total expenses	(26 940 990)	(2 449 282)	-	(29 390 272)
Intrasegment results	1 059 729	(1 059 729)	-	-
Total expense	(25 881 261)	(3 509 011)	-	(29 390 272)
Segment result	2 983 951	1 481 373	-	4 465 324
Unallocated net gains				1 377 456
Income tax expense				(1 488 953)
Profit for the year				4 353 827
Segment assets	311 342 054	45 053 620	-	356 395 674
Current and deferred tax assets	-	-	64 527	64 527
Total assets	311 342 054	45 053 620	64 527	356 460 201
Segment liabilities	295 528 103	26 349 234	-	321 877 337
Current and deferred tax liabilities	-	-	759 253	759 253
Total liabilities	295 528 103	26 349 234	759 253	322 636 590
Other segment items				
Capital expenditure	(3 421 813)	(402 724)	-	(3 824 537)
Depreciation	(298 475)	(35 128)	-	(333 603)

Geographical segments. The Group operates only in the Russian Federation. Substantially all revenues of the Group were received from contracting parties operating in the Russian Federation.

30 Financial Risk Management

The purpose of the Group risk management policy is maintaining of acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, also by separate structural divisions and executives on the basis of their competence.

The responsibility for risk monitoring and evaluation rests with the Department for Risks Evaluation and Monitoring (hereinafter, the DREM) which performs its functions independently from business units. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

In the environment of global economic downturn the Bank takes actions aimed at ensuring stable financial operations and meeting its objectives on provision of loans to agriculture producers and other enterprises and entities of the Agro-Industrial Sector.

In order to mitigate credit risk the Supervisory Board of the Bank restricted the authority of the Management Board in taking independent lending decisions or establishing individual credit risk limits per one borrower or a group of related borrowers and reduced the amount by half by setting it at RR 2 000 000 thousand. Accordingly, from 1 December 2008 the amount authorised by the Credit Committee of the Bank was reduced down to RR 500 000 thousand (inclusive).

The Bank's authorised bodies consider the Bank's performance, approve and adjust anti-crisis actions on regular basis.

The Bank established an Anti-Crisis Committee with the purpose to develop and monitor anti-crisis actions. List of actions aimed at ensuring the Bank's operations in the financial crisis environment was developed and approved of. This document provides for accomplishment of certain tasks in the following areas (and also sets the timeline for actions and determines the responsible persons): improvement of credit portfolio quality, organisation of work with regard to non-performing loans, management of financial result and ensuring availability of resources required for the Bank's operations.

In order to ensure stable operation of the Bank in the environment of developing recession in the finance market the Bank took the following priority steps.

For its lending activities the Bank developed "Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2009", a document which is an addition to the existing Credit Policy of the Bank for 2008-2012. The Bank's lending regulations were amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for Risk assessment and control in the Bank's regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans. In December 2008 the Bank established an Assets Management Department, whose principal objective is to ensure existence of efficient strategy of problem asset management and repayment of overdue loans. Certain steps are taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank implemented a set of anti-crisis actions to ensure liquidity that include establishing a liquidity provision and maintaining it at a level sufficient not only for current liabilities to the customers and partner banks but also for potential liabilities that might arise in the financially unstable environment. The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applies additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allow to timely identify imbalance between the volume of claims and liabilities of the Bank in different time intervals and to promptly notify about the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The requirements to the securities portfolio were tightened. In accordance with the resolution of the Anti-Crisis Committee the procedure of monthly stress-testing was established.

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The Bank takes numerous actions aimed at increase and optimisation its resource base structure. In 2008 it was significantly diversified.

The actions enabled the Bank to ensure its financial stability in the financial crisis environment, to establish a strategic liquidity provision and to prevent termination of Government projects of Agro-Industrial Sector support.

The risks of ZAO Chelyabcomzembank, a subsidiary, are managed in a similar way.

Credit risk. The Group takes on exposure to credit risk, which is the risk that the Group incurs losses as a result of the default, overdue or partial default of the Group's borrowers. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet.

The Bank applies a centralised system for managing credit risk. The credit risk approval competencies in 2008 year are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 000 thousand till 1 December 2008, in excess of RR 2 000 000 thousand after 1 December 2008.
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 000 thousand inclusive till 1 December 2008 and up to RR 2 000 000 thousand inclusive after 1 December 2008.
- The Credit Committee makes credit authorization decisions within the limits provided by the Management Board, including
 - credit operations of up to RR 600 000 thousand inclusive till 22 September 2008 (limits on short-term and long-term (medium-term) loans are considered independently);
 - credit operations of up to RR 1 000 000 thousand inclusive till 1 December 2008 (limits on short-term and long-term (medium-term) loans are considered independently);
 - credit operations of up to the aggregate limit of the credit risk in the amount of RR 500 000 thousand inclusive after 1 December 2008.
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review no less than once a year credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration in one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

When selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in highly effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownership rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements.

In evaluating the Group's market risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's market risk are carried out on the basis of regulatory documents applicable to the Group.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes), developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, assigning credit ratings by international rating agencies and regulators rests with the Department for Evaluation and Monitoring of Liquidity and Market Risks (hereinafter, "the DEMLMR"). The DEMLMR is a division of DREM.

The DEMLMR's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operational Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DEMLMR, jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

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Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DEMLMR monitors limits and reports information on compliance with the set limits to the Bank's management. The DEMLMR also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DEMLMR reviews the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures);
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the Russian Accounting Rules ("RAR") with the assumption of stability of the structure of the Bank's assets and liabilities.

In evaluating the Group's interest risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's interest risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarises the Group's exposure to interest rate risk at 31 December 2008 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	94 931 971	89 230 701	66 652 278	109 237 482	205 838 440	197 309 474	763 200 346
Total interest bearing financial liabilities*	17 581 807	143 343 046	109 939 594	98 773 551	140 555 852	181 943 595	692 137 445
Sensitivity gap on balance sheet items	77 350 164	(54 112 345)	(43 287 316)	10 463 931	65 282 588	15 365 879	71 062 901
Cummulative sensitivity gap on balance sheet items	77 350 164	23 237 819	(20 049 497)	(9 585 566)	55 697 022	71 062 901	

* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

As at 31 December 2008, if interest rates at that date had been 300 basis points lower/higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 15 410 thousand lower/higher.

As at 31 December 2007, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been RR 33 507 thousand higher/lower.

The table below summarises the Group's exposure to interest rate risk at 31 December 2007 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	37 494 369	36 076 191	46 830 534	65 403 808	148 634 377	115 892 893	450 332 172
Total interest bearing financial liabilities*	20 583 774	63 740 523	47 762 291	53 810 837	116 903 036	101 824 839	404 625 300
Sensitivity gap on balance sheet items	16 910 595	(27 664 332)	(931 757)	11 592 971	31 731 341	14 068 054	45 706 872
Cummulative sensitivity gap on balance sheet items	16 910 595	(10 753 737)	(11 685 494)	(92 523)	31 638 818	45 706 872	

* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The Bank's Management Board monitors the level of interest rates on assets and liabilities.

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The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

In % p.a.	2008				2007			
	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents								
- cash balances with the CBRF and settlement accounts with MICEX, RTS and NCC	0	0	-	-	0	-	-	-
- correspondent accounts and deposits with other banks with a maturity of less than one month	19	0	0	0	4	5	0	0
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Trading securities	12	-	-	-	8	8	-	-
Other securities at fair value through profit or loss	11	10	-	-	-	-	-	-
Due from other banks*	23	7	-	-	9	11	4	-
Loans and advances to customers	15	10	10	8	14	9	9	6
Investment securities available for sale	12	8	-	-	9	7	-	-
Investment securities held to maturity	8	7	-	-	9	-	-	-
Liabilities								
Due to other banks	12	8	5	5	8	7	5	-
Customer accounts*	11	6	7	-	9	6	6	-
Promissory notes issued	10	-	5	-	9	8	4	-
Other borrowed funds	10	7	-	5	8	7	-	4
Syndicated loans	-	5	6	-	-	6	6	-
Subordinated debts	8	6	-	-	-	7	-	-

* – disclosed rates on term deposits

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DEMLMR to the Bank’s management and heads of interested units in compliance with the acting internal regulatory documents.

The Bank calculates VAR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

VAR is calculated by two different parametric methods and one historical method and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis.

Although VAR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VAR;
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk. In September 2008 the Group approved the new currency risk assessment methodology that now includes volatility estimation by Generalized Autoregressive Conditional Heteroscedasticity (GARCH) method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall). The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VAR and Expected ShortFall methods.

In the table below VAR shows the absolute amount of losses:

<i>In thousands of Russian Roubles</i>		2008
At the end of the year	Long position	1 539 189
	VAR	11 810
	Expected Shortfall	17 152

A simple statistical method was used to calculate portfolio volatility in 2007, all historical observations had equal weight:

<i>In thousands of Russian Roubles</i>		2007
At the end of the year	Short position	(776 833)
	VAR	2 012

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

In September 2008 the Group approved the new equity risk assessment methodology that now includes volatility estimation by GARCH method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall). The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VAR and Expected ShortFall methods.

The table below shows absolute risk value, whereby positions, balanced by cross obligations (no such obligations as at 31 December 2008) are not taken for the calculation of market risk:

<i>In thousands of Russian Roubles</i>		2008
At the end of the year	Long position	5 010
	VAR	339
	Expected Shortfall	638

As at 31 December 2008 equity securities position is not hedged, however the Group's exposure to equity risk is immaterial due to insignificant volume.

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A simple statistical method was used to calculate portfolio volatility in 2007, all historical observations had equal weight:

<i>In thousands of Russian Roubles</i>		2007
At the end of the year	Long position	111 877
	VAR	2 811

At 31 December 2007 the major part of the position is hedged by the derivative financial instrument on the underlying asset.

Geographical risk concentration. The geographical concentration of the Group's assets and liabilities at 31 December 2008 is set out below:

<i>In thousands of Russian Roubles</i>	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	42 004 790	41 172 229	365	83 177 384
Mandatory cash balances with the CBRF	962 895	-	-	962 895
Trading securities	17 667 682	-	-	17 667 682
Other securities with Fair value through profit or loss	-	4 438 652	-	4 438 652
Derivative financial instruments	-	30 777 358	-	30 777 358
Due from other banks	32 502 966	61 316 361	3 060 582	96 879 909
Loans and advances to customers	452 300 667	-	-	452 300 667
Investment securities available for sale	4 793 190	-	-	4 793 190
Investment securities held to maturity	10 206 528	-	-	10 206 528
Deferred income tax asset	14 412	-	-	14 412
Intangible assets	740 820	-	-	740 820
Premises and equipment	8 932 397	-	-	8 932 397
Current income tax prepayment	176 491	-	-	176 491
Other assets	2 045 011	348	100	2 045 459
Total assets	572 347 849	137 704 948	3 061 047	713 113 844
Liabilities				
Derivative financial instruments	241 107	4 011 431	-	4 252 538
Due to other banks	132 204 042	110 556 571	341 232	243 101 845
Customer accounts	152 614 959	1 880 048	-	154 495 007
Promissory notes issued	9 845 488	-	-	9 845 488
Other borrowed funds	43 675 019	132 239 264	-	175 914 283
Syndicated loans	-	10 531 712	-	10 531 712
Deferred income tax liability	569 135	-	-	569 135
Other liabilities	1 104 865	907	-	1 105 772
Subordinated debts	25 000 000	20 539 944	-	45 539 944
Total liabilities	365 254 615	279 759 877	341 232	645 355 724
Net balance sheet position	207 093 234	(142 054 929)	2 719 815	67 758 120
Credit related commitments	27 224 026	-	-	27 224 026

*OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located. Cash and premises and equipment have been classified according to the country in which they are physically held.

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

<i>In thousands of Russian Roubles</i>	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	31 711 153	2 279 030	-	33 990 183
Mandatory cash balances with the CBRF	2 441 967	-	-	2 441 967
Trading securities	12 056 055	-	-	12 056 055
Repurchase receivable	98 326	-	-	98 326
Derivative financial instruments	10	276 796	-	276 806
Due from other banks	1 282 868	-	345 107	1 627 975
Loans and advances to customers	291 583 137	-	-	291 583 137
Investment securities available for sale	1 156 720	-	-	1 156 720
Investment securities held to maturity	5 495 475	-	-	5 495 475
Deferred income tax asset	5 815	-	-	5 815
Intangible assets	347 353	-	-	347 353
Premises and equipment	6 924 308	-	-	6 924 308
Current income tax prepayment	51 518	-	-	51 518
Other assets	404 563	-	-	404 563
Total assets	353 559 268	2 555 826	345 107	356 460 201
Liabilities				
Derivative financial instruments	14 451	3 545 508	-	3 559 959
Due to other banks	7 330 943	53 897 119	74 767	61 302 829
Customer accounts	93 877 986	2 079 728	-	95 957 714
Promissory notes issued	32 361 154	-	-	32 361 154
Other borrowed funds	30 294 247	64 994 398	-	95 288 645
Syndicated loans	-	15 572 209	-	15 572 209
Deferred income tax liability	692 694	-	-	692 694
Other liabilities	580 172	751	-	580 923
Subordinated debts	-	17 320 463	-	17 320 463
Total liabilities	165 151 647	157 410 176	74 767	322 636 590
Net balance sheet position	188 407 621	(154 854 350)	270 340	33 823 611
Credit related commitments	2 196 408	-	-	2 196 408

*OECD – Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Group's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system;
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury within their competence. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the monetary market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each reporting date.

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The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position;
- reviewing the actual values and changes in mandatory liquidity ratios;
- forecasting the impact of transactions on mandatory liquidity ratios;
- setting limits on asset-side transactions by types of investments depending on the sources of funding;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in roubles and currencies, issuing promissory notes, increasing the volume of deposits (including interbank deposits) and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Bank's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's balance sheet financial liabilities and off-balance credit related commitments. Such undiscounted cash flows differ from the amount included in the balance sheet, since the balance sheet amount is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

Overdue liabilities, including term deposits undrawn by the Bank's customers are categorised as demand and less than 30 days. The date of maturity of certain assets, for which there is no contractual maturity date is the expected date of disposal.

The maturity analysis of undiscounted financial liabilities at 31 December 2008 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(4 192 833)	(14 542 847)	(5 895 728)	(122 293 542)	(113 551 056)	(260 476 006)
- outflow	3 467 700	14 784 493	6 173 154	135 591 831	140 873 274	300 890 452
Net settled derivative financial instruments (liabilities)	241 107	-	-	-	-	241 107
Due to other banks	3 823 089	147 217 947	16 041 367	22 456 473	86 628 830	276 167 706
Customer accounts	50 546 048	45 604 369	56 568 190	8 983 664	431 137	162 133 408
Promissory notes issued	3 200 008	1 450 500	5 488 653	14 200	57 569	10 210 930
Other borrowed funds	977 569	16 146 556	12 063 514	67 906 253	142 569 153	239 663 045
Syndicated loans	49 025	201 612	3 339 399	7 505 610	-	11 095 646
Subordinated debts	-	1 113 938	3 153 976	20 152 476	47 460 943	71 881 333
Other financial liabilities	1 513	-	-	-	-	1 513
Off-balance sheet financial liabilities						
Letters of credit	42 685	1 424 280	650 656	7 527	2 115	2 127 263
Other credit related commitments	19 812 493	-	-	-	-	19 812 493
Total potential future payments for financial obligations	77 968 404	213 400 848	97 583 181	140 324 492	304 471 965	833 748 890

The maturity analysis of undiscounted financial liabilities at 31 December 2007 is as follows:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Balance sheet financial liabilities						
Gross settled derivative financial instruments						
- inflow	(265 422)	(20 982 075)	(16 431 222)	(66 087 099)	(34 381 160)	(138 146 978)
- outflow	355 034	22 754 967	17 274 870	72 023 912	37 828 144	150 236 927
Net settled derivative financial instruments (liabilities)	3 939	-	-	-	-	3 939
Due to other banks	4 876 422	3 798 535	3 209 941	37 816 895	23 632 124	73 333 917
Customer accounts	44 404 677	32 653 007	18 513 778	2 182 481	423 592	98 177 535
Promissory notes issued	6 131 952	15 545 407	11 749 626	50 663	55 048	33 532 696
Other borrowed funds	-	6 327 419	12 926 971	37 053 412	70 646 754	126 954 556
Syndicated loans	40 849	395 471	7 049 042	9 494 211	-	16 979 573
Subordinated debts	-	607 655	608 643	2 432 597	18 579 564	22 228 459
Off-balance sheet financial liabilities						
Letters of credit	128 112	680 437	494 451	672 522	83 828	2 059 350
Other credit related commitments	24 300 132	-	-	-	-	24 300 132
Total potential future payments for financial obligations	79 975 695	61 780 823	55 396 100	95 639 594	116 867 894	409 660 106

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 31.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

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In evaluating the Group's liquidity risk, the subsidiary bank's risk was assumed immaterial due to an insignificant share of its assets and liabilities in the Group's balance sheet. Evaluation and monitoring of the subsidiary bank's liquidity risk are carried out on the basis of regulatory documents applicable to the Group.

The table below summarizes analysis of liquidity risk at 31 December 2008:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets *	132 474 234	81 144 182	67 309 843	109 718 876	205 842 925	207 995 158	8 626 272	813 111 490
Total financial liabilities *	59 987 766	107 651 784	100 919 743	88 202 939	154 597 949	233 138 504	-	744 498 685
Net liquidity gap	72 486 468	(26 507 602)	(33 609 900)	21 515 937	51 244 976	(25 143 346)	8 626 272	68 612 805
Cumulative liquidity gap	72 486 468	45 978 866	12 368 966	33 884 903	85 129 879	59 986 533	68 612 805	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2007:

<i>In thousands of Russian Roubles</i>	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
Total financial assets*	58 536 653	28 024 090	47 157 959	65 339 821	148 587 510	122 106 326	2 371 103	472 123 462
Total financial liabilities*	53 027 707	35 807 731	37 398 918	61 742 114	131 139 123	126 949 084	-	446 064 677
Net liquidity gap	5 508 946	(7 783 641)	9 759 041	3 597 707	17 448 387	(4 842 758)	2 371 103	26 058 785
Cumulative liquidity gap	5 508 946	(2 274 695)	7 484 346	11 082 053	28 530 440	23 687 682	26 058 785	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

31 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. Based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is reliable and the Group's tax, currency and customs positions will be confirmed. Therefore, as at 31 December 2008 the Management has not created any provision for potential tax liabilities (2007: nil).

Capital expenditure commitments. At 31 December 2008, the Group had contractual capital expenditure commitments of RR 445 093 thousand (2007: RR 627 270 thousand).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable PPE operating leases are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Not later than 1 year	1 220 409	770 439
Later than 1 year and not later than 5 years	2 963 021	1 803 476
Later than 5 years	2 419 990	1 436 458
Total operating lease commitments	6 603 420	4 010 373

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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Outstanding credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Sureties issued	21 042 467	-
Undrawn credit lines	4 000 742	30 000
Letters of credit	2 127 263	2 059 350
Guarantees issued	53 554	107 058
Total credit related commitments	27 224 026	2 196 408

Sureties issued represent sureties for loans from Central Bank of Russian Federation, received by two large Russian banks. The fair value of sureties issued was RR 219 521 thousand at 31 December 2008 (2007: nil).

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Undrawn credit lines shown in the table above do not include cancellable commitments of RR 15 811 751 thousand (2007: RR 24 270 132 thousand), which are dependent on borrowers' compliance with certain creditworthiness criteria.

In 2008 no provision for impairment of credit related commitments was created (2007: nil).

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Russian Roubles	25 080 871	129 964
Euros	1 650 200	1 577 387
US Dollars	462 903	250 960
Other currencies	30 052	238 097
Total	27 224 026	2 196 408

Fiduciary assets. These assets are not included in the consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	2008	2007
Promissory notes issued by the Bank	530 799	805 587
Promissory notes and securities of Russian companies held with the Bank	145 036	149 947
Municipal bonds held with the National Depository Centre	62 333	-
Corporate shares held with the National Depository Centre	551	550
Shares and bonds of companies held with other depositories	59	60
OVGZ held with Vnesheconombank	-	39 274

Assets pledged and restricted. At 31 December 2008, the Group didn't have pledged under repo agreements (2007: municipal bonds pledged under repo agreements with fair value of RR 98 326 thousand). Refer to Note 8.

In addition, mandatory cash balances with the CBRF of RR 962 895 thousand (2007: RR 2 441 967 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

32 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros, Swiss Francs and Japanese yen to four OECD banks with maturities from January 2009 to May 2023 and deposits in Russian Roubles received from the same four banks with similar maturities ("back to back loans"). These transactions were aimed at hedging the currency exposure of the Group.

International credit rankings of these banks were not less than BB- as at 31 December 2008.

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2008 and covers the contracts with settlement dates after the respective balance sheet date:

<i>In thousands of Russian Roubles</i>	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	88 069 408	32 159 796	120 229 204
USD payable on settlement (-)	-	(43 695 903)	(43 695 903)
RR receivable on settlement (+)	-	30 405 515	30 405 515
RR payable on settlement (-)	(62 729 846)	(22 267 519)	(84 997 365)
Euros receivable on settlement (+)	3 193 522	-	3 193 522
RR payable on settlement (-)	(2 276 529)	-	(2 276 529)
CHF receivable on settlement (+)	12 689 062	-	12 689 062
RR payable on settlement (-)	(8 168 259)	-	(8 168 259)
JPY receivable on settlement (+)	-	1 201 216	1 201 216
RR payable on settlement (-)	-	(1 814 536)	(1 814 536)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
RR receivable on settlement (+)	-	19 316 970	19 316 970
USD payable on settlement (-)	-	(19 558 077)	(19 558 077)
Total net fair value	30 777 358	(4 252 538)	26 524 820

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2007 and covers the contracts with settlement dates after the respective balance sheet date:

<i>In thousands of Russian Roubles</i>	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	15 600 874	99 763 440	115 364 314
RR payable on settlement (-)	(15 446 384)	(103 226 020)	(118 672 404)
Euros receivable on settlement (+)	2 731 247	-	2 731 247
RR payable on settlement (-)	(2 608 941)	-	(2 608 941)
CHF receivable on settlement (+)	-	8 516 779	8 516 779
RR payable on settlement (-)	-	(8 599 707)	(8 599 707)

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Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	355 989	355 989
Euros payable on settlement (-)	-	(359 928)	(359 928)
Futures on share: fair value at the balance sheet date, of			
RR receivable on settlement (+)	3 480	79 708	83 188
Short position in shares (-)	(3 470)	(90 220)	(93 690)
Total net fair value	276 806	(3 559 959)	(3 283 153)

As at 31 December 2008 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 87 643 759 thousand and RR 73 945 096 thousand, respectively, or 52% of total receivables or payables on settlement of foreign exchange swaps (31 December 2007: RR 52 561 376 thousand and RR 54 304 243 thousand, or 42% of total receivables or payables on settlement on foreign exchange swaps).

The structure of gains less losses from derivative financial instruments is as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Foreign exchange swaps with settlement dates of more than 30 days	33 009 224	(4 076 023)
Options	1 104 710	-
Other financial derivative instruments	(613 831)	(80 822)
Total gain less losses from derivative financial instruments	33 500 103	(4 156 845)

33 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, other securities with Fair value through profit or loss, securities available for sale, securities categorised as “repurchase receivable”, and derivative financial instruments including embedded derivatives are carried on the consolidated balance sheet at their fair value based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2008	2007
Due from other banks		
Short-term placements with other banks with original maturity more than one month	7% -42%	4% -12%
Loans and advances to customers		
Corporate loans	9%-20%	8%-17%
Loans to individuals	10%-24%	10%-19%
Securities held to maturity	6%-25%	7%-11%
Due to other banks	2% -24%	3% -9%
Customer accounts		
- Term deposits of legal entities	2%-13%	2%-8%
- Term deposits of individuals	3%-13%	3%-11%
Promissory notes issued	5%-12%	4%-10%
Syndicated loans	5%-6%	5%-6%
Subordinated debts	4%-8%	7%

Fair values of financial instruments are as follows:

<i>In thousands of Russian Roubles</i>	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents				
- cash on hand	5 503 536	5 503 536	2 991 048	2 991 048
- cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	27 841 448	19 685 479	19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	49 832 400	49 832 400	11 313 656	11 313 656
Due from other banks	96 879 909	96 879 909	1 627 975	1 627 975
Loans and advances to customers				
- Loans to corporates	383 297 459	375 944 133	240 708 779	240 644 789
- Lending for food interventions	10 442 420	10 442 420	3 189 928	3 189 928
- Reverse repo agreements	621 824	621 824	2 466 091	2 466 091
- Investments in agricultural cooperatives	682 463	682 463	663 912	663 912
- Loans to individuals	57 256 501	56 040 546	44 554 427	44 554 427
Investment securities held to maturity	10 206 528	8 643 719	5 495 475	5 495 475
Other financial assets carried at amortised cost	145 017	145 017	77 866	77 866
Total financial assets carried at amortised cost	642 709 505	632 577 415	332 774 636	332 710 646
Financial assets carried at fair value	57 676 882	57 676 882	13 587 907	13 587 907
Total financial assets	700 386 387	690 254 297	346 362 543	346 298 553
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	137 256 028	137 256 028	61 150 114	61 150 114
- Term borrowings from CB RF	105 827 199	105 827 199	-	-
- Correspondent accounts and overnight placements of other banks	18 618	18 618	66 687	66 687
- Sale and repurchase agreements	-	-	86 028	86 028
Customer accounts				
- State and public organisations	34 946 313	34 946 313	6 557 056	6 557 056
- Other legal entities	69 153 501	69 153 501	63 051 424	63 051 424
- Individuals	50 395 193	50 395 193	26 349 234	26 349 234
Promissory notes issued	9 845 488	9 845 488	32 361 154	32 361 154
Other borrowed funds				
- Issued Eurobonds	132 239 264	92 280 723	64 994 398	64 370 774
- Bonds issued on domestic market	43 675 019	43 141 007	30 294 247	30 487 190
Syndicated loans	10 531 712	10 531 712	15 572 209	15 572 209
Other financial liabilities	221 034	221 034	-	-
Subordinated debts	45 539 944	39 456 653	17 320 463	17 260 332
Total financial liabilities carried at amortised cost	639 649 313	593 073 469	317 803 014	317 312 202
Financial liabilities carried at fair value	4 252 538	4 252 538	3 559 959	3 559 959
Total financial liabilities	643 901 851	597 326 007	321 362 973	320 872 161

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Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 32.

34 Reconciliation of Classes of Financial Instruments with Measurement Categories

According to the IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008.

	Loans and receivables	Available for sale assets	Held-to- maturity assets	Financial assets at fair value through profit and loss	Total
<i>In thousands of Russian Roubles</i>					
Financial assets					
Cash and cash equivalents					
- cash on hand	5 503 536	-	-	-	5 503 536
- cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	-	-	-	27 841 448
- correspondent accounts and placements with other banks with original maturities of less than one month	49 832 400	-	-	-	49 832 400
Trading securities					
- Debt securities				17 667 682	17 667 682
Other securities with fair value through profit or loss	-	-	-	4 438 652	4 438 652
Derivative financial instruments	-	-	-	30 777 358	30 777 358
Due from other banks	96 879 909	-	-	-	96 879 909
Loans and advances to customers					
- Loans to corporates	383 297 459	-	-	-	383 297 459
- Lending for food interventions	10 442 420	-	-	-	10 442 420
- Reverse repo agreements	621 824	-	-	-	621 824
- Investments in agricultural cooperatives	682 463	-	-	-	682 463
- Loans to individuals	57 256 501	-	-	-	57 256 501
Investment securities available for sale	-	4 793 190	-	-	4 793 190
Investment securities held to maturity	-	-	10 206 528	-	10 206 528
Other financial assets	145 017	-	-	-	145 017
Total financial assets	632 502 977	4 793 190	10 206 528	52 883 692	700 386 387
Non-financial assets					12 727 457
Total assets	632 502 977	4 793 190	10 206 528	52 883 692	713 113 844

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2007.

	Loans and receivables	Available for sale assets	Held-to-maturity assets	Financial assets at fair value through profit and loss	Total
<i>In thousands of Russian Roubles</i>					
Financial assets					
Cash and cash equivalents					
- cash on hand	2 991 048	-	-	-	2 991 048
- cash balances with the CBRF (other than mandatory reserve deposits)	19 685 479	-	-	-	19 685 479
- correspondent accounts and placements with other banks with original maturities of less than one month	11 313 656	-	-	-	11 313 656
Trading securities					
- Debt securities	-	-	-	11 944 178	11 944 178
- Shares	-	-	-	111 877	111 877
Repurchase receivable	-	-	-	98 326	98 326
Derivative financial instruments	-	-	-	276 806	276 806
Due from other banks	1 627 975	-	-	-	1 627 975
Loans and advances to customers					
- Loans to corporates	240 708 779	-	-	-	240 708 779
- Lending for food interventions	3 189 928	-	-	-	3 189 928
- Reverse repo agreements	2 466 091	-	-	-	2 466 091
- Investments in agricultural cooperatives	663 912	-	-	-	663 912
- Loans to individuals	44 554 427	-	-	-	44 554 427
Investment securities available for sale	-	1 156 720	-	-	1 156 720
Investment securities held to maturity	-	-	5 495 475	-	5 495 475
Other financial assets	77 866	-	-	-	77 866
Total financial assets	327 279 161	1 156 720	5 495 475	12 431 187	346 362 543
Non-financial assets					10 097 658
Total assets	327 279 161	1 156 720	5 495 475	12 431 187	356 460 201

35 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

<i>In thousands of Russian Roubles</i>	2008	2007
Profit attributable to ordinary shareholders	2 053 685	4 353 671
Profit for the year (all allocated to ordinary shareholders)	2 053 685	4 353 671
Weighted average number of ordinary shares in issue	39 872	20 946
Basic and diluted earnings per ordinary share	52	208

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note1).

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The outstanding balances with related parties were as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	27 841 448	19 685 479
Mandatory cash balances with the Central Bank of the Russian Federation	962 895	2 441 967
Nostro accounts and placements with state-controlled banks with original maturities of less than one month (contractual interest rate: 2%-20% p.a. (2007: 2%-11% p.a.))	4 880 137	3 875 712
Trading securities and repurchase receivable (contractual interest rate: 7%-10% p.a. (2007: 6%-10% p.a.))		
Federal loan bonds (OFZ)	-	3 080 494
Municipal bonds	354 721	1 106 034
Corporate bonds and Eurobonds	6 307 357	2 981 346
Corporate shares	-	111 877
Investment securities available for sale (contractual interest rate: 7%-11% p.a. (2007: 7%-9% p.a.))		
State Eurobonds	51 442	-
Municipal bonds and Eurobonds	146 134	1 001 500
Corporate bonds and Eurobonds	1 167 767	102 115
Corporate shares	5 025	-
Investment securities held to maturity (contractual interest rate: 6%-10% p.a.)		
Federal loan bonds (OFZ)	4 126 378	-
Municipal bonds	1 261 711	-
Corporate bonds and Eurobonds	2 003 886	-
Promissory notes of the Banks, controlled by government	643	-
Due from other banks		
Current term placements in the Banks, controlled by government (contractual interest rate: 8% p.a.)	14 690 200	-
Loans and advances to customers		
State-controlled companies (contractual interest rate: 7%-21% p.a. (2007: 7%-18% p.a.))	30 146 301	9 507 102
Key management and their family members (contractual interest rate: 5%-8% p.a. (2007: 5% p.a.))	33 522	5 876
Provision for loan impairment at the year end		
State-controlled companies	(266 459)	(93 414)
Current income tax prepayment	176 491	51 518
Due to other banks		
Current term placement, attracted from CBRF (contractual interest rate: 6%-13% p.a.)	105 827 199	-
Current term placements, attracted from the Banks, controlled by government (contractual interest rate: 2%-12% p.a. (2007: 1%-9% p.a.))	23 932 133	3 009 247
Term deposits and current/settlement accounts		
State-controlled companies (contractual interest rate for term deposits 3% -13% p.a. (2007: 5%-9% p.a.))	51 122 840	11 235 285
Key management and their family members (contractual interest rate for term deposits: for term deposits 4%-13% p.a. (2007: 3%-11% p.a.))	312 224	184 299
Subordinated debts (contractual interest rate 8% p.a.)	25 000 000	-
Revaluation reserve for investment securities available for sale	(284 274)	(1 275)
Credit related commitments		
Undrawn credit lines (without commitments to extend credit, which are contingent upon customer's maintaining specific credit standards)	4 000 742	30 000
Letters of credit	50 384	-
Guarantees issued	20 463	37 096

The income and expense items with related parties were as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Interest income on cash and cash equivalents		
The Central Bank of the Russian Federation	81 478	49 877
Transactions with state-controlled banks, including placements with original maturities of less than one months	277 677	75 441
Interest income on trading securities		
Government securities	215 021	225 038
Securities of state-controlled companies	286 471	120 176
Results from operations with trading securities		
Government securities	(176 068)	(41 880)
Securities of state-controlled companies	375 542	(17 703)
Interest income on investment securities available for sale		
Government securities	46 926	1 000
Securities of state-controlled companies	62 244	407
Result from operations with investment securities available for sale		
Government securities	(20)	-
Securities of state-controlled companies	3 324	-
Interest income on investment securities held to maturity		
Government securities	183 460	-
Securities of state-controlled companies	55 596	-
Interest income on loans and advances to customers		
State-controlled companies	1 135 697	944 859
Key management and their family members	1 361	329
Provision for loan impairment on loans and advances to customers		
State-controlled companies	(173 045)	(851)
Interest income on due from other banks		
Transactions with state-controlled banks	153 431	-
Interest expense on due to other banks		
The Central Bank of the Russian Federation	(1 158 448)	-
Transactions with state-controlled banks	(903 467)	(65 479)
Interest expense on subordinated debts		
State-controlled companies	(377 049)	-
Interest expense on customer accounts		
State-controlled companies	(1 725 438)	(202 430)
Key management and their family members	(27 171)	(13 556)
Agency commission income from the Ministry of Finance of the Russian Federation for debt collection services	27 119	17 797
Fee received from CBRF	155	-
Income from the Ministry of Agriculture of the Russian Federation for participation in the national project "Development of the Agro-Industrial Sector"	-	8 468
Expenses relating to participation in the project "Development of the Agro-Industrial Sector" net of taxes and staff costs	-	(7 301)
Other income (on guarantees and letters of credit issued)	119	1 538
Other income (dividends received from securities)	221	-
Current income tax expense	(995 365)	(904 524)

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Aggregate amounts lent to and repaid by related parties during 2008 were:

<i>In thousands of Russian Roubles</i>	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	2 935 256 773	2 927 100 804
Mandatory cash balances with the CBRF	2 930 141	4 409 213
Correspondent accounts and placements with state-controlled banks with original maturities less than one month	1 068 337 396	1 067 332 971
Trading securities and repurchase receivable		
Government securities	45 948 109	49 779 916
including reclassified	-	5 395 086
Securities of state-controlled companies	22 220 959	19 006 825
including reclassified	-	2 325 012
Investment securities available for sale		
Government securities	453 306	1 257 230
including reclassified	53 506	-
Securities of state-controlled companies	3 288 454	2 217 777
including reclassified	1 012 152	-
Investment securities held to maturity		
Government securities	50 637 066	45 248 977
including reclassified	5 341 580	-
Securities of state-controlled companies	10 040 477	8 035 948
including reclassified	1 312 860	-
Loans and advances to customers		
State-controlled companies	29 170 289	8 531 090
Key management and their family members	31 284	3 638
Due from other banks		
Current term placements in state-controlled banks	15 384 400	694 200
Due to other banks		
Current term placements from state-controlled banks	94 810 295	73 887 409
Current placements from CBRF	167 204 661	61 377 462
Customer accounts		
State-controlled companies	194 040 761	154 153 206
Key management and their family members	807 365	679 440
Subordinated debts	25 377 049	377 049

In relation to securities, the amounts lent/repaid to related parties during the year include deals with securities purchased under “reverse-repo agreements”.

Aggregate amounts lent to and repaid by related parties during 2007 were:

<i>In thousands of Russian Roubles</i>	Amounts lent to related parties during the year	Amounts repaid by related parties during the year
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	1 826 662 019	1 818 639 944
Mandatory cash balances with the Central Bank of the Russian Federation	1 933 427	1 208 883
Nostro accounts and placements with state-controlled banks with original maturities less than one months	243 361 620	239 692 860
Trading securities and repurchase receivable		
Government securities	29 912 003	27 560 641
State-controlled companies	12 730 441	10 149 968
Securities available for sale		
Government securities	1 001 500	-
State-controlled companies	102 115	-

Loans and advances to customers		
State-controlled companies	7 099 927	6 294 521
Key management and their family members	3 868	3 985
Due to other banks		
Current term placements from state-controlled banks	64 260 934	61 965 881
Current placements from CBRF	36 112	36 112
Customer accounts		
State-controlled companies	108 854 662	102 144 882
Key management and their family members	367 028	288 902

In 2008, the total remuneration of the members of the Management Board was RR 196 329 thousand (2007: RR 168 715 thousand).

<i>In thousands of Russian Roubles</i>	2008		2007	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
Salary, social security costs and short-term bonuses included in salary	174 458	13 733	152 629	9 218
<i>Post-employment benefits:</i>				
- Defined contribution retirement scheme	7 570	-	6 300	-
- State pension and social costs	568	-	568	-
Total	182 596	13 733	159 497	9 218

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

37 Principal Consolidated Subsidiary and Special Purpose Entity

As at 31 December 2008, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership	Country of incorporation
Subsidiary				
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99,47%	99,47%	Russia
Limited Liability Company TD Agrotorg	Trading entity	-	99,00%	Russia
Special purpose entity				
RSBH Capital S.A.	Eurobond issue	-	-	Luxembourg

RSBH Capital S.A. was registered in Luxembourg in 2005. The Company is owned by the foundations established under the laws of the Netherlands and has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to the Note 19 and 22).

38 Management of Capital

The Group's objectives when managing capital are

- (i) to comply with the capital requirements set by the Central Bank of the Russian Federation,
- (ii) to ensure the Group's ability to continue as a going concern and
- (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% in accordance with the requirements of the Basel Accord, 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 2005), commonly known as Basel I.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

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Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital and assets weighted to risk (“statutory capital ratio”) above a prescribed minimum level. Regulatory capital is based on the Group’s report prepared under Russian accounting standards and comprises:

<i>In thousands of Russian Roubles</i>	2008	2007
Net assets under Russian legislation	63 927 731	31 179 151
Revaluation reserve	1 841 400	2 009 546
Subordinated debts	45 566 280	17 182 340
Other	(223 500)	(181 843)
Total regulatory capital	111 111 911	50 189 194

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel I.

The composition of the Group’s capital calculated in accordance with Basel Accord is as follows:

<i>In thousands of Russian Roubles</i>	2008	2007
Share capital	61 972 833	28 477 833
Retained earnings	6 337 188	4 435 587
<i>Total tier 1 capital</i>	68 310 021	32 913 420
Revaluation reserves	(552 240)	909 493
Subordinated debts	34 155 011	16 456 710
<i>Total tier 2 capital</i>	33 602 771	17 366 203
Total capital	101 912 792	50 279 623

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Bank of Russia and loan covenants.

39 Subsequent events

In February 2009 the Extraordinary General Shareholders’ meeting approved an increase of Group’s share capital in the amount of RR 45 000 000 thousand; the shares were fully paid up on 27 February 2009.

In February 2009, the Group bonds holders executed a put option in the amount of RR 4 732 348 thousand. All these bonds were placed again in February 2009. Refer to Note 19.

In February 2009 counterparties unwound 3 times Leveraged Credit Linked Note (CLN) from one of the OECD banks in the nominal amount of USD 167 000 thousand with no significant gain or loss.

In March 2009, Management approved the issue of two loans to the state-owned company in the total amount of USD 1 000 000 thousand. In April 2009, the Group issued first loan on USD 600 000 thousand with maturity on 15 April 2014. ●



Russian Agricultural Bank

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