

RESPONSIBILITY



ANNUAL REPORT 2008

 **Absolut Bank**
Member of the KBC group 

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Mature solutions

Dear Sirs,

Please consider 2008 Annual Report of Absolut Bank.

The previous year was anniversary: we celebrated our quinquennial. We had managed to achieve much by that anniversary, having entered TOP-25 Largest Banks of Russia and having become one of the most dynamically developing financial institutions in the Russian banking market. We had also completed integration into the largest international corporation – the European financial group KBC Group – having provided new possibilities for ourselves and our customers.

It was a difficult year too. Unstable macroeconomics and increased risks made us suspend our active growth and review the plan of our further development. The market introduced changes to our strategy, but not to our attitude towards our business, which is always based on the principle of **RESPONSIBILITY**:

- **responsibility** to our customers, partners and contractors for the obligations

assumed, the quality of the services rendered and the credence given to us.

- **responsibility** to our shareholders for compliance of our business results with the goals set by them and with those high international standards which form the base of the corporate business standards of the KBC Group all over the world.
- personal **responsibility** of each member of our team to each other for the general result of the whole team.

The principle of business responsibility is rather actual nowadays, as any crisis is one more stability test. Today our priority task is to survive this period difficult for the world business in general and for the Russian business particularly, and to use it as a new chance to prove to all our partners our reliability, stability, mobility, flexibility and client-orientedness.

Absolut Bank Management Board



Purposefulness

Absolut Bank in Ratings

The main results of Absolut Bank activity in 2008 are presented in the ratings made by the leading analytical agencies and business mass media. During the year the Bank has taken the leading positions in the Russian bank community in many areas of business:

10-th place in the Russian Banks Rating in terms of RELIABILITY (Forbes, April 2009)

11-th place in TOP-30 Russian Banks in terms of net assets per point of network (RBC, March 2009)

23-d place in terms of the amount of owned capital following the 2008 results (Interfax, February 2009)

24-th place in terms of assets following the 2008 results (Interfax, February 2009)

6-th place in the rating of the best employers among banks («RBC. Rating» Agency, January 2008)

Retail Banking:

3-d place in the rating of the best Russian retail banks in terms of the Index of perception by consumers in H1 2008 (joint research of Senteo & PwC, July 2008)

5-th place in «Best Mortgage Banks 2008» Rating (RBC, February 2009)

5-th place in terms of the volume of consumer credits issued in 2008 per point of network (RBC, March 2009)

12-th place in terms of the car loan portfolio in Russia in H1 2008 («RBC. Rating» Rating Agency, August 2008)

15-th place in the rating of banks having issued the biggest number of consumer credits (Profile, January 2009)

Corporate Banking:

16-th place in terms of the volume of credits issued to small and medium business in 2008 (RBC, March 2009)

18-th place in terms of the portfolio of credits for small business (RBC, September 2008)

23-d place in the rating of 30 largest corporate creditors following the 2008 results (Ekspert, March 2009)

Investment Banking:

TOP-5 Banks in «2008 Best Dealing in Interbank Crediting» category (Vedomosti, December 2008)

12-th place in the largest banks ranking in terms of total assets in the bank-managed mutual funds (Association for Investors Information Rights Protection (AZIPI), January 2009)

19-th place among Russian largest brokers (RBC, February 2009)



Investment in future

1. Retail business

1.1 Customer policy

Absolut Bank offers a package of various financial services. At implementation of its retail strategy the Bank focuses on the values and financial needs of Russian families at all stages of their life cycle. The Bank's key retail activity is offering services and products developed with due consideration of life priorities and abilities of the Russians of different age, occupation and income level.

At implementation of the Customer Policy Absolut Bank pays much attention to service technologies development. The Bank is oriented to rendering intelligible and friendly service based on the standards developed in accordance with the international practices in service rendering in different countries of presence of the KBC Group (Absolut Bank shareholder since 2007).

The result of the Bank's efficient Customer Policy is constant growing of Absolut Bank customer base consisting of more than 100 thousand individuals and including people of different occupations and lines of work: enterprises, top and line managers, people of art, show-business and the Russian middle class.

Nowadays the priority tasks of the Bank's retail strategy include the product line adaptation in accordance with the market situation, also internal processes optimization, speed-up of operations execution, service improvement and cost saving.

1.2 Deposits

The first half of 2008 showed rather stable situation in the Russian market of bank deposits. The volume of the opened deposits showed high growth due to several factors including growth of the real income of the population and high credence to the bank system. According to the Deposit Insurance Agency, the volume of bank deposits increased by 1.9% in H1 2008.

In the second half of the reporting period the growth rate of individuals' deposits had significantly decreased, which was determined by the influence of the crisis processes in the economy. Deposits withdrawal from banks, caused by the crisis, was stopped mainly due to the measures timely taken by the Russian Government. Thus in the framework of the deposit insurance system the maximum amount of the government guarantee on deposits was increased from RUB 400 thousand to RUB 700 thousand, which proved the government's confidence in stability of the Russian banking system and readiness to secure its operation.

Attraction of household deposits is a traditional priority of Absolut Bank activity and, notwithstanding unstable situation in the bank deposit market, the Bank managed to achieve considerable results in this area proving correctness of the strategy taken.

In 2008 the Bank held a range of special promotions for its depositors: «Golden Mean», «World Deposits», «Generous Autumn» and «New Year Every Month».

Within the limits of these campaigns the depositors were offered special conditions, stimulating bonuses and gifts. As a result, the number of the Bank's depositors increased by 11.2% and amounted to 23.9 ths. in the period under consideration (Fig. 1).

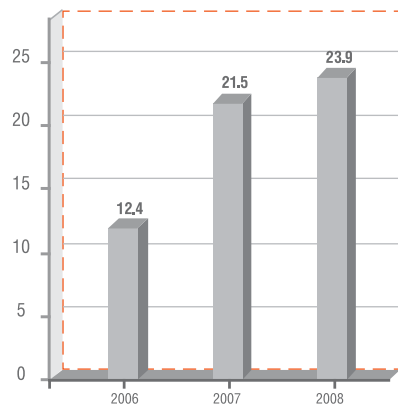


Fig. 1. Change in the number of depositors (thousands.)

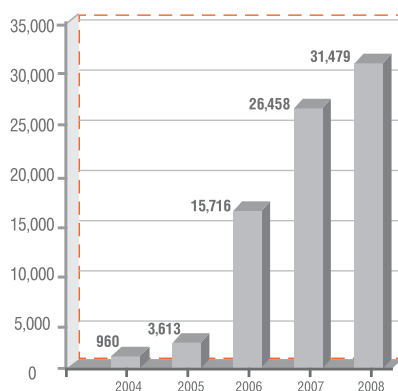


Fig. 2. Number of attracted deposit accounts

At that, the number of attracted deposits had increased by 19% in 2008 as against 2007 and amounted to 31,479 deposits (Fig. 2). The balance of the individuals'

accounts, including individuals' deposits and the balance of call accounts, had increased by 14.9% during the year and amounted to RUB 15,290 mln.

As of 31.12.2008 the volume of household deposits with Absolut Bank amounted to RUB 13,210.0 mln., i.e. had increased by 20.9% as against the previous year (Fig. 3).

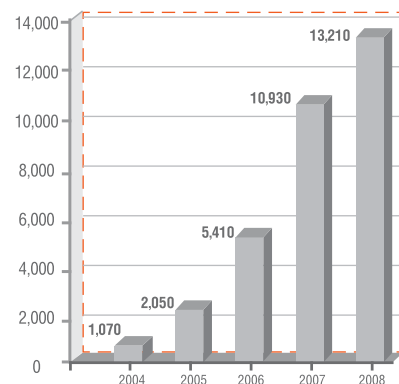


Fig. 3. Change in the volume of attracted deposits (RUB million.)

In 2008 Absolut Bank line of deposits was complemented by two new deposits – «Udobny»/«Convenient» and «Guaranteed». In July the Bank launched «Convenient» deposit, a replenishable and revocable deposit, i.e. combining the options of term and call deposits. Subject to its terms the citizens did not have to choose whether to allocate the funds at beneficial interest or to take an advantage of early withdrawal of part of assets from the account.

The highest growth of deposits was noticed in Q4 2008. In November 2008 – during the very peak of the panic atmosphere in the

deposit market, when the market was in short supply of anti-crisis offers – the Bank developed and implemented new deposit «Guaranteed», the key advantages of which included attractive conditions for a short term (1 or 3 months) of money placement. A new deposit may be opened to the amount of up to RUB 700 ths. secured in full by the government in accordance with the Russian legislation. The new deposit let the Bank's customers feel more comfortable and confident in the unstable situation in the financial markets. The relevance of the proposed conditions allowed the Bank not only to stop the outflow of retail liabilities but also to outstrip many competitors in terms of the rates of increasing funds from the deposits made by the population.

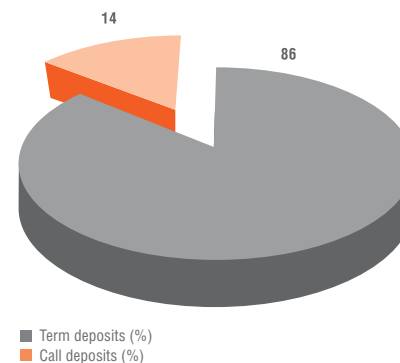


Fig. 4. Structure of the funds attracted from individuals' as of 31.12.2008

In accordance with the changing tendencies of the bank deposit market, Absolut Bank corrected its tariffs on deposits for citizens keeping its offers at the market level. In the reporting year the most popular deposits were those in rubles for a term of one year (Fig. 4). However

upon the crisis commencement the demand for short-term ruble deposits was increased – their ratio amounted to 12.9% at the end of 2008.

Structure of the funds attracted from individuals by currency type (as of 31.12.2008).

Rubles	deposits: 46% call deposits: 60%
US Dollars	deposits: 32% call deposits: 28%
Euro	deposits: 22% call deposits: 12%

1.3 Mortgage Lending

Having been one of the leaders in the Russian mortgage market for already several years Absolut Bank continued development of this upcoming trend in 2008. The line of the mortgage products offered to customers in the reporting period included the following credit programs: primary housing credit, secondary housing credit, credit for a land plot with a dwelling house, mortgage loan without the first installment, mortgage refinancing, loan on mortgage and commercial real-estate loan. The following mortgage programs implemented in 2007 turned out to be very popular:

- Primary housing loan;
- «Ready to move in» - a secondary housing loan;
- «Perspective» - a consumer loan against the pledge of existing residential real estate;

In H1 2008 Absolut Bank extended the line of credit programs in the real estate market having launched two innovative for the Russian market products – «Parents-Children» and «Two in One».

«Parents-Children» Program is oriented to the borrowers of retiring age with steady income. Besides other advantages the product enables customers to provide housing to their children having no fixed income yet. Subject to the product terms a credit is issued for purchasing a flat in the secondary market, at that the program provides a possibility of full repayment by the year in which the borrower attains 75 years old inclusive. The customer's full aged children studying at any Institution of Higher Education and having no permanent income may act as co-borrowers.

«Two in One» Program enables customers to purchase a flat in the primary or secondary market without the first installment but provided that they own other real estate. Subject to the program terms customers may take time to sell their old flats, repair the new ones and even gain some money from their old flats sale due to increase of prices for a square meter.

However in H2 2008 the growth rate of the mortgage portfolio was seriously affected by the world financial crisis resulted in worsening of the consumers' material standing and increase of credit and currency risks for banks.

From the very first steps of its mortgage program implementation Absolut Bank paid much attention to the quality of the credit

portfolio performing thorough underwriting of the customers' paying capacity and creditworthiness in full compliance with the risk management basic principles adopted by the KBC Group. As a result the level of overdue credits in the Bank's credit portfolio stayed record low for this market. Therefore in spite of the changes made to the Bank's operation by the crisis, the Bank's approach toward risk assessment did not suffer considerable changes, though the requirements to the customers had been substantially increased influenced by the external economic factors.

Notwithstanding pronounced change of the market condition Absolut Bank mortgage portfolio had been more than twofold increased and amounted to RUB 36,679 mln. according to the results of the reporting period (Fig. 5). The largest growth of the issued mortgage loans was noticed in H1 2008. The Bank's achievements for that period were presented in the RBC rating where the Bank took the 4-th place in TOP20 Banks in terms of mortgage loans volume (RBC, August 2008).

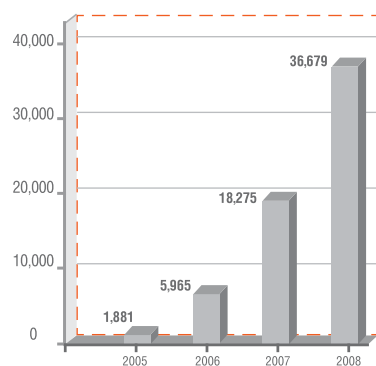


Fig. 5. Changes in the mortgage loans portfolio (RUB mln.)

The quantity of mortgage loans issued in 2008 was 1.4 times higher as against 2007 and amounted to 9,422.0 loans as of 01.01.09 (Fig. 6).

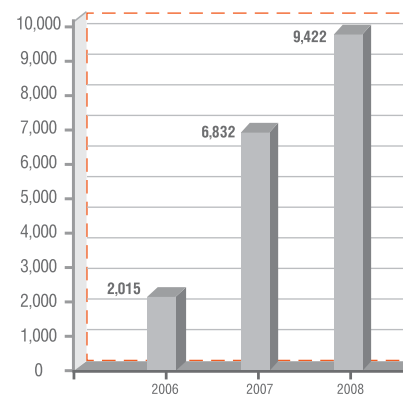


Fig. 6. Changes in mortgage loans

Besides the number of borrowers who made use of Absolut Bank mortgage loans grew by 8,121 individuals in 2008 as against the previous reporting period. At that the loan average value amounted to RUB 2.1 mln (Fig. 7).

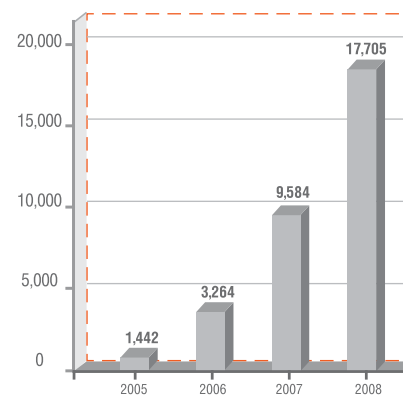


Fig. 7. Changes in the number of borrowers

The growing demand for Absolut Bank mortgage loans was supported by the federal marketing actions and regional social events held during the whole year. In particular in the framework of «Mortgage Saturday» Action held in Yekaterinburg everybody might get individual consultation on mortgage loans without providing any documents, or apply for a mortgage loan. «Get Back Your Interest Rate» Mortgage Loan Action enabled the borrowers of Absolut Bank mortgage loans to take a Certificate for obtaining services of tax advisers helping at execution and getting back of those tax deductions. «Give Birth to a Son and Get a Mortgage Loan and a Tree» Action was conducted in the regions where the Bank launched its mortgage programs for the first time in 2008.

Taking into consideration the situation in the mortgage market and the fact that mortgage loan servicing under such conditions might become serious financial burden for the family budget, in December 2008 the Bank cancelled moratorium and commission fees collected for early repayment of mortgage loans. As far as Absolut Bank is oriented to long-term relations with its customers it supported the borrowers who had met certain difficulties in loan servicing, and developed and implemented the original program of loan restructuring. The good faith customers facing difficulties with their loans servicing might apply to the Bank for debt restructuring. According to the restructuring program, in case of inability to fulfill their debt service obligations due to the changed material situation, provided that the borrowers had had no overdue

payments, and that they had notified the bank of such changed material situation themselves, the creditor might consider the possibility of the debt restructuring. The program implied extension of the loan period, or revaluation of the annuity payment, or extension of the principle debt period – those measures allowed reduction of the monthly installment rate. Besides, in exceptional cases, the Bank was ready to offer the customer to make minimum installments for a certain period of time in order to escape default and survive the hard times and continue the loan repayment. It should be noted that in each specific case we study the borrower's credit history very attentively and determine an individual restructuring option.

1.4 Car loans

Car loans are one of the most developing trends of Absolut Bank retail business. Notwithstanding the world financial crisis which had caused reduction of long-term credit programs, including car loans, the Bank achieved success in this trend according to 2008 results. The wide range of credit offers including not only classic credit program for Russian and foreign cars, but also a number of special programs, such as «Used Car», «Dual-Purpose Transport Crediting», or «All Included», the remained demand for cars, the branch network development and competitive conditions made car loans a very popular product of Absolut Bank, contributing to the growth of the issued credits volume. During the reporting period the Bank issued

19,753 thousand car loans for a total amount of RUB 10,426.346 mln., at that the car loan portfolio had been twice increased as against the previous year and amounted to RUB 13,453.913 mln. (Fig. 8 and 9).

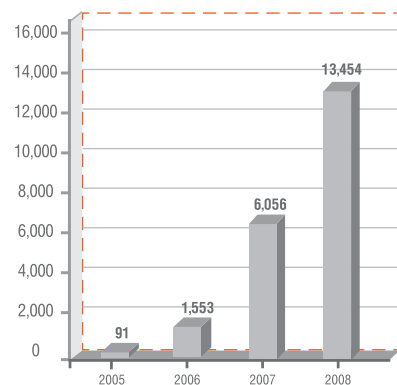


Fig. 8. Change in the car loan portfolio (RUB mln.)

Those achievements allowed the Bank take the 9-th place in the Russian banks rating in terms of car loans volume according to the results of H1 2008 (RBC-Rating). In terms of the car loan portfolio the Bank took the 12-th place in the same rating, and the 11-th place in terms of the portfolio growth rate. The high position of Absolut Bank in the ranking of the Russian car loan market once again proved popularity of its credit programs and correctness of the taken strategy.

For the purpose of car loans promotion in the reporting period Absolut Bank supported its customers and improved the car loans refinancing conditions. The Bank introduced new conditions of car loans refinancing and gave an opportunity of loan roll-over under more favorable conditions. Those conditions

applied not only to motor cars, but also to dual-purpose machinery. Absolut Bank also reduced the fee collected for loan account opening – it was the only commission fee collected from the borrowers at car loans execution in Absolut Bank.

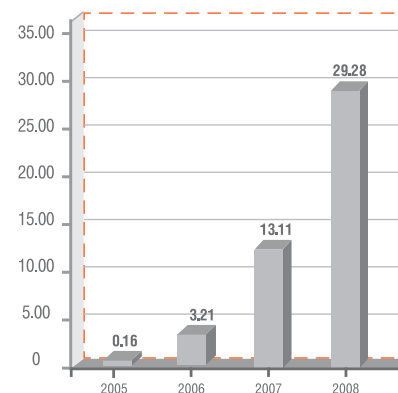


Fig. 9. Change in the number of the Bank's customers applying for car loans (thousands)

1.5 Plastic cards

The modern bank technologies and accumulated experience enable Absolut Bank to offer its customers one of the best services on plastic cards. Strengthening of its positions in this segment of the market is one of the Bank's strategic tasks.

Being a principal member of VISA International payment system Absolut Bank may implement its own card projects based on VISA payment system using such cards as Visa Electron, Visa Classic, Visa Gold and Visa Platinum in order to provide a wide range of options and services, oriented both to legal bodies and individuals.

During the reporting period Absolut Bank continued active issue of VISA cards. As a result, by the end of the year, 100 thousand cards had been issued, which was almost twice more than in the previous year. Such growth was determined by the growth of demand for credit and pay cards on the part of individuals and by the Bank's active work on that project promotion. Besides, the growth was also determined by increase of the number of Absolut Bank payroll projects, particularly in the regions (Fig. 10).

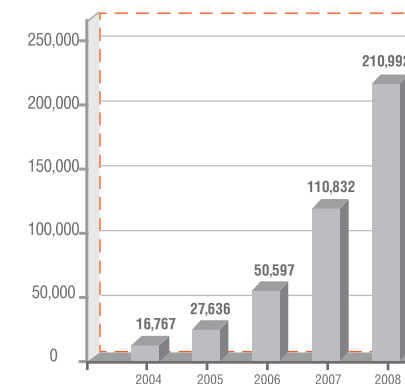


Fig. 10. Change in the number of issued cards

Increase of the number of the issued plastic cards resulted in growth of balance of the customers' accounts. As of 01.01.2009 the total volume of balance exceeded RUB 925 mln., i.e. had been increased by more than 20% from the beginning of the year (Fig. 11).

As of 01.01.2009 the volume of principal receivable on plastic cards had increased by RUB 786,546.0 mln. and amounted to RUB 1,362,190.0 mln. (Fig. 12).

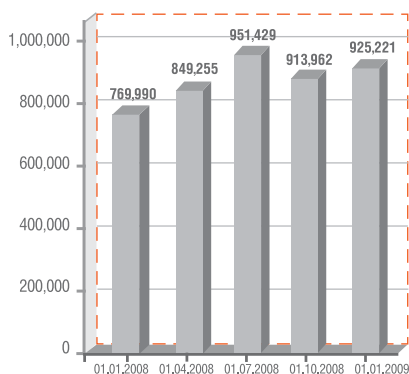


Fig. 11. 2008 balance of the customers' plastic accounts (RUB mln.)

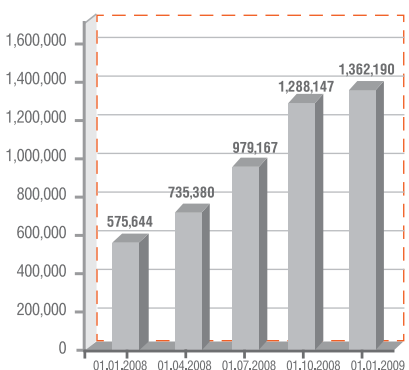


Fig. 12. Change in the principal receivable on plastic cards (RUB mln.)

A large network of ATM and terminals for money acceptance and issue without commission fee, and goods and services payment via cards form a competitive advantage of Absolut Bank in the market of banking services. According to the results of the reporting period the number of bank's own ATM has become almost twice as much in a year, whereas the network of ATM where Bank's clients may withdraw on special tariffs now exceeds 4,000.

The list of the bank transactions carried out through ATM via plastic cards includes cash disbursement via cards of VISA and MasterCard international payment systems, the card account replenishment via VISA-Absolut Bank cards, obtaining of the data on the card balance, PIN-code change and payment of services rendered by cellular operators.

The services enabling Absolut Bank customers to use plastic cards to the maximum include such popular services as remote access services. Thus with the help of «Absolut On-Line» internet-service the card holder may carry out intrabank transfers to the card or to the current account, pay cellular communication services, public facilities and Internet-purchases remotely. «Absolut-Info» service provides the holders of VISA-Absolut Bank plastic cards with a package of services they may use through cellular communication, such as obtaining of information on the card's current credit limit, obtaining of statement of account, card blocking and SMS-services. Besides each holder of a valid VISA-Absolut Bank card may join IAPA and Priority Pass loyalty programs. The holders of Classic and Electron cards may execute an insurance policy in the framework of the joint program of Absolut Bank and «ISK Euro-Policy» insurance company. In 2008 the list of the above mentioned services was extended considering the customers' interests and needs: the holders of Visa plastic cards having a mortgage or car loan were provided an opportunity to connect the service of SMS-notification on

necessity of making payment on the car/mortgage loan.

Hereafter Absolut Bank intends to develop and implement new offers on bank cards and improve the conditions of the current offers paying attention to the service quality and variety of options. At that the Bank plans further development of the ATM network and increase of the number of POS-terminals.

1.6 Deposit safes leasing

Absolut Bank offers its customers a special service – deposit safes leasing for valuables and documents storage. Deposit safes may also be used in real property and securities transactions and at financial agreements execution.

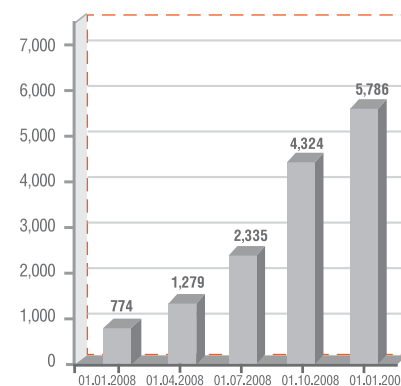


Fig. 13. Change in the number of deposit safes

Today the service of deposit safes leasing becomes more and more popular. Therefore the Bank pays great attention to this trend development and continues gradual increasing of the number of safes. As of

31.12.2008 the total number of deposit safes amounted to 5,786, which is 34% more than in 2007 (Fig. 13).

The lease term and the size of deposit safes provided by Absolut Bank enable each customer to choose the optimal variant. At that the Bank guarantees security and safety of the deposit safes located in special premises under control of the Security Service.

Absolut Bank plans on further increase of the number of deposit safes will be determined by the customers' needs.

1.7 Precious metal coins

In 2008 Absolut Bank continued development of such business line as sale of commemorative and investment coins made of precious metals.

- Commemorative coins
 - Gold
 - Silver
 - Bimetal (gold and silver)
- Investment coins
 - Gold and silver

Commemorative coins are usually purchased as presents to the friends and relatives and for the collecting purposes. Besides due to content of precious metals they have actual cost which may grow in due course, therefore purchase of commemorative coins may appear good investment.

Not only commemorative coins, but also investment coins, are popular among the

customers, as under the conditions of the financial crisis this is a perspective financial instrument and reliable investment.

The turnover on transactions with commemorative and investment coins amounted to RUB 2.5 mln. in 2008. According to the results of the reporting period Absolut Bank sold total 3,449 coins, 2,766 of which were golden. The peak demand was noticed in December 2008.

1.8 VIP-banking

The experience accumulated by Absolut Bank in the sphere of VIP-services and the technologies developed in other countries of the KBC Group presence allowed the Bank provide VIP-services at the level implying a wide range of unique banking services and products in order to enable the Bank's customers to manage their own finance with maximum convenience.

Absolut Bank services for affluent customers provide personal VIP-manager's support, i.e. a professional financial consultant provides a full range of banking services maintaining confidentiality and using individual approach. 24-hour reach to the personal manager may be arranged on the phone or via Internet. Due to the developed system of individual servicing VIP-customers may obtain consultations on any financial issue at any time, control the cash position and use the banking services in on-line mode.

The line of VIP-services is designed with due consideration of the requests and actual

needs of the customers of this segment. In the reporting period the most popular was «Absolute» deposit, as its conditions enabled the customers to place their monetary assets for an extended period with an option to convert up to 70% of the initial deposit at the individual rate determined specifically for VIP category. According to the results of the reporting period «Convenient» deposit, a new deposit launched in 2008, appeared not less popular. It had been created in accordance with the preferences of VIP-customers. Its key advantages are exclusive interest rates, the option of replenishment and withdrawal of up to 50% of the deposit amount every month.

In 2008 VIP-banking was arranged in such a way that the customers with VIP status might apply to any of numerous subbranches of Absolut Bank. Besides we opened new zones of VIP-banking: in Ufa, Saint-Petersburg and Tyumen. The quality, service and favorable conditions were highly estimated in 2008 not only by the Russian citizens, but also by foreign people. As a result Absolut Bank customer base in this segment of services was extended to 2.5 ths. people.

In 2008 a new specialized internet site for the Bank's VIP-customers was launched at the address: www.absolutvip.ru.

1.9 Small and medium business crediting

The provision of financial services to small and medium business enterprises is one of the strategic orientations of Absolut Bank activity. In the framework of the stated orientation the Bank offers a wide range of credit products,

including settlement and cash management services, payroll card programs, credits, credit lines, leasing, and overdraft on settlement accounts, micro lending and other forms of financing to small companies.

In the reporting period the Bank continued to increase the crediting volume and finished the year with significant growth of the credit portfolio which amounted to RUB 6.5 bln. as of 01.01.2009, i.e. having been twice increased as against 2007 (Fig. 14).

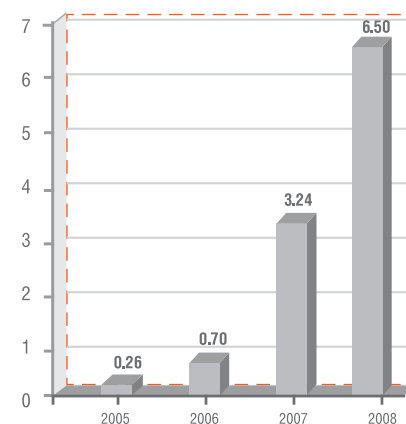


Fig. 14. Changes in small and medium business crediting (RUB bln.)

High growth rate of Absolut Bank credit portfolio was determined mainly by extension of the branch network and sales points in the regions. Thus as of 01.01.2009 the share of regional business amounted to 67% in the SMB portfolio, while as of 01.01.2008 it did not exceed 54%. Besides the growth of the issued credits volume was supported by improvement of the credit experts' performance and improvement of SMB credit programs.

Thus in H2 2008 overdraft terms were improved and the period of credits for working capital financing was prolonged to up to 3 years. The average period of credits issued in 2008 amounted to 2-2.5 years.

Such policy of the Bank resulted in increase of the number of borrowing SME by 71.2%, which was equal to 3,228 small and medium enterprises according to the results of the year (Fig. 15). Consequently in 2008 Absolut Bank took the 15-th place in terms of the volume of the small business credit portfolio (RBC, September 2008).

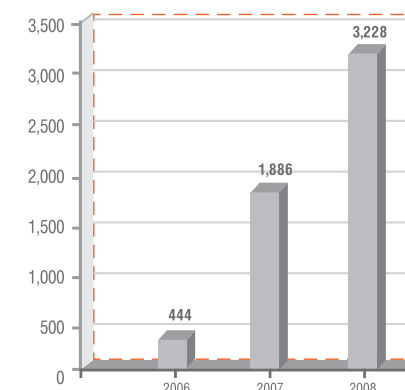


Fig. 15. Change in the number of borrowing small and medium enterprises

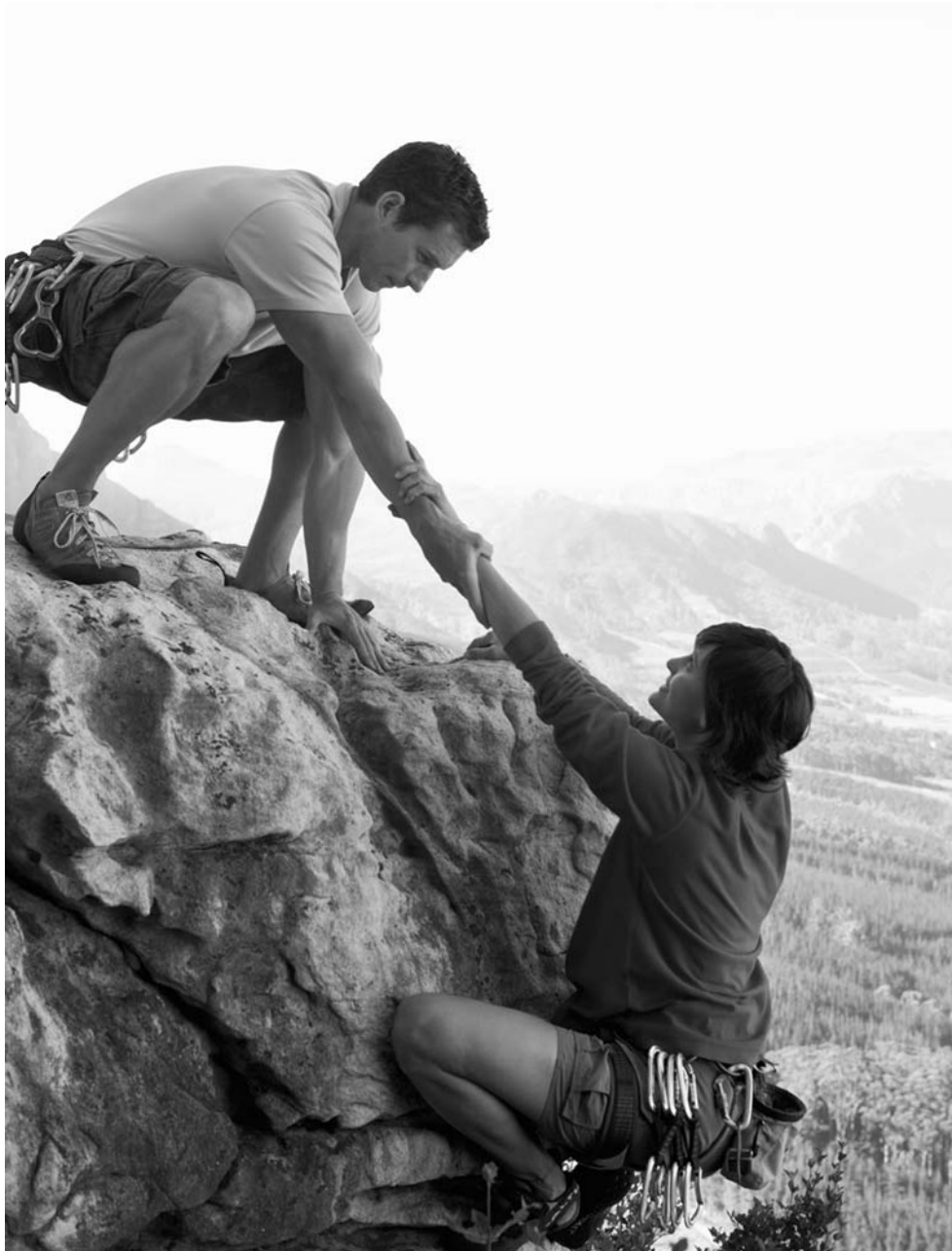
Absolut Bank achievements in small and medium enterprises crediting are presented in the financial ratings. Thus the Bank took the second place in the list of the leaders in terms of the growth rate of credits to small and medium business in the North-West Federal District and the 15-th place in terms of the volume of small business crediting portfolio (RBC, September 2008).

In the reporting period Absolut Bank conducted a number of actions in order to stimulate the demand of small and medium enterprises. For instance, «No repayment of credits! For

the first three months» Action provided the companies which had been granted credits by the Bank delay of the principle debt payment for the first three months.

In perspective Absolut Bank intends to continue increasing of the volume of the SMB credit portfolio. The Bank's main effort will be focused on improvement of the

credit product line and the customer service technology.



Reliable support

2. Corporate business

2.1 Customer policy

From the first days of Absolut Bank operation corporate services have been one of the priority areas. In terms of its customer policy at implementation of the strategy of a universal financial and credit institution the Bank pays special attention to establishment of long-term relations using individual approach to the abilities and needs of each customer. Today the Bank renders the services complying with the international standards, develops loyalty programs and offers a wide range of modern and high-tech banking products with due consideration of the scale and scope of the customer business.

Special emphasis in the Bank's customer policy is made on improvement of working procedures, service quality and banking offers conditions in order to constantly develop the customer business and increase its efficiency. Moreover, being a competent financial consultant, Absolut Bank provides qualified support to its customers. The main areas of corporate business servicing are all types of direct and documentary finance, the portfolio of settlement and cash services and provision of the full package of banking services.

In the reported period Absolut Bank used the experience and best practices of the KBC Group and managed to significantly improve efficiency of its work with corporate customers, which consequently contributed to extension of the customer base due to attraction of new partners and extension of

relations with regular customers. Hereafter the Bank would continue paying special attention to extension of the customer base, increase of the offer line and improvement of the service conditions. Absolut Bank also intends to continue improvement of the quality and technologies of the customer service.

2.2 Corporate crediting

One of Absolut Bank strategic priorities is development of corporate credit programs. At implementation of its credit policy the Bank pays special attention to formation of the diversified and «risk/income» balanced credit portfolio.

In the reporting period, within this business area, the Bank offered its customers all kinds of credits, including overdraft, credits and credit lines, syndicated loans, project finance, trade finance, bond issue and leasing.

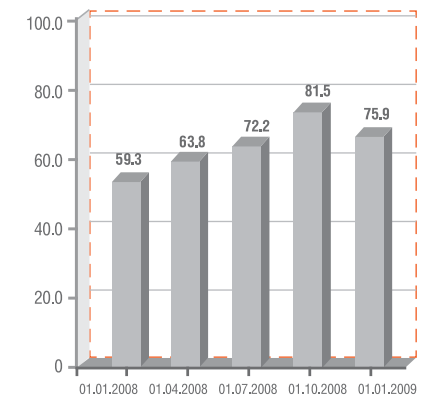


Fig. 16. Corporate credit portfolio (RUB bln.)

In spite of the unstable economic situation at the end of 2008 the Bank strengthened

its positions in the corporate credit market. As a result the corporate credit portfolio of Absolut Bank had increased by 28% during 2008 and amounted to RUB 75.9 bln. as of 01.01.2009 (Fig. 16).

Increase of the crediting volume resulted from extension of Absolut Bank customer base which had increased by more than 37% from the beginning of 2008. Thus as of 01.01.2009 there were 24.3 ths. legal entities among the Bank's customers (Fig. 17).

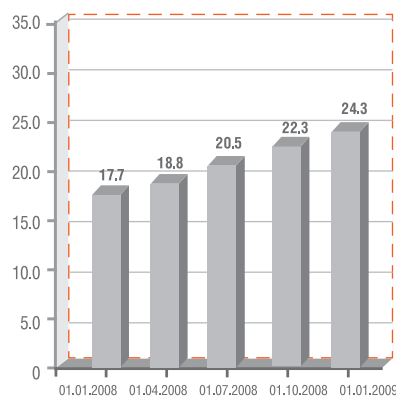


Fig. 17. Change in the customer base (ths. customers)

In 2008 about 6.6 ths. legal entities became Absolut Bank customers. At that the significant growth was associated with the enterprises of the following industries: engineering industry, metallurgical industry, transport, chemical industry, trade, power industry, IT, pharmacy, food and processing industry and others.

One of the key events of 2008 was transfer to the industry-oriented customer services. It allowed sales systematization and formation of a new base of long-term

cooperation with the leading companies of different industries.

In 2008 the Bank established cooperation with the largest enterprises of the federal scale, such as «RZHD» OJSC, «TAGAS» LLC, «Automir» Group, «Sever Auto M» Group, «Autospetscenter» Group, «NTMK» OJSC (member of «EvrazHolding» TH), «EPK» Group, «Transbunker» Group, «Metafrax» Group, «Voronezh Power Sale Company» OJSC, «Bashkirenergo» Group, «Kuibyshev Azot» OJSC, «MTS» OJSC, «UMK» Group, «Russian See» Group, «Eksmo» Publishing House and «Sibirskiy Bereg» MC CJSC.

Trade and construction enterprises comprise the main share of Absolut Bank credit portfolio – 34% and 35.1% respectively (Fig. 18).

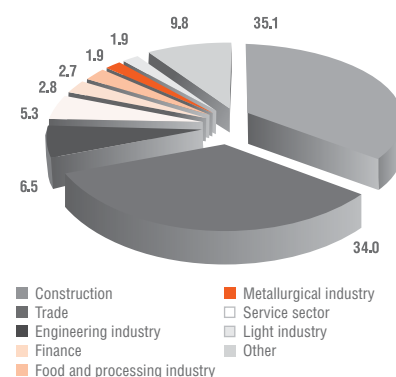


Fig. 18. Industrial structure of the corporate business portfolio (%)

In perspective it is planned to increase the number of transactions with trade finance (guarantee, letter of credit) and develop different financing vehicles throughout

the line of credit products for corporate business. The Bank would pay special attention to development of passive products conditions attractive for customers and to development of banking products cross-sale in cooperation with other subdivisions of the segment.

2.3 Trade finance

Support of the customers' economic activity is one of the most actively developing banking services of Absolut Bank. One of the major achievements of the reporting period is increase of credibility to Absolut Bank on the part of large international companies being the Bank's trade partners and customers. It is determined both by the high level of cooperation within the KBC Group, and professionalism of Absolut Bank team. The unblemished business reputation and traditionally high standing in the sphere of trade finance allowed the Bank significantly increase the number of express warranties and letters of credit and significantly reduce the customers' expenses mainly due to cancellation of commission fees collected for confirmation.

In 2008 special attention was paid to improvement of business-processes of the Head Office cooperation with the network of regional representative offices. As a result the customer base was notably diversified; new customers were attracted mainly from the real economy. According to the results of the reporting period the volume of trade finance amounted to USD 370 mln., over 650 transactions were carried out. Transactions with documentary letters of credit comprised

the largest share in the volume of Absolut Bank trade finance – 84% (Fig. 19).

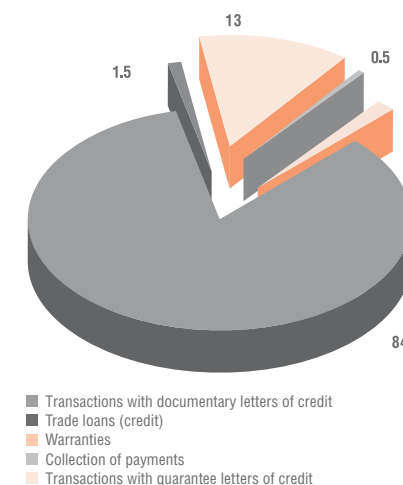


Fig. 19. Diversification of trade finance facilities as of 31.12.2008 (%)

In terms of trade finance in 2008 Absolut Bank actively cooperated with the largest financial and credit institutions from more than 15 countries, including Austria, Belgium, Great Britain, Germany, Hong Kong, Italy, China, the Netherlands, Poland, Slovakia, Taiwan, Finland, France, the Czech Republic and Switzerland. The accumulated experience, use of the KBC Group Standards and close partnership with the Export Credit Agencies allowed the Bank significantly extend its financial opportunities in terms of supporting of foreign economic transactions of Absolut Bank customers. Beside the traditional procedures of trade finance the Bank applies more complex financial structures developed individually with due consideration of characteristics of the customer projects.

2.4 Customer operations in financial markets

In order to strengthen its positions in the Russian banking market Absolut Bank carries out treasury operations with corporate customers, which become one of the significant areas of the Bank's business. Using an individual approach to each customer the Bank provides substantial support in solution of a whole complex of tasks: short-term liquidity management, currency and rate risks hedging, currency revaluation and future cash flow planning.

The most popular treasury operations include conversion operations in the exchange market, transaction accounts and time transactions.

Thus the total volume of customer conversion operations in 2008 had increased by more than 2.5 times as against 2007 and amounted to about USD 4.7 bln. It resulted from the customer base extension, modernization of corporate services and improvement of the service quality.

A favorable mechanism of interest accrual on transaction accounts allows offering high profitability to the corporate customers, attracts customers interested in operating management of temporarily surplus funds and serves as an efficient source of additional income.

The Bank actively offers the services in covering purchase enabling the customers to execute long-term planning in the current situation, reducing losses from exchange

fluctuation, reducing the cost of borrowings in currency and giving stability and forecastability of money flows.

The list and quality of the financial services offered to corporate customers are supported at the level of the international bank standards and supplemented in accordance with the customers' priority needs. Popularity of these services among the customers is proved by a large contractual base. In 2008 about 200 new master agreements for cooperation with customers in the financial markets were concluded. At that active work is carried out not only with the Head Office customers, but also with the customers of all the regions of the Bank presence.

Against the background of financial markets' volatility Absolut Bank provides its customers with information support via information postings which allow daily obtaining of up-to-date information on the current state of the major indicators of the money and exchange markets, and on the current rates stated by Absolut Bank.

2009 will be a difficult year for the Russian economy in general. In the circumstances concerned Absolut Bank will still support its customers next year providing them with financial, advisory and analytical assistance, improving its capacity and developing its long-term relations with corporate customers.

2.5 Settlement & cash services

Paying great attention to formation and support of long-term business relations

with corporate customers Absolut Bank puts an emphasis on qualitative and prompt rendering of settlement & cash services.

In terms of settlement & cash services the Bank's customers may use such services as settlements in rubles, interest accrual to the account balance, corporate cards, collection, exchange control, payroll projects, acquiring, customs cards and remote services. At that the package of Absolut Bank services is implemented according to the international standards of payment posting.

One of the advantages of Absolut Bank settlement & cash services is a broad network of correspondent accounts with the leading Russian banks and foreign financial institutions. It allows making payments throughout Russia and abroad as promptly and conveniently as possible.

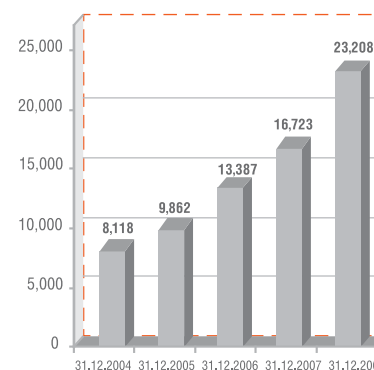


Fig. 20. Change in the number of legal entities' accounts for the reporting period

Focusing on its customers' interests and needs Absolut Bank improved its settlement & cash services in the reporting period. As a

result the customer base increased by 6,485 settlement accounts of legal entities, i.e. the growth amounted to 38.8% as against the beginning of 2008 (Fig. 20).

Absolut Bank provides its customers with various options in terms of spare funds use. Legal entities and individual entrepreneurs may conclude supplementary agreements to the settlement & cash services contracts, where they agree upon interest accrual to the balance of the accounts opened with the Bank (Fig. 21). The Bank offers transaction accounts (for a period of 1–30 days), long-term deposits and non interest bearing notes as financial instruments.

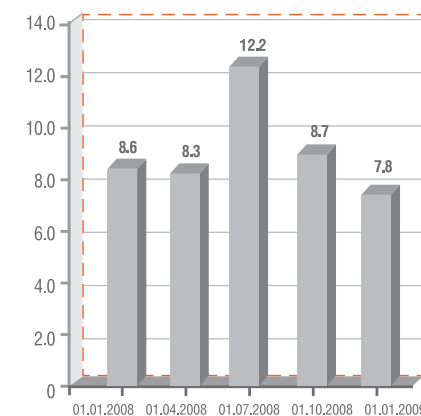


Fig. 21. Balance of settlement accounts (RUB bln.)

High quality of operations is determined by use of high technologies, such as multifunctional system of electronic settlement «Internet-Banking».

«Internet-Banking» ensures absolute confidentiality and maximum protection of the data transferred and prevents accounts

unauthorized access. In order to improve safety during work in Internet Absolut Bank provides its customers with USB-tokens – cryptographic data protection device.

Absolut Bank also provides the customers with «Tele-Bank» service access to which the subscriber may get upon calling to the highlighted multi-channel number in the tone mode. With the help of «Tele-Bank» system the Bank's customers may get voice messages on the state of account or receive information by fax. The personal password ensures safety of telephone communication.

Absolut Bank always intends to improve the service program in terms of settlement & cash services.

2.6 Servicing of foreign companies

Affiliation to the KBC Group and long-term experience of cooperation with large network customers form an important advantage of Absolut Bank in its work with foreign companies in Russia. Year 2008 may be characterized as a year of active integration with the KBC Group. In the framework of this process work with foreign business in Russia has developed efficiently.

In terms of improvement of banking services for foreign companies Absolut Bank worked on improvement of the services quality and convenience of cooperation with the Bank.

During its integration with the KBC Group a new product has been developed – finance

against the guarantee of the Group. The peculiarity of this credit is a possibility of financing of international holdings being the KBC Group customers on the territory of the RF against security in the form of the guarantee of the bank being the KBC Group member.

As a result Absolut Bank customer base had grown. Thus last year over 600 business contacts with international companies were established, and 31 foreign companies became the Bank's customers, including representative offices and non-resident companies.

Next year the Bank is going to extend cooperation with the Group's international customers and other foreign companies through rendering banking services at the level of international Group standards.

2.7 Structured financing

Due to cooperation with the international financial KBC Group the Bank's investment abilities significantly increased in 2008 resulting in growth of efficiency of work with corporate customers.

The services on structured financing are rendered by the Bank hand in hand with the Syndication and Debt Placement (SDP) Division of the KBC Group. The following financing products are available:

- Structured finance of the customers' operating performance;
- Project finance;

- M&A deals capture;
- Syndicated lending;
- Leverage lending.

Last year the Bank developed and implemented a number of projects including participation in the syndicated lending for the European Bearing Corporation for a total amount of USD 145 mln. together with BNP Paribas, Commerzbank and HSBC international banks. Hereafter the Bank is going to continue active development of this banking business line improving the terms of investment products for corporate customers.

2.8 Leasing

In 2008 Absolut Bank and «Absolut» Group of Leasing Companies continued active extension of cooperation in the sphere of leasing transactions. In H1 2008 Absolut Leasing Company increased its customer base by way of direct attraction of customers and through acquiring of the contract portfolio of Ural Region Leasing Company in the amount of RUB 146 mln. Besides the company started development of the regional and partner network. In the second half of the reporting period the customer policy focused on the risks and assessment of the customers' financial position. Thus the strategy of organic growth of the customer base was substituted with the strategy of quality improvement and reduction of risks for the company's leasing portfolio.

The maximum contribution into formation of the new business with leasing agreements

was made in 2008 by the companies of the following industries: chemical industry, transport, and motor transport retail sale, engineering industry, public catering and geology.

Thus, according to the results of the reporting period, 348 transactions were carried out in the total amount of RUB 2.2 bln. At that the leasing portfolio had increased by 30.8% from the beginning of the year and amounted to RUB 2.6 bln. as of 01.01.2009 (Fig. 22).

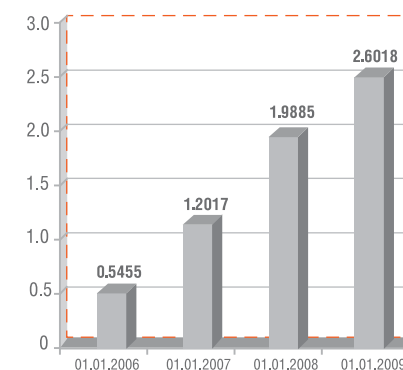


Fig. 22. Change in the leasing portfolio within the reporting period (RUB bln.)

In 2008 50% of new transactions were concluded with the customers from Moscow and about 17% with the customers from the Volga Federal District. The leasing objects of 33% of the agreements were motor vehicles (motor cars and trucks, buses, etc.), about 10% of agreements were concluded on construction equipment and specialized equipment, 12% – on car repair equipment.

The results of 2008 performance of «Absolut» Group of Leasing Companies

are represented in the annual rating of Russian leasing companies made by «Leasing-Review» magazine. The leading positions of «Absolut» Group have been confirmed by the Diploma for high

level of business universalization in the Russian market.

In 2009 «Absolut» Group of Leasing Companies is going to develop the following areas of business:

- business-processes optimization and development of new products oriented to «the future»;
- development of close cooperation with the current customers;

- gradual increase of the leasing portfolio through new agreements with stable companies.



Protection and Guarantees

3. Banking operations in exchange and securities markets

Financial markets were exposed to the world economic crisis most of all, therefore the reporting period may be divided into two stages: the first three quarters showed high positive development of the Bank's operation in the financial and investment markets, in the fourth quarter, due to unstable situation in the world capital markets, those rates were significantly reduced.

As a result, the first two thirds of 2008 were marked by increase of the number of contractors, extension of the list of securities trading, resumption of operation in the Eurobond market and growth of turnover on trade in REPO bonds, which amounted to RUB 174,500 mln. at the year end having increased by more than 2.5 times from the beginning of the year.

In the second half of the reporting period the Bank revised its investment policy and preferred to minimize potential risks.

3.1 Securities market with fixed earning capacity

For Absolut Bank the last year was marked by increase of the number of contractors in the securities market with fixed capacity, extension of the list of securities trading, resumption of operation in the Eurobond market and growth of turnover on trade in REPO bonds.

In 2008 the bond market was characterized by increase of the total volume of issue,

concentration of high-class issuers and increase of the bonds turnover in the secondary market. In 2008 Absolut Bank acted as underwriter in several cases of bonds issue by large issuers. The total volume of issues with the participation of Absolut Bank amounted to RUB 48.5 bln. (Fig. 23).

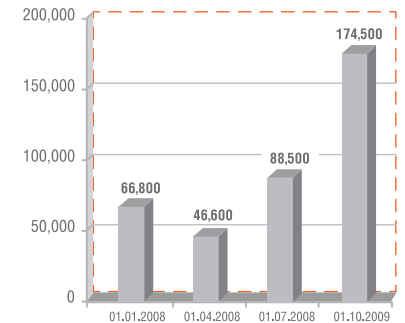


Fig. 23. REPO bonds turnover (RUB bln.)

In the reporting period Absolut Bank strengthened its positions in different segments of the secondary market of debt securities and continued its activities as the dealer of the Bank of Russia at the government securities bid. The annual turnover on dealing in corporate bonds amounted to RUB 30.7 bln., on government securities transactions – to RUB 5 bln.

According to MICEX during 2008 Absolut Bank had kept its positions in TOP10 leading operators of the securities market, took places in TOP20 leading operators of the stock and bond market and entered TOP30 leading operators of the stock and bond market at REPO bids.

According to RTS data Absolut Bank steadily keeps its position in TOP20 leaders of the

futures and options market in terms of the transactions volume.

3.2 Exchange and money markets

Notwithstanding the difficult situation in the internal exchange market in 2008 the Bank managed to retain its positions in the market and demonstrated high profitability of its operation. It happened due to support and increase of the volume of both customer conversions and the Bank's own operations in markets.

Moreover Absolut Bank showed good results in interbank credit transactions. In spite of the complex situation with liquidity interbank crediting was not suspended, though the volume of transactions had decreased as against the equal periods of the previous year, which might be explained with decay of the market participants' activity and mutual reduction of limits and periods of lines on transactions between the contractors.

The Bank community expresses appreciation of the Bank's performance in the exchange market. According to the results of its performance in 2008 Absolut Bank again entered TOP5 Russian banks in terms of «Best dealing in interbank crediting in 2008». During many years the Bank's employees have regularly entered TOP3 leading dealers and every year win «Best dealer in interbank crediting» title.

3.3 Stock market

In 2008 the Russian market of securities was exposed to the internal and external

factors, particularly to the world financial crisis occurred in the second half of the reporting period.

However the current unfavorable situation in the securities markets did not become the reason of massive outflow of customers using Absolut Bank brokerage services. Thus during Q1 2008 the customer base increased by 10%, while during Q4 2008 the growth amounted to 23%. The total turnover on brokerage showed stable and dynamical growth during 2008 (Fig. 24 and 25).

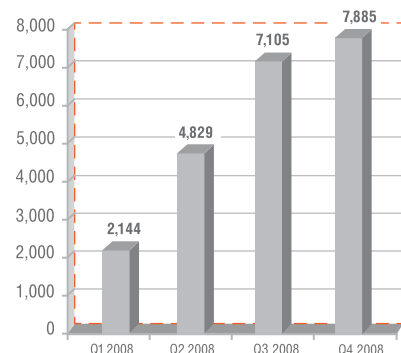


Fig. 24. Total turnover on brokerage in 2008 (USD mln.)

Stable increase of turnovers on brokerage and growth of the customer base in 2008 enabled Absolut Bank to rise from the 22-nd to the 19-th place in the rating of the largest brokers of Russia and to take the 7-th place among bank-brokers.

In 2008 Absolut Bank continued rendering such services as brokerage, trust management and monetary assets investment into bank managed mutual funds (BMMF).

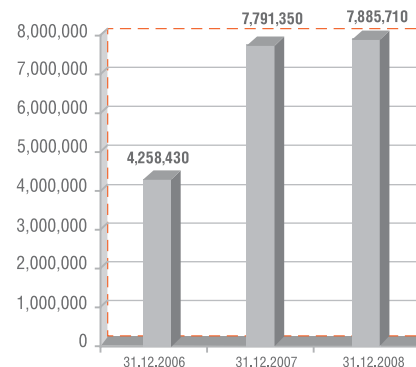


Fig. 25. Total turnover on brokerage for the last 3 years, as of the end of the year

Though year 2008 appeared rather difficult for the Russian market of collective investment the results of performance of Absolut Bank BMMF may be deemed positive due to activity of the Bank's specialists who managed to promptly respond to the changed circumstances and redesign the structure of investment portfolios in accordance with the new conditions in order to minimize the risks of profit reduction. As a result in 2008 Absolut Bank funds steadily took the leading positions in the ratings in terms of the BMMF income notwithstanding the negative influence of the world financial crisis. Thus, according to the Association for Investors Information Rights Protection (AZIPI), Absolut Bank takes the 12-th place in the ranking of the largest banks in terms of the total assets in the BMMF as of January 1, 2009. «Profitable» BMMF, «Tactics» BMMF, «Trust» BMMF and «Absolut Perspective» BMMF take the 1-st, 2-nd, 9-th and 13-th places among the funds in their risk groups.

3.4 Cooperation with financial institutions

Cooperation with financial institutions is traditionally one of the key activities of Absolut Bank. The Bank's strategy in this segment is based on strengthening of relations with the current partners and establishment of new contacts. Thus the total number of Absolut Bank contractors in the inter-bank market amounted to 650 companies by the end of 2008.

Considerable extension of cooperation with international financial institutions resulted from establishment of relations with the banks of the KBC Group: Ceskoslovenska Obchodni Banka, A.S., Prague, Economic and Investment Bank AD, Sofia, Kredietbank S.A. Luxembourg, Luxembourg, KBC New York.

High ratings, unblemished reputation and information transparency in accordance with the international standards enabled Absolut Bank to extend its cooperation with the Bank of Russia and participate in the financial programs of «Fund for support of housing and public utilities reforming» State Corporation, «Russian Corporation of Nanotechnologies» State Corporation and the Federal Treasury.

The list of the Bank's partners has been significantly increased due to cooperation with the leading insurance companies of the RF, such as «Zurich» SC CJSC, «Czech Insurance Company» LLC, «ROSNO» OJSC, «Moscow Insurance Company» OJSC, «MSC-Life», etc.

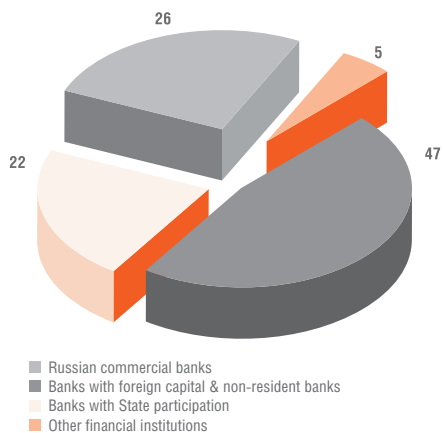


Fig. 26. Structure of limits opened for Absolut Bank

Absolut Bank relations with the strategic partners – EBRD, NIB, DEG, KFW, IFC – had successfully developed. In the framework of this cooperation in 2008 certain agreements were reached on attraction of funding to the Bank under EBRD Power Supply Program,

the work on small and medium business crediting had been continued and a new agreement on mortgage loans refinancing was concluded with the IFC (Fig. 26 and 27).

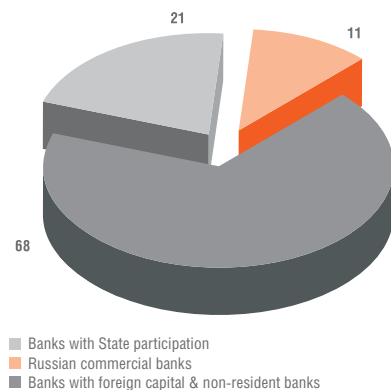


Fig. 27. Structure of limits opened by Absolut Bank

Absolut Bank pays special attention to opening and maintenance of correspondent

accounts in RF rubles for non-resident banks. In 2008 a number of correspondent accounts was opened in rubles for the KBC Group banks, and new tariffs on non-residents' LORO accounts were implemented. Correspondent accounts have an option of interest accrual to the credit balance and overdraft provision. The conditions of correspondent account maintenance are constantly changing in accordance with the requirements of credit institutions, for instance this year the respondent have obtained an option to send payment instructions in the English language.

Absolut Bank provides cooperation in the financial markets, at that strictly following the requirements of the Russian legislation in anti-money laundering and financing of terrorism, and in compliance with the international standards applied in this

sphere, including «Know Your Customer» procedures.

In 2009 in the framework of cooperation with financial institutions the Bank is going to fulfill a number of strategic tasks implying strengthening of Absolut Bank positions and good standing in the international and Russian business communities. These tasks include development of sales of the full range of financial products in accordance with the Bank's service line, development of correspondence relations and attraction of long-term funding to its own advantage and to the advantage of the Bank's customers.



Good balance

4. Risk policy

Aware of its responsibility to the customers and shareholders Absolut Bank works on minimization of its risks along all the lines of activity. Development of the risk management system is carried out in close connection with the Bank's business development. In 2008 one of the main events in the Bank's risk policy became integration into the KBC Group risk management system. As a result the risk management system was considerably reorganized in accordance with the core principles applied by the Group. It allowed increasing of the risk management level both in retail and corporate business and enabled the Bank to retain the high level of the credit portfolio quality in spite of the Russian banking market exposure to the world financial crisis.

4.1 Credit risk

Credit risk is potential reduction of the financial instrument value due to nonpayment or non-fulfillment of its obligations (loan obligations) by the borrower, surety or guarantor, insurer, contractor (at transactions in the financial markets), or security issuer resulted from their insolvency, bankruptcy, unwillingness to fulfill its obligations, events or measures taken by political or financial authorities in any country.

Under the conditions of financial crisis importance of credit risk management increases. Throughout its operation the Bank has paid sufficient attention to the quality of its credit portfolio both in retail and corporate

business, following the own underwriting procedure. Aware of the effect of the economic conditions the Bank has toughened the requirements to new borrowers and has taken certain measures to control the state of the current credit portfolio.

These measures enabled Absolut Bank to retain the share of overdue payments by all kinds of credit at the minimum level which is much less than the average market level (Fig. 28 and 29).

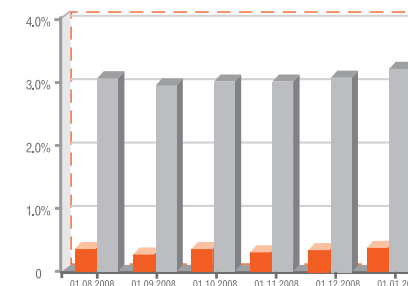


Fig. 28. Level of overdue debt in retail business

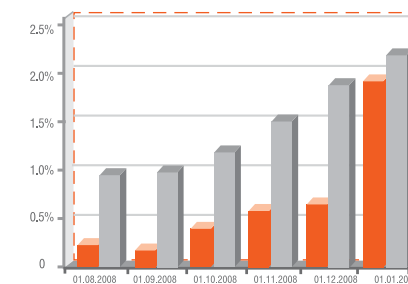


Fig. 29. Level of overdue debt in corporate business

The Bank realizes that under the unstable financial conditions the customary measures on overdue payment control may appear insufficient, therefore one more method of increase of the credit portfolio quality

has become creation of the own program of credit restructuring. The restructuring program for good faith borrowers has been developed by the Bank at the end of 2008 and implies reduction of monthly payment by means of the credit term extension or provision of deferral on capital repayments. The Risk Department has been preparing an independent opinion on all the issues.

At present credit risk management is carried out along the following lines:

- establishment of limits for transactions for the purpose of credit risk limitation,
- formation of collateral security for credit transactions,
- regular monitoring and analysis of the economic situation,
- regular monitoring of the reserves and funds sufficiency.

The principles of credit risk management at Absolut Bank are based on the requirements of the Bank of Russia, the core principles of the KBC Group and the corresponding generally recognized international standards.

4.2 Market risk

Market risks include equity risks (risks of losses in case of changes in the value of assets circulating in the equity market), exchange risks (risks of losses in case of exchange rate changes) and rate risks (risks of losses in the result of interest rate change).

The key elements of the market risks management system:

- analysis of the Bank's balance sensitivity to market fluctuations,
- rate risk management by way of determination of the target values of assets and liabilities in terms of volume, maturity, profitability/cost,
- establishment of limits for market risks acceptance by the Bank (open foreign exchange position limits, stop-loss limits on conversion transactions, limits for sensitivity to interest rate fluctuation and limits for market securities transactions),
- limits daily monitoring system.

The principle position of Absolut Bank in equity risks management is minimization of exposures in the securities market, which positively influences the financial position. Such policy has been implemented by the Bank's shareholder, the KBC Group, which, in its turn, also pays much attention to equity risks minimization.

The main methods of control over risks occurred in currency trading include hedging with the help of such instruments as forward and futures contracts, options and swap transactions.

4.3 Liquidity risk

The main type of risks affecting the Bank's ability to perform its obligations timely and in full is a liquidity risk occurring due to

incompliance of assets and liabilities terms. The key risks mean impossibility of assets financing in due course and at acceptable value.

The liquidity risk may result from particular risks or from negative events taking place in the market. The Bank monitors the liquidity risk on a regular basis and, according to the results of such monitoring the Bank management makes decisions on attracting additional funding or on placing temporary free monetary funds.

In order to minimize exposure to the world financial crisis, starting from autumn 2008, the Bank has maintained short-term ruble liquidity at the sufficient level actively attracting household deposits, and has used the full range of the offered financial instruments due to access to budgetary funds. With the assistance of the KBC Group, its main shareholder, the Bank's currency liquidity stayed at the level exceeding the required one.

Moreover the liquidity risk has been minimized by Absolut Bank due to diversification of the sources of funding.

4.4 Operational risk

Operational risk means the risk of losses resulting from violation or errors in the employees' performance, failure in successful performance of the Bank systems and internal procedures, and from external circumstances beyond the Bank's control.

Operational risk management is carried out by the Bank in accordance with the

provisions of the CBR, Basel Committee on Banking Supervision and the KBC Group. For this purpose the Bank has created a multi-level system of monitoring and analysis and standardized the main procedures and regulatory documents as much as possible. Most decisions are made collectively, which considerably decreases the risk of incorrect decision making. In order to minimize the risks on the part of employees the Bank carries out regular monitoring of the staff competence and labor turnover and certifies the staff proficiency. This allows detection of the risk source associated with the human factor and taking measures on its elimination.

In the Bank there exists a system of specialized bodies for operational risk management:

- Operational Risk Committee of the Bank,
- Operational Risks Division of the Risk Management Department of the Bank (including Coordination Center),
- Local operational risk-managers (members of business units and business support units).

The following main instruments are applied in the Bank for operational risk management:

- maintenance of data base on operational risk losses,
- risk self-assessment,

- assessment of business processes according to KBC Group standards,
- monitoring of external information bases,
- conduct of scenario analysis,
- employment of key risk indicators.

4.5 Reputation risk (risk of goodwill loss)

Risk of goodwill loss (reputational risk) is a risk of Bank losses resulting from reduction of the number of clients (partners) due to the public negative perception of the Bank's financial sustainability, quality of services rendered by it or the nature of its business in general.

The Bank performs reputation risk management in four lines:

- complaint handling for the purpose of improvement of customer service quality and reputation (Quality & Service Division of the Branch Network Assessment & Development Dept. of the Bank),
- compliance with the principles of information transparency, which forms

an integral part of the Bank's positive image (Public Relations Division of the Communications Dept. of the Bank),

- implementation of «know your customer» principle (Service of Financial Monitoring & Currency Control of the Bank),
- implementation of «know your employee» principle (Human Resources Dept. of the Bank).



Obligations

5. Customer service improvement program

The quality of the services provided has always been of great importance for Absolut Bank; therefore in 2007 the Bank developed and implemented the system of customer service improvement, oriented to improvement of the service quality. The Quality & Service Division was created in order to ensure the set tasks fulfillment.

In 2008 standards of work with customers were changed, which had a positive impact on quality and service indicators. Last year the division's activity was oriented to development and modification of standards of cooperation with customers throughout the branch network and in the call center, establishment of the system of assessment of compliance with the approved standards, motivation programs implementation, conduct of customer opinion polls, implementation of the electronic queue system and arrangement of the centralized system for customers' applications processing.

In the reporting period, within the framework of the development strategy implementation, Absolut Bank continued its active work on improvement of the customer service quality. Thus the front-office staff completed retraining in quality standards. During the whole reporting period all the points of Absolut Bank branch network were monthly assessed according to the «mystery shopper» method. On the basis of the data obtained in the course of such inspections the points with low performance were detected in order to

conduct necessary training of their staff and even change their business-processes. A motivation program based on the quality and service parameters was developed for the front-office staff. Consequently the service quality in the points of the branch network increased from 81.8% to 89.7% according to the results of 2008.

Absolut Bank Call Center was also assessed on the monthly basis according to the «mystery shopper» method. A motivation program based on the service quality parameters was developed for the Call Center employees. Consequently, according to the results of the reporting period, the service quality in the Call Center increased from 67% to 88%.

Moreover during the year customers' questionnaire on the service quality issues was held on a monthly basis; thereafter their opinions were considered at introduction of changes into the service standards and business-processes. In the framework of standardization all the customer documents were adjusted to the common pattern.

All the quality standards applied in Absolut Bank were corrected in 2008 in accordance with the requirements of the KBC Group. Thus the common technology of customers' applications processing was developed. The Complaint Handling Committee was created in order to settle disputable issues with the customer and give advice on changes to the Bank's processes and technologies. Moreover the common base of customers' applications was created in order to monitor duration of the customers' applications

consideration at the stage of official investigations.

Last year the Bank's technological services were changed in terms of service quality improvement. The new technologies introduced in 2008 included commissioning of the electronic queue systems in the

Sokolniki and Yugo-Zapadny subbranches in Moscow, which had substantially improved the conditions of customer service. The option to file an application for mortgage or car loan via the Bank's internet site was implemented. In 2008 Absolut Bank created the first self-service zones available for customers' convenience 24 hours a day.

The Bank plans to develop establishment of customer-oriented service model, implement new loyalty programs and review the processes and technologies with due consideration of the customers' requests and remarks. The Bank also plans to develop the technologies of remote communication with the customers via

«Internet-Banking» in order to enable the customers to carry out as much transactions as possible remotely and obtain information on all the products offered by Absolut Bank in on-line mode. Moreover the Bank is going to continue implementation of the electronic queue system in other branches.



Unity

6. Regional policy

Last year the main task of Absolut Bank branch policy was active development of business in the regions of the Bank's presence in order to provide the customers with access to the full range of banking products; one more task was service quality improvement. As of the beginning of 2008 the Bank was present in 24 regions, at that the Bank's branch network included 10 fully-functional branches, 41 credit cash offices selling credit products, 2 operational cashes and mini-offices. One of the key tasks was extension of presence in regions and opening of branches on the basis of the current credit cash offices.

Accordingly, during the whole reporting period the Bank paid great attention to promotion of corporate and retail services, such as mortgage loans, corporate credit, car loans, small and medium business finance, bank deposits, etc.

The set tasks had been successfully fulfilled during 2008. By the end of 2008 the Bank's regional network included 20 branches, 50 subbranches and offices, 5 operational cashes and mini-offices. In 2008 new branches were opened and started successful operation in the Moscow, Samara, Chelyabinsk, Kemerovo, Saratov, Sverdlovsk, Novosibirsk, Volgograd and Rostov Oblasts, in the Krasnodar Krai and the Republic of Bashkortostan.

According to the results of the reporting period the balance of regional accounts opened by individuals had been increased

by more than 2 times and amounted to RUB 1,924.0 mln. as of 01.01.2009. The balance of regional network accounts opened by legal entities had also been increased by more than twice and amounted to RUB 4,031.0 mln. as of 01.01.2009 (Fig. 30).

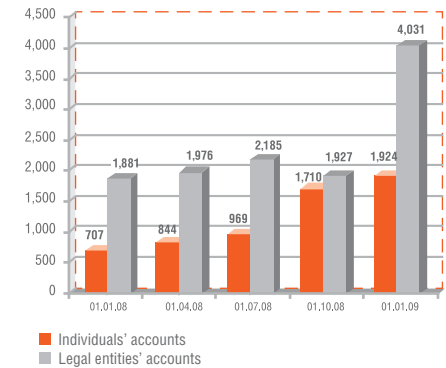


Fig. 30. Change in the balance of regional accounts (RUB mln.)

The regional credit portfolio had been increased by more than 2 times during the year and amounted to RUB 57,876 mln. as of 01.01.2009 (Fig. 31).

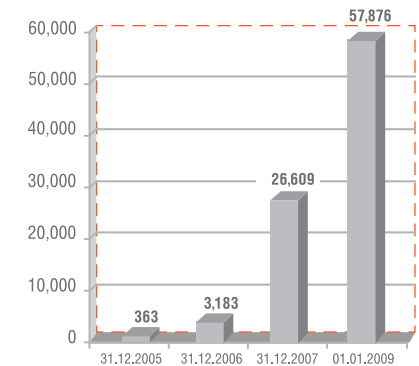


Fig. 31. Change in the regional credit portfolio (RUB mln.)

By the end of 2008 Absolut Bank had 74 offices in 24 regions of Russia. During the year the Bank opened 17 points of service,

including offices in Moscow and the Moscow Region.

The branch network development stays one of the priority strategic tasks of Absolut Bank;

however the key task is increase of profitability of the existing regional POS.



Development

7. Information technologies development

The banking informational technologies are conventionally deemed to form an integral part of the Bank's successful and efficient performance and help to keep the competitive advantages in the banking market. In this connection Absolut Bank conventionally lays a stress on IT development.

In 2008 the Bank showed active development: it launched new products and offers, increased the number of agreements and financial operations, and extended its presence in the regions. All this required qualitative technological support based on high technologies. In this connection the key tasks set the last year before the Bank's IT Service included further integration into the business of the KBC Group, improvement of the earlier implemented technologies and further development of IT complex in accordance with the international standards.

According to the tasks set in the reporting period IT development implied making of the following decisions. First of all, the Bank's technological base had to be modified. According to the results of the reporting period, in the framework of the events arranged in connection therewith, the Data Processing Center was reconstructed, i.e. the shared Data Processing Center was commissioned on two platforms and it became possible to improve reliability of the Bank's services.

Second, a number of infrastructural improvements focused on improvement

of the rendered IT-services' reliability and performance were carried out. Thus in the beginning of 2008 migration to the new hardware platform – SUN M9000 server – was performed. During the year scheduled renewal of technical equipment was ensured.

In the framework of internal processes improvement a number of independent functions were established within the Department (the Procurement Subdivision, the Project Office and the Processing Office were established). A new concept of further development of the IT Department organizational structure was developed. In 2008 in Novosibirsk the Support Center was created in order to satisfy the IT requirements of the eastern regions in the morning hours, i.e. in order to solve the problem of support of the Bank's branches situated in up to +5h. time zones toward Moscow.

In 2008, in the framework of cooperation between the IT and the business, special attention was paid to increase of transparency and efficiency of cooperation between the IT and internal customers – business-units. At that the key task of the arrangements became implementation of Business-ICT Governance principles and introduction of the required roles both on the side of the IT and internal customers in order to increase the cooperation efficiency. Transparency increase was also supported by implementation of the daily performance recording system which reflected the Departments' labor contribution in accordance with the KBC ICT budget principles.

The most important projects implemented in 2008 in connection with the technological development included implementation of Loan Collection module and retail credit applications, abandonment of the old banking system Quorum, implementation of corporate credit applications and automation of the leasing company activities. The Bank also focused on establishment of the data storage for preparation of financial records in accordance with the international standards (IFRS). Conventionally great attention was paid to choosing and implementation of the new budgeting system and scoring system.

Speaking of the implemented solutions we would like to emphasize the project on

the old banking system abandonment. In fact it was the result of 7-year efforts on improvement of technologies, replacement of the old functional and development of conceptually new one. We also succeeded in automation of the manual elements of business: the new system enabled performance of all basic banking operations on the common platform in on-line mode throughout the Bank's branches and subbranches and obtaining of complete and consistent data on all the Bank's customers.

One more achievement of Absolut Bank in 2008 in the sphere of IT development was a new service of electronic queue

commissioned in «Yugo-Zapadnoe» subbranches of Absolut Bank. This solution improved the banking services quality and enabled efficient planning and optimization of the Bank's performance. This project was focused on the customer service improvement in accordance with the leading world standards.

It is also worth mentioning that Absolut Bank participated in the «roundtable» conference arranged in Moscow by the Association of Russian Banks in December. The discussion was devoted to the banking anti-crisis IT-strategy and IT-cost saving. According to Absolut Bank specialists' opinion operational

performance improvement and business-processes optimization by way of IT-systems improvement are the most efficient ways of operational cost saving, which is especially important in the unstable economic situation. According to the conference results practical recommendations on IT-cost saving and IT performance under the crisis conditions were formulated.

The priority tasks for 2009 include development of integration of the implemented IT-systems and services. Great attention will also be paid to improvement of the current IT-infrastructure.



Priorities

8. Corporate governance

The Bank's corporate management is performed in accordance with the legislation of the Russian Federation regulating activity of joint-stock companies in Russia, the Articles of Association and the Bank's by-laws.

In its operation the Bank tries to observe the highest standards of corporate management and constantly works on improving of this line of its activity in accordance with the best world practices.

Control and efficiency of decision-making at all levels of management are ensured through segregation of the Management team functions.

The Bank's Management bodies are the following:

- General meeting of shareholders
- Supervisory Board
- Management Board
- Chairman of the Management Board

In its operation the Bank proceeds from the premise that the Bank Supervisory Board, the Chairman of the Bank Management Board and the Bank Management Board ensure observance of rights and protection of interests of the Bank's shareholders.

The Bank follows the principles of corporate management in accordance with the leading international standards, including:

- **Justice:** the Bank's system of corporate management shall ensure protection of the shareholders' rights and the similar attitude towards all the shareholders. All the shareholders shall have access to efficient remedies in case of their rights violation.
- **Responsibility:** the Bank's system of corporate management acknowledges the stipulated by the law rights of interested parties. Along with the absolute priority of the shareholders' rights and interests the Bank's system of corporate management ensures protection of the rights and interests of its customers, investors, society and all the parties interested in the Bank's business.
- **Transparency:** Timely disclosure of true information, including the data on the Bank's financial position, performance, ownership and management structure, is ensured in the Bank in accordance with the legislation and the Bank's by-laws.
- **Accountability:** the Bank's system of corporate management ensures strategic management of the Bank, efficient control over the Bank's executive bodies on the part of the Bank Supervisory Board, and accountability of the Board of Directors to the Bank and shareholders.

8.1 The Bank shareholders

Since summer 2007 KBC Bank NV (member of the KBC Group) and the International Finance Corporation have been the Bank's shareholders.

Following the changes introduced into the shareholding structure in 2007 the Bank continued improvement of the corporate management system, corporate procedures and internal normative base, systems of internal control, analysis and risk control. In 2008 the General Meeting of Shareholders approved the new editions of the Regulations on the Bank Supervisory Board and the Articles of Association. The amendments introduced into those documents concerned some important aspects and confirmed the criteria of selection candidates to the Supervisory Board responsibility of the members of the Supervisory Board, etc.

8.2 Composition of the Supervisory board as of 31.12.2008:

Jan O.S. Vanhevel
Chairman of the Supervisory board

Members of the Supervisory board:
Dirk S.M. Mampaey
Guido A.R. Segers
Franky S. Depickere
Nikolay Vladimirovich Sidorov
Alexander Alexandrovich Svetakov

The Supervisory Board committee on human resources and remuneration and

the Supervisory Board Audit committee continued their operation in 2008.

8.3 Composition of the committee on human resources and remuneration:

Jan O.S. Vanhevel
Chairman of the Committee

Committee members:
Dirk S.M. Mampaey
Nikolay Vladimirovich Sidorov

8.4 Composition of the Audit committee:

Dirk S.M. Mampaey
Chairman of the Committee

Committee members:
Jan O.S. Vanhevel
Guido A.R. Segers

8.5 Composition of the Bank Management board as of 31.12.2008:

Sidorov Nikolay Vladimirovich
Chairman of the Management Board

Skvortsov Oleg Viktorovich
Deputy Chairman of the Management Board

Larin Dmitry Mikhailovich
Deputy Chairman of the Management Board

Maksakov Anatoly Vladimirovich
Deputy Chairman of the Management Board

Adriaan Loeff
Deputy Chairman of the Management Board

The Committees established by the Bank Management Board also form part of the Bank management structure. The mentioned Committees are the Bank's management bodies consisting of the Management Board members and other employees of the Bank, considering the issues in accordance with the competence stipulated by the corresponding regulations on the committees.

8.6 Control over the Bank's financial and economic activities

Control over the Bank's financial and economic activities is carried out by the Revision Commission elected by the General Meeting of Shareholders for a term of one year. The current composition of the Revision Commission was elected at the annual General Meeting of Shareholders of the Bank on 30.06.2008 to the number of 3 people.

Control over the Bank's financial and economic activities in terms of audits is carried out by independent auditors, namely: in terms of the Russian Accounting Standards – by «Universe Audit» Auditing Firm Closed Joint-Stock Company, in terms of the International Financial Reporting Standards – by «Ernst & Young Vneshaudit» Closed Joint-Stock Company.

In 2009 the Bank deems it necessary to continue observing the best practices of corporate management, the standards and recommendations of international organizations, imperative and advisory provisions stipulated by the state regulatory and supervisory bodies of the Russian Federation.

The Internal Control Service has been created in order to protect the interests of the Bank, its shareholders, customers and correspondents, control observance of the applicable legislation and norms by the Bank's employees, regulate conflicts of interest, ensure the appropriate level of reliability of the Bank's transactions and minimize the risks. The Head of the Internal Control Service is Bukina Elena Viktorovna.