# Joint-Stock Commercial bank
# “Agropromcredit”

# Financial Statements

# for the Year Ended 31 December 2009

## Contents

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## Independent Auditors' Report

To the Board of Directors
Joint-Stock Commercial bank "Agropromcredit"

### Report on the Financial Statements

We have audited the accompanying financial statements of Joint-Stock Commercial bank "Agropromcredit" (the Bank), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
26 May 2010

| | Notes | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|---|
| Interest income | 4 | 2,449,236 | 2,978,621 |
| Interest expense | 4 | (1,002,383) | (1,075,009) |
| **Net interest income** | | **1,446,853** | **1,903,612** |
| Loan impairment recovery (provision) | 10 | 11,272 | (504 019) |
| **Net interest income after loan impairment provision** | | **1,458,125** | **1,399,593** |
| Fee and commission income | 5 | 427,368 | 774,501 |
| Fee and commission expense | 6 | (39,494) | (38,225) |
| **Net fee and commission income** | | **387,874** | **736,276** |
| Net gain on financial instruments at fair value through profit or loss | 7 | 104,572 | 135,872 |
| Net foreign exchange gain | 8 | 94,926 | 75,780 |
| Net gain on available-for-sale assets | | 16,549 | - |
| Recovery of impairment provision other than loan impairment | 10 | - | 8,353 |
| Other income | 9 | 175,241 | 232,226 |
| **Operating income** | | **2,237,287** | **2,588,100** |
| Loss on disposal of loans | 17 | (356,306) | (77,847) |
| General administrative expenses | 11 | (1,767,566) | (1,746,783) |
| **Income before taxes** | | **113,415** | **763,470** |
| Income tax expense | 12 | (26,702) | (185,469) |
| **Net income** | | **86,713** | **578,001** |
| **Other comprehensive income** | | | |
| Revaluation reserve for assets available-for-sale: | | | |
| - Net change in fair value of available-for-sale assets, net of tax | | (103,197) | - |
| - Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax | | 13,239 | - |
| **Other comprehensive income, net of tax** | | **(89,958)** | **-** |
| **Total comprehensive (loss) income** | | **(3,245)** | **578,001** |

The financial statements as set out on pages 4 to 55 were approved by the Board of Directors on 26 May 2010.

Kornev Vasiliy Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

МОСКОВСКАЯ ОБЛАСТЬ
АГРО ПРОМ КРЕДИТ
ГОРОД ЛЫТКАРИНО

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

| | Notes | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 13 | 5,989,322 | 10,368,915 |
| Due from the Central Bank of the Russian Federation | 14 | 94,610 | 27,525 |
| Loans to banks | 15 | 703,249 | 450,121 |
| Financial instruments at fair value through profit or loss | 16 | 922,044 | 1,082,532 |
| Loans to customers | 17 | 7,869,720 | 13,183,668 |
| Available-for-sale assets | 18 | 1,490,934 | - |
| Held-to-maturity investments | 19 | - | 1,742,792 |
| Property, equipment and intangible assets | 20 | 359,482 | 1,031,435 |
| Investment property | 20 | 677,753 | - |
| Current tax asset | | 39,957 | - |
| Deferred tax asset | 12 | 17,213 | - |
| Other assets | 21 | 527,356 | 228,926 |
| **Total assets** | | **18,691,640** | **28,115,914** |
| **LIABILITIES** | | | |
| Deposits and balances from banks | 22 | 22,661 | 2,072,228 |
| Current accounts and deposits from customers | 23 | 13,193,310 | 20,444,067 |
| Certificates of deposit and promissory notes | 24 | 1,513,080 | 1,584,019 |
| Other borrowed funds | 25 | 773,066 | 773,066 |
| Current tax liability | | - | 6,275 |
| Deferred tax liability | 12 | - | 39,557 |
| Other liabilities | 26 | 32,357 | 36,291 |
| **Total liabilities** | | **15,534,474** | **24,955,503** |
| **EQUITY** | | | |
| Share capital | 27 | 1,000,000 | 1,000,000 |
| Revaluation reserve for availiable-for-sale assets | | (89,958) | - |
| Retained earnings | | 2,247,124 | 2,160,411 |
| **Total equity** | | **3,157,166** | **3,160,411** |
| **Total liabilities and equity** | | **18,691,640** | **28,115,914** |

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

| | Notes | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 1,981,602 | 2,778,934 |
| Interest payments | | (1,041,848) | (956,133) |
| Net receipts from financial instruments at fair value through profit or loss | | 104,572 | 75,908 |
| Net receipts from foreign exchange | | 128,310 | 68,953 |
| Net receipts from availiable-for-sale assets | | 16,549 | - |
| Fees and commissions receipts | | 474,353 | 774,501 |
| Fees and commissions payments | | (39,494) | (38,225) |
| Other receipts | | 175,241 | 232,226 |
| Other general administrative expense payments | | (1,694,008) | (1,745,697) |
| **(Increase) decrease in operating assets** | | | |
| Due from the Central Bank of the Russian Federation (excluding cash and cash equivalents) | | (67,085) | 211,399 |
| Loans to banks | | (252,998) | 179,354 |
| Financial instruments at fair value through profit or loss | | 169,560 | 1,861,083 |
| Loans to customers | | 5,427,820 | (202,752) |
| Availiable-for-sale assets | | 140,133 | - |
| Held-to-maturity investments | | - | (281,442) |
| Other assets | | (351,066) | (137,162) |
| **Increase (decrease) in operating liabilities** | | | |
| Financial instruments at fair value through profit or loss | | - | (1,942) |
| Deposits and balances from banks | | (2,049,567) | 1,967,825 |
| Current accounts and deposits from customers | | (7,100,783) | 4,860,693 |
| Certificates of deposit and promissory notes | | (46,030) | (1,306,722) |
| Other liabilities | | 1,002 | (22,519) |
| **Net cash (used in) provided from operating activities before income tax paid** | | **(4,023,737)** | **8,318,282** |
| Income tax paid | | (107,215) | (270,059) |
| **Cash flows (used in) provided from operations** | | **(4,130,952)** | **8,048,223** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net purchases of property and equipment | | (78,528) | (710,897) |
| **Cash flows used in investing activities** | | **(78,528)** | **(710,897)** |
| **Net (decrease) increase in cash and cash equivalents** | | **(4,209,480)** | **7,337,326** |
| Effect of changes in exchange rates on cash and cash equivalents | | (170,113) | 466,111 |
| Cash and cash equivalents as at the beginning of the year | | 10,368,915 | 2,565,478 |
| **Cash and cash equivalents as at the end of the year** | 13 | **5,989,322** | **10,368,915** |

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

| | Share capital | Revaluation reserve for available-for-sale assets | Retained earnings | Total equity |
|---|---|---|---|---|
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **Balance as at 1 January 2008** | 1,000,000 | - | 1,582,410 | 2,582,410 |
| **Total comprehensive income** | | | | |
| Net income | - | - | 578,001 | 578,001 |
| **Total comprehensive income** | **-** | **-** | **578,001** | **578,001** |
| **Balance as at 1 January 2009** | **1,000,000** | **-** | **2,160,411** | **3,160,411** |
| **Total comprehensive income** | | | | |
| Net income | - | - | 86,713 | 86,713 |
| **Other comprehensive income** | | | | |
| Net change in fair value of available-for-sale assets, net of deferred tax of RUR 25,800 thousand (note 12) | - | (103,197) | - | (103,197) |
| Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax of RUR 3,310 thousand (note 12) | - | 13,239 | - | 13,239 |
| Total other comprehensive income | - | (89,958) | - | (89,958) |
| **Total comprehensive (loss) income** | **-** | **(89,958)** | **86,713** | **(3,245)** |
| **Balance as at 31 December 2009** | **1,000,000** | **(89,958)** | **2,247,124** | **3,157,166** |

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

# 1 Background

## Principal activities

Joint-Stock Commercial bank "Agropromcredit" (the Bank) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 of 7 July 1993) as a Limited Liability Partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 of 8 October 1998) the name and the legal structure of the Bank was changed from a Limited Liability Partnership into a Limited Liability Company. In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009 legal structure was changed from a Limited Liability Company into an Open Joint Stock Company (note 27). The Bank conducts its business on the basis of general banking license No. 2880 issued by the Central Bank of the Russian Federation (the CBRF). The activities of the Bank are regulated by the CBRF. The Bank was accepted into the Russian Federation state deposit insurance system for individuals in September 2005.

The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2009 the Bank has 14 branches and 28 representative offices in the Russian Federation. The branch network is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of employees during 2009 is 312 - in the head office, 991 - in total (2008: 338 - in the head office, 1 310 - in total).

The majority of the Bank's assets and liabilities are located in the Russian Federation.

The registered address of the Bank: 140061, Moscow region, Lytkarino, Housing complex 5, Block 2, Building 13.

## Shareholders

As at 31 December the shareholders of the Bank are:

| Name | 2009 % | 2008 % |
|---|---|---|
| LLC "Blaucent" | 20.0% | 20.0% |
| LLC "Denciborg" | 20.0% | 20.0% |
| LLC "Kinlaut" | 20.0% | 20.0% |
| LLC "Avtotransbureau" | 20.0% | 20.0% |
| CJSC "Surgutsky Electrichesky Svet" | 20.0% | 0.0% |
| LLC "Roleten" | 0.0% | 20.0% |
| | **100.0%** | **100.0%** |

### Russian business environment

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

## 2 Basis of preparation

### Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

### Basis of measurement

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

### Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUR) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUR is also the presentation currency for the purposes of these financial statements.

Financial information presented in RUR is rounded to the nearest thousand.

### Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 17 in respect of loan impairment estimates.

# 3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

## Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

As at 31 December 2009 the official rate of exchange used for translating foreign currency balances is USD 1 = RUR 30.2442 and Euro 1 = RUR 43.3883 (2008: USD 1 = RUR 29.3804 and Euro 1 = RUR 41.4411). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency outside of the Russian Federation.

## Cash and cash equivalents

The Bank includes cash, correspondent accounts and overnight placements with other banks and financial institutions and nostro accounts with the CBRF in cash and cash equivalents. The minimum reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawability.

## Financial instruments

### *Classification*

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

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

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

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

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

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

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

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

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

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

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

- intends to sell immediately or in the near term

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

- upon initial recognition designates as available-for-sale or,

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

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

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

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

### *Recognition*

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

### *Measurement*

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

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

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

- held-to-maturity investments that are measured at amortized cost using the effective interest method

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

### *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions, current creditworthiness of the counterparties and own credit risk.

### *Gains and losses on subsequent measurement*

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale asset is recognized as earned in profit or loss using the effective interest method.

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

### *Derecognition*

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

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

## Repurchase agreements and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

## Offsetting

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

## Property and equipment

### *Owned assets*

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

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

Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

### *Depreciation*

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

Depreciation is calculated using the following rates.

| | **Depreciation rate** |
|---|---|
| Buildings | 2% |
| Vehicles | 25% |
| Computers | 20%-25% |
| Office equipment | 10%-20% |
| Other equipment | 20% |
| Intangible assets | 25%-30% |
| Leasehold improvements | 10%-25% |

Expenses related to repairs and renewals are charged to profit or loss when incurred and included in profit or loss as other administrative and operating expenses unless they qualify for capitalization.

## Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost.

When the use of a property changes such that it is reclassified as property and equipment, its cost at the date of reclassification becomes its cost for subsequent accounting.

## Impairment

### *Financial assets carried at amortized cost*

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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

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

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

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

When a loan is uncollectable, it is written off against the related loan impairment allowance. The Bank writes off a loan balance (and any related loan impairment allowances) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

### *Financial assets carried at cost*

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

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

### *Available-for-sale assets*

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### *Non-financial assets*

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

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

### Provisions

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

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

### Credit related commitments

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

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

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

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

### Operating leases

Where the Bank is the lessee, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to lesser as a penalty is charged to profit or loss of the period in which the operating lease is cancelled.

## Share capital

### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### *Preference share capital*

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

### *Repurchase of share capital*

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

### *Dividends*

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

## Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

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

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

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

## Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Net gain on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

## Fiduciary assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported on the statement of financial position. Commissions received from such business are shown in fee and commission income within profit or loss.

## Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. Starting from 1 January 2003 the carrying amounts of the Bank's assets, liabilities and equity became their carrying amounts for the purpose of subsequent accounting.

## Changes in accounting policies

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

## New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these pronouncements on its financial statements.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 January 2010) 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.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009) addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

# 4 Interest income and interest expense

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 2,172,551 | 2,537,268 |
| Availiable-for-sale assets | 125,937 | - |
| Financial instruments at fair value through profit or loss | 65,227 | 238,827 |
| Held-to-maturity investments | - | 129,845 |
| Loans to banks | 85,521 | 72,681 |
| | **2,449,236** | **2,978,621** |
| **Interest expense** | | |
| Current accounts and deposits from customers | (745,459) | (710,854) |
| Promissory notes | (147,468) | (247,667) |
| Other borrowed funds | (68,787) | (62,449) |
| Deposits and balances from banks | (40,669) | (54,039) |
| | **(1,002,383)** | **(1,075,009)** |

# 5 Fee and commission income

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Guarantees | 144,648 | 68,602 |
| Settlement transactions | 121,961 | 560,267 |
| Cash transactions | 109,950 | 100,770 |
| Cash collections | 12,564 | 17,845 |
| Other | 38,245 | 27,017 |
| | **427,368** | **774,501** |

# 6 Fee and commission expense

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Settlement transactions | 19,115 | 18,643 |
| Cash collection | 8,491 | 7,037 |
| Cash transactions | 6,571 | 9,438 |
| Intermediary services on bonds issuance | - | 49 |
| Other | 5,317 | 3,058 |
| | **39,494** | **38,225** |

# 7 Net gain on financial instruments at fair value through profit or loss

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Debt instruments | 88,815 | (322,328) |
| Equity instruments | 15,330 | 409,929 |
| Other | 427 | 48,271 |
| | **104,572** | **135,872** |

# 8 Net foreign exchange gain

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Gain on spot transactions and derivatives | 128,310 | 68,953 |
| (Loss) gain from revaluation of financial assets and liabilities | (33,384) | 6,827 |
| | **94,926** | **75,780** |

# 9 Other income

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Penalties and charges received | 151,385 | 205,914 |
| Income from rent | 6,375 | 4,072 |
| Other | 17,481 | 22 240 |
| | **175,241** | **232,226** |

# 10 Impairment provision

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Recovery of impairment (impairment provision)** | | |
| Loans to customers (note 17) | 11,272 | (504,019) |
| Other assets (note 21) | - | 8,353 |
| | **11,272** | **(495,666)** |

# 11 General administrative expenses

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Employee compensation | (1,225,824) | (1,188,195) |
| Occupancy | (136,903) | (134,437) |
| Depreciation and amortization | (72,728) | (59,987) |
| Taxes other than on income | (65,669) | (70,006) |
| Communications and information services | (47,773) | (53,499) |
| Security | (31,644) | (37,564) |
| Repairs and maintenance | (31,568) | (38,732) |
| Insurance | (27,487) | (37,394) |
| Advertising and marketing | (26,661) | (64,534) |
| Consumables | (21,496) | (23,278) |
| Professional services | (7,578) | (6,046) |
| Travel expenses | (5,659) | (9,908) |
| Entertainment expenses | (5,288) | (7,389) |
| Office supplies | (5,052) | (6,936) |
| Other | (56,236) | (8,878) |
| | **(1,767,566)** | **(1,746,783)** |

# 12 Income tax expense

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 60,982 | 195,887 |
| Origination of temporary differences | (34,280) | (10,418) |
| **Income tax expense for the year** | **26,702** | **185,469** |

The applicable tax rate for current tax in 2009 is 20% (2008: 24%). The Bank applied a 20% deferred tax rate in 2009 (2008: 20%).

A reconciliation between the expected and the actual taxation charge is provided below.

| | 2009 RUR'000 | % | 2008 RUR'000 | % |
|---|---|---|---|---|
| Income before tax | 113,415 | | 763,470 | |
| Income tax at the applicable tax rate | 22,683 | 20% | 183,233 | 24% |
| Tax effect of items that are not deductible or assessable for taxation purposes, and other permanent differences | 5,782 | 5% | 8,713 | 1% |
| Income on government securities taxed at different rates | (1,763) | (2%) | (10,540) | (1%) |
| Effect of change in tax rate | - | - | 4,063 | 1% |
| | **26,702** | **23%** | **185,469** | **25%** |

## Deferred tax asset and liability

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. In accordance with Russian tax legislation, adopted in November 2008, starting from 1 January 2009 the income tax rate is reduced from 24% to 20%. Accordingly deferred tax was calculated at a tax rate of 20% as at 31 December 2008. The tax effect of the movement of these temporary differences in 2009 is recorded at the rate of 20% (2008: 20%), except for income on government securities that is taxed at 15% (2008: 15%).

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows.

| RUR'000 | Balance 1 January 2009 | Recognised in profit or loss | Recognised in other comprehensive income | Balance 31 December 2009 |
|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | 4,698 | (3,020) | - | 1,678 |
| Loans to customers | (33,687) | 35,446 | - | 1,759 |
| Available-for-sale assets | - | 27,687 | 22,490 | 50,177 |
| Held-to-maturity investments | 14,275 | (14,275) | - | - |
| Property and equipment | (20,076) | 8,017 | - | (12,059) |
| Other assets | (29,667) | 3,298 | - | (26,369) |
| Current accounts and deposits from customers | 2,196 | (2,194) | - | 2 |
| Certificates of deposit and promissory notes | 15,904 | (7,541) | - | 8,363 |
| Other liabilities | 6,800 | (13,138) | - | (6,338) |
| | **(39,557)** | **34,280** | **22,490** | **17,213** |

| RUR'000 | Balance 1 January 2008 | Recognised in profit or loss | Recognised in other comprehensive income | Balance 31 December 2008 |
|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | 42,756 | (38,058) | - | 4,698 |
| Loans to customers | (96,140) | 62,453 | - | (33,687) |
| Held-to-maturity investments | - | 14,275 | - | 14,275 |
| Property and equipment | 1,347 | (21,423) | - | (20,076) |
| Other assets | (35,981) | 6,314 | - | (29,667) |
| Current accounts and deposits from customers | 14,206 | (12,010) | - | 2,196 |
| Certificates of deposit and promissory notes | 24,937 | (9,033) | - | 15,904 |
| Other liabilities | (1,100) | 7,900 | - | 6,800 |
| | **(49,975)** | **10,418** | **-** | **(39,557)** |

### Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

| | 2009 | | |
|---|---|---|---|
| **RUR'000** | **Amount before tax** | **Tax expense** | **Amount net-of-tax** |
| Net change in fair value of available-for-sale assets | (128,997) | 25,800 | (103,197) |
| Net change in fair value of available-for-sale assets transferred to profit or loss | 16,549 | (3,310 ) | 13,239 |
| **Other comprehensive income** | **(112,448)** | **22,490** | **(89,958)** |

# 13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

| | **2009 RUR'000** | **2008 RUR'000** |
|---|---|---|
| Cash | 843,874 | 1,058,520 |
| Cash in Visa International | 52,674 | 49,359 |
| Due from the CBRF – nostro accounts | 1,981,909 | 7,846,320 |
| Correspondent accounts and overnight placements with other banks | | |
| Rated A- to A+ | 978,921 | 6,466 |
| Rated BBB | 83,832 | 74,087 |
| Rated BB- to BB+ | 726,528 | - |
| Rated B+ and below B+ | 29,713 | 26,867 |
| Not rated | 1 291,871 | 1,307,296 |
| | **5,989,322** | **10,368,915** |

# 14 Due from the Central Bank of the Russian Federation

| | **2009 RUR'000** | **2008 RUR'000** |
|---|---|---|
| Minimum reserve deposit | 94,610 | 27,525 |
| | **94,610** | **27,525** |

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

# 15 Loans to banks

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| ***Not impaired or past due*** | | |
| **Loans and deposits** | | |
| Rated from BBB- to BBB+ | 400,599 | - |
| Rated from BB- to BB+ | 300,001 | 450,000 |
| Rated B+ and below B+ | 836 | 121 |
| Not rated | 1,813 | - |
| **Total loans and deposits** | **703,249** | **450,121** |

## Concentration of loans to banks

As at 31 December 2009 and 2008 the Bank has two and one counterparties, respectively, whose balances individually exceed 10% of total loans to banks. The gross values of these balances as of 31 December 2009 and 2008 are RUR 699,986 thousand and RUR 450,000 thousand, respectively.

# 16 Financial instruments at fair value through profit or loss

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| ***Held by the Bank*** | | |
| **Debt and other fixed-income instruments** | | |
| **- Corporate bonds** | | |
| Rated B+ | - | 18,794 |
| **Total corporate bonds** | **-** | **18,794** |
| **- Promissory notes** | | |
| Rated from BBB- to BBB+ | 254,943 | 1,037,812 |
| Rated B- | - | 20,000 |
| Not rated | 667,101 | - |
| **Total promissory notes** | **922,044** | **1,057,812** |
| **Equity investments** | | |
| Rated BBB- | - | 5,926 |
| **Total equity instruments** | **-** | **5,926** |
| | **922,044** | **1,082,532** |

## Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7, the Bank reclassified certain quoted securities out of the fair value through profit or loss category to held-to-maturity investments. The Bank identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the fair value through profit or loss category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 August 2008 at fair value at that date. Securities reclassified to held-to-maturity investments as at 1 August 2008 were then reclassified to available-for-sale assets due to the tainting of the held-to-maturity portfolio (note 18).

The table below sets out the quoted securities reclassified and their carrying and fair values:

| | 31 December 2009 RUR'000 | | 31 December 2008 RUR'000 | | 1 August 2008 RUR'000 |
|---|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | **Carrying and fair value** |
| Quoted securities reclassified to held-to-maturity investments | - | - | 1,742,792 | 1,528,828 | 1,718,508 |
| Held-to-maturity investments reclassified to available-for-sale assets due to tainting | 1,490,934 | 1,490,934 | - | - | - |
| | **1,490,934** | **1,490,934** | **1,742,792** | **1,528,828** | **1,718,508** |

Included in the table below are amounts related to financial instruments held by the Bank as at 31 December 2009 and 2008.

| | 2009 RUR'000 | | 2008 RUR'000 | |
|---|---|---|---|---|
| | **Recognised for reclassified assets** | **Would have been recognized if the reclassifications were not made** | **Recognised for reclassified assets** | **Would have been recognized if the reclassifications were not made** |
| Interest income | 125,937 | 125,937 | 129,845 | 129,845 |
| Net losses from financial instruments at fair value through profit and loss | - | (95,899) | (62,657) | (213,964) |
| Net gains arising from available-for-sale assets | 16,549 | - | - | - |
| **Total recognised in profit or loss for the period (before tax)** | **142,486** | **30,038** | **67 188** | **(84,119)** |
| Net change in fair value of available-for-sale assets | (112,448) | - | - | - |
| **Total amount recognized within the statement of comprehensive income for the period (before tax)** | **30,038** | **30,038** | **67 188** | **(84,119)** |

# 17 Loans to customers

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Loans to legal entities** | | |
| Loans to large corporates | 1,781,408 | 2,435,887 |
| Loans to small and medium size companies | 2,725,936 | 5,070,842 |
| **Total loans to legal entities** | **4,507,344** | **7,506,729** |
| | | |
| **Loans to individuals** | | |
| Auto loans | 1,982,205 | 3,218,440 |
| Consumer loans with collateral | 1,012,666 | 1,453,510 |
| Loans to entrepreneurs | 536,032 | 817,405 |
| Consumer loans without collateral | 522,290 | 684,164 |
| Mortgage loans | 504,272 | 671,042 |
| Overdrafts | 21,512 | 26,750 |
| Other loans to individuals | 169,111 | 208 416 |
| **Total loans to individuals** | **4,748,088** | **7,079,727** |
| | | |
| **Gross loans to customers** | **9,255,432** | **14,586,456** |
| Impairment allowance | (1,385,712) | (1,402,788) |
| **Net loans to customers** | **7,869,720** | **13,183,668** |

Movements in the loan impairment allowance for the year ended 31 December are as follows:

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Loan impairment allowance as at 1 January | (1,402,788) | (899,462) |
| Net recovery (charge) during the year | 11,272 | (504,019) |
| Loans written off during the year as uncollectible | 5,804 | 693 |
| **Loan impairment allowance as at 31 December** | **(1,385,712)** | **(1,402,788)** |

As at 31 December 2009 and 2008 gross interest accrued on impaired loans amounts to RUR 546,431 thousand and RUR 442,407 thousand respectively.

## Credit quality of the loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2009:

| | Gross loans | Impairment allowance | Net loans | Impairment allowance to gross loans |
|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | % |
| **Loans to large corporates** | | | | |
| Loans for which no impairment has been identified: | | | | |
| - standard loans | 1,726,092 | (50,127) | 1,675,965 | 2.90% |
| - watch list loans | 20,951 | (556) | 20,395 | 2.65% |
| Total loans for which no impairment has been identified | 1,747,043 | (50,683) | 1,696,360 | 2.90% |
| Impaired loans: | | | | |
| - overdue more than 90 days and less than 1 year | 34,365 | (12,892) | 21,473 | 37.51% |
| Total impaired loans | 34,365 | (12,892) | 21,473 | 37.51% |
| **Total loans to large corporates** | **1,781,408** | **(63,575)** | **1,717,833** | **3.57%** |
| **Loans to small and medium size companies** | | | | |
| Loans for which no impairment has been identified: | | | | |
| - standard loans | 793,510 | (23,783) | 769,727 | 3.00% |
| - watch list loans | 1,567,775 | (42,023) | 1,525,752 | 2.68% |
| Total loans for which no impairment has been identified | 2,361,285 | (65,806) | 2,295,479 | 2.79% |
| Impaired loans: | | | | |
| - not overdue | 333,422 | (43,840) | 289,582 | 13.15% |
| - overdue more than 90 days and less than 1 year | 10,562 | (10,562) | - | 100.00% |
| - overdue more than 1 year | 20,667 | (20,363) | 304 | 98.53% |
| Total impaired loans | 364,651 | (74,765) | 289,886 | 20.50% |
| **Total loans to small and medium size companies** | **2,725,936** | **(140,571)** | **2,585,365** | **5.16%** |
| **Total loans to legal entities** | **4,507,344** | **(204,146)** | **4,303,198** | **4.53%** |

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2008:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment allowance to gross loans % |
|---|---|---|---|---|
| **Loans to large corporates** | | | | |
| Loans for which no impairment has been identified: | | | | |
| - standard loans | 1,987,990 | (93,821) | 1,894,169 | 4.71% |
| - watch list loans | 441,039 | (18,550) | 422,489 | 4.20% |
| Total loans for which no impairment has been identified | 2,429,029 | (112,371) | 2,316,658 | 4.62% |
| Impaired loans: | | | | |
| - overdue more than 1 year | 6,858 | (6,858) | - | 100.00% |
| Total impaired loans | 6,858 | (6,858) | - | 100.00% |
| **Total loans to large corporates** | **2,435,887** | **(119,229)** | **2,316,658** | **4.89%** |
| **Loans to small and medium size companies** | | | | |
| Loans for which no impairment has been identified: | | | | |
| - standard loans | 4,680,849 | (255,371) | 4,425,478 | 5.45% |
| - watch list loans | 333,326 | (21,969) | 311,357 | 6.59% |
| Total loans for which no impairment has been identified | 5,014,175 | (277,340) | 4,736,835 | 5.53% |
| Impaired loans: | | | | |
| - overdue less than 90 days | 9,526 | (9,526) | - | 100.00% |
| - overdue more than 1 year | 47,141 | (47,141) | - | 100.00% |
| Total impaired loans | 56,667 | (56,667) | - | 100.00% |
| **Total loans to small and medium size companies** | **5,070,842** | **(334,007)** | **4,736,835** | **6.58%** |
| **Total loans to legal entities** | **7,506,729** | **(453,236)** | **7,053,493** | **6.03%** |

The Bank estimates loan impairment allowance for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance on loans to legal entities as of 31 December 2009 and 2008 would be RUR 43,032 thousand and RUR 70,535 thousand lower/higher respectively.

### *Analysis of collateral*

Principal types of collateral used by the Bank are guarantees, pledge over real estate or equipment and securities. The Bank does not rely on collateral as a primary resource of repayment and therefore management does not estimate the fair value of collateral on a regular basis.

During the years ended 31 December 2009 and 2008 the Bank did not obtain any assets by taking control of collateral securing loans to legal entities.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2009 are as follows:

| | Loans to large corporates RUR'000 | Loans to small and medium size companies RUR'000 | Total |
|---|---|---|---|
| Loan impairment allowance as at 1 January | (119,229) | (334,007) | (453,236) |
| Net recovery during the year | 55,654 | 187,632 | 243,286 |
| Loans written off during the year as uncollectible | - | 5,804 | 5,804 |
| **Loan impairment allowance as at 31 December** | **(63,575)** | **(140,571)** | **(204,146)** |

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2008 are as follows:

| | Loans to large corporates RUR'000 | Loans to small and medium size companies RUR'000 | Total |
|---|---|---|---|
| Loan impairment allowance as at 1 January | (67,383) | (327,160) | (394,543) |
| Net charge during the year | (51,846) | (7,540) | (59,386) |
| Loans written off during the year as uncollectible | - | 693 | 693 |
| **Loan impairment allowance as at 31 December** | **(119,229)** | **(334,007)** | **(453,236)** |

## Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2009:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment allowance to gross loans % |
|---|---|---|---|---|
| **Auto loans** | | | | |
| - Not overdue | 1,456,022 | - | 1,456,022 | 0.00% |
| - Overdue less than 30 days | 69,939 | (705) | 69,234 | 1.01% |
| - Overdue 31-60 days | 45,408 | (7,905) | 37,503 | 17.41% |
| - Overdue 61-90 days | 11,596 | (3,895) | 7,701 | 33.59% |
| - Overdue more than 90 days | 399,240 | (399,240) | - | 100.00% |
| **Total auto loans** | **1,982,205** | **(411,745)** | **1,570,460** | **20.77%** |
| | | | | |
| **Consumer loans with collateral** | | | | |
| - Not overdue | 744,998 | - | 744,998 | 0.00% |
| - Overdue less than 30 days | 20,198 | (168) | 20,030 | 0.83% |
| - Overdue 31-60 days | 17,923 | (3,461) | 14,462 | 19.31% |
| - Overdue 61-90 days | 5,917 | (2,548) | 3,369 | 43.06% |
| - Overdue more than 90 days | 223,630 | (223,630) | - | 100.00% |
| **Total consumer loans with collateral** | **1,012,666** | **(229,807)** | **782,859** | **22.69%** |

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment allowance to gross loans % |
|---|---|---|---|---|
| **Loans to entrepreneurs** | | | | |
| - Not overdue | 389,807 | - | 389,807 | 0.00% |
| - Overdue less than 30 days | 9,126 | (146) | 8,980 | 1.60% |
| - Overdue 31-60 days | 8,009 | (2,108) | 5,901 | 26.32% |
| - Overdue 61-90 days | 9,049 | (7,693) | 1,356 | 85.01% |
| - Overdue more than 90 days | 120,041 | (120,041) | - | 100.00% |
| **Total loans to entrepreneurs** | **536,032** | **(129,988)** | **406,044** | **24.25%** |
| **Consumer loans without collateral** | | | | |
| - Not overdue | 216,394 | - | 216,394 | 0.00% |
| - Overdue less than 30 days | 10,478 | (103) | 10,375 | 0.98% |
| - Overdue 31-60 days | 6,303 | (1,396) | 4,907 | 22.15% |
| - Overdue 61-90 days | 1,622 | (575) | 1,047 | 35.45% |
| - Overdue more than 90 days | 287,493 | (287,493) | - | 100.00% |
| **Total consumer loans without collateral** | **522,290** | **(289,567)** | **232,723** | **55.44%** |
| **Mortgage loans** | | | | |
| - Not overdue | 386,495 | - | 386,495 | 0.00% |
| - Overdue less than 30 days | 57,351 | (1,781) | 55,570 | 3.11% |
| - Overdue 31-60 days | 11,806 | (2,672) | 9,134 | 22.63% |
| - Overdue 61-90 days | 2,813 | (2,034) | 779 | 72.31% |
| - Overdue more than 90 days | 45,807 | (45,807) | - | 100.00% |
| **Total mortgage loans** | **504,272** | **(52,294)** | **451,978** | **10.37%** |
| **Overdrafts** | | | | |
| - Not overdue | 12,306 | - | 12,306 | 0.00% |
| - Overdue less than 30 days | 116 | (2) | 114 | 1.72% |
| - Overdue 31-60 days | 81 | (29) | 52 | 35.80% |
| - Overdue 61-90 days | 65 | (60) | 5 | 92.31% |
| - Overdue more than 90 days | 8,944 | (8,944) | - | 100.00% |
| **Total overdrafts** | **21,512** | **(9,035)** | **12,477** | **42.00%** |
| **Other loans to individuals** | | | | |
| - Not overdue | 67,256 | - | 67,256 | 0.00% |
| - Overdue less than 30 days | 22,320 | (328) | 21,992 | 1.47% |
| - Overdue 31-60 days | 21,937 | (1,206) | 20,731 | 5.50% |
| - Overdue 61-90 days | 2 | - | 2 | 0.00% |
| - Overdue more than 90 days | 57,596 | (57,596) | - | 100.00% |
| **Total other loans to individuals** | **169,111** | **(59,130)** | **109,981** | **34.97%** |
| **Total loans to individuals** | **4,748,088** | **(1,181,566)** | **3,566,522** | **24.89%** |

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2008:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment allowance to gross loans % |
|---|---|---|---|---|
| **Auto loans** | | | | |
| - Not overdue | 2,587,954 | - | 2,587,954 | 0.00% |
| - Overdue less than 30 days | 114,886 | (3) | 114,883 | 0.00% |
| - Overdue 31-60 days | 81,485 | (119) | 81,366 | 0.14% |
| - Overdue 61-90 days | 16,685 | (1,139) | 15,546 | 6.82% |
| - Overdue more than 90 days | 417,430 | (417,430) | - | 100.00% |
| **Total auto loans** | **3,218,440** | **(418,691)** | **2,799,749** | **13.01%** |
| **Consumer loans with collateral** | | | | |
| - Not overdue | 1,080,101 | (1) | 1,080,100 | 0.00% |
| - Overdue less than 30 days | 32,683 | (6) | 32,677 | 0.02% |
| - Overdue 31-60 days | 16,471 | (72) | 16,399 | 0.44% |
| - Overdue 61-90 days | 12,294 | (821) | 11,473 | 6.68% |
| - Overdue more than 90 days | 311,961 | (311,961) | - | 100.00% |
| **Total consumer loans with collateral** | **1,453,510** | **(312,861)** | **1,140,649** | **21.52%** |
| **Loans to entrepreneurs** | | | | |
| - Not overdue | 748,883 | (7) | 748,876 | 0.00% |
| - Overdue less than 30 days | 35,852 | (91) | 35,761 | 0.25% |
| - Overdue 31-60 days | 9,427 | (163) | 9,264 | 1.73% |
| - Overdue 61-90 days | 7,095 | (1,154) | 5,941 | 16.26% |
| - Overdue more than 90 days | 16,148 | (16,148) | - | 100.00% |
| **Total loans to entrepreneurs** | **817,405** | **(17,563)** | **799,842** | **2.15%** |
| **Consumer loans without collateral** | | | | |
| - Not overdue | 512,242 | - | 512,242 | 0.00% |
| - Overdue less than 30 days | 16,682 | (1) | 16,681 | 0.00% |
| - Overdue 31-60 days | 6,750 | (19) | 6,731 | 0.28% |
| - Overdue 61-90 days | 2,728 | (354) | 2,374 | 12.98% |
| - Overdue more than 90 days | 145,762 | (145,762) | - | 100.00% |
| **Total consumer loans without collateral** | **684,164** | **(146,136)** | **538,028** | **21.36%** |
| **Mortgage loans** | | | | |
| - Not overdue | 586,761 | (1) | 586,760 | 0.00% |
| - Overdue less than 30 days | 57,451 | (14) | 57,437 | 0.02% |
| - Overdue 31-60 days | 11,479 | (142) | 11,337 | 1.24% |
| - Overdue 61-90 days | 3,597 | (609) | 2,988 | 16.93% |
| - Overdue more than 90 days | 11,754 | (11,754) | - | 100.00% |
| **Total mortgage loans** | **671,042** | **(12,520)** | **658,522** | **1.87%** |

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment allowance to gross loans % |
|---|---|---|---|---|
| **Overdrafts** | | | | |
| - Not overdue | 19,524 | - | 19,524 | 0.00% |
| - Overdue less than 30 days | 1,060 | (1) | 1,059 | 0.09% |
| - Overdue 31-60 days | 125 | (3) | 122 | 2.40% |
| - Overdue 61-90 days | 109 | (27) | 82 | 24.77% |
| - Overdue more than 90 days | 5,932 | (5,932) | - | 100.00% |
| **Total overdrafts** | **26,750** | **(5,963)** | **20,787** | **22.29%** |
| **Other loans to individuals** | | | | |
| - Not overdue | 150,993 | (2) | 150,991 | 0.00% |
| - Overdue less than 30 days | 21,654 | (47) | 21,607 | 0.22% |
| - Overdue more than 90 days | 35,769 | (35,769) | - | 100.00% |
| **Total other loans to individuals** | **208,416** | **(35,818)** | **172,598** | **17.19%** |
| **Total loans to individuals** | **7,079,727** | **(949,552)** | **6,130,175** | **13.41%** |

The Bank estimates loan impairment allowance based on its past historical loss experience on relevant types of loans adjusted for current economic environment.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment allowance on loans to individuals as of 31 December 2009 and 2008 would be RUR 106,996 thousand and RUR 183,905 thousand lower/higher respectively.

During the year ended 31 December 2009 the Bank renegotiated loans to individuals that would otherwise be past due or impaired of RUR 33,334 thousand (31 December 2008: none). Such restructuring activity is aimed at managing customer relashionships and maximising collection opportunities. Renegotiated loans are included in loans for which no impairment has been identified unless the borrower does not comply with renegotiated terms.

### *Analysis of collateral*

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Credit card overdrafts and all other types of loans to individuals are not secured.

The Bank estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 95% of the mortgage balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other loans to individuals.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

| RUR'000 | Auto loans | Consumer loans with collateral | Loans to entrepre-neurs | Consumer loans without collateral | Mortgage loans | Over-drafts | Other loans to indivi-duals | Total |
|---|---|---|---|---|---|---|---|---|
| Loan impairment allowance as at 1 January | (418,691) | (312,861) | (17,563) | (146,136) | (12,520) | (5,963) | (35,818) | (949,552) |
| Net recovery (charge) during the year | 6,946 | 83,054 | (112,425) | (143,431) | (39,774) | (3,072) | (23,312) | (232,014) |
| **Loan impairment allowance as at 31 December** | **(411,745)** | **(229,807)** | **(129,988)** | **(289,567)** | **(52,294)** | **(9,035)** | **(59,130)** | **(1,181,566)** |

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

| RUR'000 | Auto loans | Consumer loans with collateral | Loans to entrepre-neurs | Consumer loans without collateral | Mortgage loans | Over-drafts | Other loans to indivi-duals | Total |
|---|---|---|---|---|---|---|---|---|
| Loan impairment allowance as at 1 January | (227,880) | (168,501) | - | (86,916) | (1,101) | (2,222) | (18,299) | (504,919) |
| Net charge during the year | (190,811) | (144,360) | (17,563) | (59,220) | (11,419) | (3,741) | (17,519) | (444,633) |
| **Loan impairment allowance as at 31 December** | **(418,691)** | **(312,861)** | **(17,563)** | **(146,136)** | **(12,520)** | **(5,963)** | **(35, 818)** | **(949,552)** |

## Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Trade | 2,187,875 | 2,486,251 |
| Investment and financial companies | 965,603 | 651,457 |
| Energy, mining and metallurgy | 946,554 | 1,834,620 |
| Manufacturing | 55,974 | 575,785 |
| Rent | 52,038 | 289,772 |
| Construction | - | 825,834 |
| Food industry | - | 175,142 |
| Other | 95,154 | 214,632 |
| Loans to individuals | 3,566,522 | 6,130,175 |
| | **7,869,720** | **13,183,668** |

## Significant credit exposures

As at 31 December 2009 and 2008 the Bank has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

## Loan maturities

The maturity of the loan portfolio is presented in note 36, which shows the remaining periods from the reporting date to the contractual maturities of the loans. Due to the short-term nature of the loans issued to legal entities by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

## Disposal of loans

In 2009 and 2008 the Bank sold a pool of bad and overdue loans to a collection agency for RUR 196,405 thousand and RUR 1,045 thousand respectively. In 2009 and 2008 the value of disposed loans, including principal amounts, interest and penalties, equals to RUR 552,711 thousand and RUR 78,892 thousand respectively. In 2009 and 2008 a net loss of RUR 356,306 thousand and RUR 77,847 thousand respectively on disposal of these loans in recognised in the statement of comprehensive income.

# 18 Available-for-sale assets

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| ***Held by the Bank*** | | |
| **Debt and other fixed-income instruments** | | |
| **- Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | 1,200,157 | - |
| Other regional authorities and municipal bonds | 81,566 | - |
| **Total government and municipal bonds** | **1,281,723** | **-** |
| **- Corporate bonds** | | |
| Not rated | 117,115 | - |
| Rated BBB | 92,096 | - |
| **Total corporate bonds** | **209,211** | **-** |
| **Equity investments** | | |
| **- Corporate shares** | | |
| CJSC Bureau of Credit History "National Credit Bureau" | 4,410 | 4,410 |
| Impairment allowance | (4,410) | (4,410) |
| **Net corporate shares** | - | - |
| | **1,490,934** | **-** |

## Analysis of movements in the impairment allowance

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Impairment allowance as at 1 January | (4,410) | (4,410) |
| Net charge during the year | - | - |
| Impairment allowance as at 31 December | **(4,410)** | **(4,410)** |

# 19 Held-to-maturity investments

| | 2009 RUR’000 | 2008 RUR’000 |
|---|---|---|
| ***Held by the Bank*** | | |
| **Debt and other fixed-income instruments** | | |
| **- Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | - | 1,441,519 |
| Other regional authorities and municipal bonds | - | 95,519 |
| **Total government and municipal bonds** | **-** | **1,537,038** |
| **- Corporate bonds** | | |
| Rated B+ | - | 112,072 |
| Rated BBB | - | 93,682 |
| **Total corporate bonds** | **-** | **205,754** |
| | **-** | **1,742,792** |

During 2009 the Bank sold some of its held-to-maturity investments which resulted in tainting under IFRS. As a result according to requirements of IAS 39 the total remaining held-to-maturity investments were reclassified to the available-for-sale category.

# 20 Property, equipment, intangible assets and investment property

| RUR'000 | Land and buildings | Vehicles | Computers | Office equip-ment | Intangible assets | Other equip-ment | Assets under construction | Leasehold improve-ments | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2009 | 207,397 | 36,433 | 98,960 | 98,446 | 25,551 | 78,399 | 635,587 | 74,435 | 1,255,208 |
| Additions | - | 1,553 | - | 5,047 | 24,426 | 6,683 | 49,352 | 82 | 87,143 |
| Disposals | (602) | (1,741) | (3,978) | (5,023) | (10,970) | (7,124) | (4,193) | - | (33,631) |
| Transfers | - | - | (51,357) | 37,794 | - | 13,563 | (677,753) | - | (677,753) |
| **At 31 December 2009** | **206,795** | **36,245** | **43,625** | **136,264** | **39,007** | **91,521** | **2,993** | **74,517** | **630,967** |
| **Depreciation** | | | | | | | | | |
| At 1 January 2009 | 17,103 | 18,600 | 74,297 | 25,004 | 1,917 | 64,943 | - | 21,909 | 223,773 |
| Depreciation and amortisation charge | 4,146 | 6,727 | 4,591 | 12,063 | 20,032 | 14,971 | - | 10,198 | 72,728 |
| Disposals | (198) | (1,707) | (3,965) | (4,239) | (10,970) | (3,937) | - | - | (25,016) |
| Transfers | - | - | (38,558) | 28,375 | - | 10,183 | - | - | - |
| **At 31 December 2009** | **(21,051)** | **(23,620)** | **(36,365)** | **(61,203)** | **(10,979)** | **(86,160)** | **-** | **(32,107)** | **(271,485)** |
| **Carrying value** | | | | | | | | | |
| **At 31 December 2009** | **185,744** | **12,625** | **7,260** | **75,061** | **28,028** | **5,361** | **2,993** | **42,410** | **359,482** |

| RUR'000 | Land and buildings | Vehicles | Computers | Office equip-ment | Intangible assets | Other equip-ment | Assets under construction | Leasehold improve-ments | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2008 | 207,397 | 24,162 | 97,263 | 83,679 | 4,584 | 64,270 | 16,911 | 71,074 | 569,340 |
| Additions | - | 17,044 | 5,190 | 20,424 | 31,817 | 14,386 | 618,676 | 3,361 | 710,898 |
| Disposals | - | (4,773) | (3,493) | (5,657) | (10,850) | (257) | - | - | (25,030) |
| **At 31 December 2008** | **207,397** | **36,433** | **98,960** | **98,446** | **25,551** | **78,399** | **635,587** | **74,435** | **1,255,208** |
| **Depreciation and amortisation** | | | | | | | | | |
| At 1 January 2008 | 13,163 | 17,022 | 72,216 | 19,679 | 171 | 49,808 | - | 16,757 | 188,816 |
| Depreciation and amortisation charge | 3,940 | 6,351 | 5,574 | 10,982 | 12,596 | 15,392 | - | 5,152 | 59,987 |
| Disposals | - | (4,773) | (3,493) | (5,657) | (10,850) | (257) | - | - | (25,030) |
| **At 31 December 2008** | **17,103** | **18,600** | **74,297** | **25,004** | **1,917** | **64,943** | **-** | **21,909** | **223,773** |
| **Carrying value** | | | | | | | | | |
| **At 31 December 2008** | **190,294** | **17,833** | **24,663** | **73,442** | **23,634** | **13,456** | **635,587** | **52,526** | **1,031,435** |

As at 31 December, 2009 and 2008 the Bank had fully depreciated fixed assets that are still in use. The gross values of these balances as of 31 December 2009 and 2008 are RUR 80,203 thousand and RUR 55 894 thousand, respectively.

***Investment property***

During 2009 the Bank completed the purchase and registration a plot of land and recognised it as investment property, carried at cost. Management intentions are to hold this property for capital appreciation and eventually to sell it. The cost of the land at 31 December 2009 is RUR 677,753 thousand. As at 31 December 2009 management estimates the fair value of the investment property to be RUR 1,359,896 thousand, based on a comparative sales approach.

# 21 Other assets

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Trade debtors and prepayments | 497,190 | 185,063 |
| Materials and supplies | 30,166 | 43,863 |
| | **527,356** | **228,926** |

### Analysis of movements in the impairment allowance

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Impairment allowance as at 1 January | - | (8,353) |
| Net recovery during the year | - | 8,353 |
| Impairment allowance as at 31 December | **-** | **-** |

# 22 Deposits and balances from banks

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Vostro accounts | 11 | 11 |
| Term deposits | 22,650 | 60,641 |
| Due to the Central Bank of the Russian Federation | - | 2,011,576 |
| | **22,661** | **2,072,228** |

### Concentration of deposits and balances from banks

As at 31 December 2009 and 2008 the Bank has one and one counterparty, respectively, whose balances individually exceed 10% of total deposits and balances from banks. The gross values of these balances as of 31 December 2009 and 2008 are RUR 22,650 thousand and RUR 2,011,576 thousand, respectively.

# 23 Current accounts and deposits from customers

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Current accounts and demand deposits | | |
| - Retail | 969,452 | 1,057,065 |
| - Corporate | 4,438,792 | 7,376,190 |
| Term deposits | | |
| - Retail | 5,493,219 | 4,707,511 |
| - Corporate | 2,291,847 | 7,303,301 |
| | **13,193,310** | **20,444,067** |

# 24 Certificates of deposit and promissory notes

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Promissory notes | 1,513,080 | 1,584,019 |
| | **1,513,080** | **1,584,019** |

# 25 Other borrowed funds

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Subordinated borrowings | 773,066 | 773,066 |
| | **773,066** | **773,066** |

As at 31 December 2009 and 2008 subordinated borrowings comprise loans received from a third party maturing in 2020, which carry an annual interest rate of 8.9%. In case of bankruptcy, the repayment of the subordinated borrowings shall be made after repayment in full of all other liabilities of the Bank.

# 26 Other liabilities

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Audit expenses | 8,850 | 3,023 |
| Prepayments | 7,569 | 17,780 |
| Other taxes payable | 6,499 | 5,333 |
| Unused vacation | 4,836 | 8,270 |
| Other | 4,603 | 1,885 |
| | **32,357** | **36,291** |

# 27 Share capital

## Issued capital

In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009, the legal structure was changed from a Limited Liability Company into an Open Joint Stock Company. The change on the capital structure is presented in these financial statements as if it occurs at the beginning of the earliest period presented. As a result 1,000,000,000 ordinary shares were issued. All shares have a nominal value of RUR 1. The units in the charter capital were exchanged into the equal number of ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

### Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date in 2009, funds available for distribution amount to RUR 284,447 thousand.

In 2008 no distribution of net assets atributable to participants was declared.

# 28 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

### Risk management policies and procedures

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

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

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

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALMCO). In order to facilitate efficient decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

### Market risk

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

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

Overall authority for market risk is vested in the ALMCO, which is chaired by the President. Market risk limits are approved by the ALMCO based on recommendations of the Risk Department’s Market Risk Management Division.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. They are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate movements scenarios.

### *Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

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

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

An analysis of sensitivity of net income and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 and a 500 basis points (bp) symmetrical rise or fall in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2009 and 2008 is as follows:

| | **2009** | |
|---|---|---|
| | **Net income RUR’000** | **Equity RUR’000** |
| 100 bp parallel rise | 738 | 738 |
| 100 bp parallel fall | (738) | (738) |
| | **2008** | |
| | **Net income RUR’000** | **Equity RUR’000** |
| 500 bp parallel rise | (200) | (200) |
| 500 bp parallel fall | 200 | 200 |

An analysis of sensitivity of net income and equity as a result of changes in fair value of financial instruments at fair value though profit or loss and available-for-sale assets due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 and a 500 basis points (bp) symmetrical fall or rise in all yield curves is as follows:

| | **2009** | |
|---|---|---|
| | **Net income RUR'000** | **Equity RUR'000** |
| 100 bp parallel rise | (37,712) | (36,246) |
| 100 bp parallel fall | 37,712 | 36,246 |
| | **2008** | |
| | **Net income RUR'000** | **Equity RUR'000** |
| 500 bp parallel rise | (50,964) | (50,964) |
| 500 bp parallel fall | 50,964 | 50,964 |

## *Currency risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to note 37.

An analysis of sensitivity of net income and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% and a 20% change in USD and Euro to Russian Rouble exchange rates is as follows:

| | **2009** | |
|---|---|---|
| | **Net income RUR'000** | **Equity RUR'000** |
| 10% appreciation of USD against RUR | (1,936) | (1,936) |
| 10% depreciation of USD against RUR | 1,936 | 1,936 |
| 10% appreciation of EUR against RUR | (1,589) | (1,589) |
| 10% depreciation of EUR against RUR | 1,589 | 1,589 |
| | **2008** | |
| | **Net income RUR'000** | **Equity RUR'000** |
| 20% appreciation of USD against RUR | (5,029) | (5,029) |
| 20% depreciation of USD against RUR | 5,029 | 5,029 |
| 20% appreciation of EUR against RUR | (375) | (375) |
| 20% depreciation of EUR against RUR | 375 | 375 |

## Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of Credit Committees, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers (corporate, SME and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the legal entities loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual borrower analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk reflected on the statement of financial position is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk not reflected on the statement of financial position at the reporting date is presented in note 30.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 17 "Loans to customers".

## Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Financial Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Financial Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Financial Committee and implemented by the Financial Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBRF. The Bank was in compliance with these ratios during the years ended 31 December 2009 and 31 December 2008.

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity, except for financial instruments at fair value through profit or loss which are shown in the demand and less than 1 month category as they can be sold in public markets. All overdue loans are included in the demand and less than 1 month category. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

The liquidity position as at 31 December 2009 is as follows:

| | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **Total gross amount (outflow)/ inflow** | **Carrying amount** |
|---|---|---|---|---|---|---|
| **Non-derivative assets** | | | | | | |
| Cash and cash equivalents | 5,989,322 | - | - | - | 5,989,322 | 5,989,322 |
| Due from the Central Bank of the Russian Federation | 94,610 | - | - | - | 94,610 | 94,610 |
| Loans to banks | 703,563 | 610 | - | - | 704,173 | 703,249 |
| Financial instruments at fair value through profit or loss | 940,377 | - | - | - | 940,377 | 922,044 |
| Loans to customers | 1,389,763 | 3,240,173 | 2,068,233 | 5,115,697 | 11,813,866 | 7,869,720 |
| Available-for-sale assets | 10,025 | 160,571 | 57,620 | 1,923,919 | 2,152,135 | 1,490,934 |
| **Total assets** | **9,127,660** | **3,401,354** | **2,125,853** | **7,039,616** | **21,694,483** | **17,069,879** |
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks | (142) | (3,943) | (8,343) | (15,622) | (28,050) | (22,661) |
| Current accounts and deposits from customers | (6,678,652) | (2,236,293) | (2,289,037) | (2,888,388) | (14,092,370) | (13,193,310) |
| Certificates of deposit and promissory notes | (87,889) | (157,540) | (124,650) | (1,331,351) | (1,701,430) | (1,513,080) |
| Other borrowed funds | (5,995) | (28,104) | (34,474) | (1,459,988) | (1,528,561) | (773,066) |
| Other liabilities | (11,374) | (20,008) | (854) | (121) | (32,357) | (32,357) |
| **Total liabilities** | **(6,784,052)** | **(2,445,888)** | **(2,457,358)** | **(5,695,470)** | **(17,382,768)** | **(15,534,474)** |
| **Net position** | **2,343,608** | **955,466** | **(331,505)** | **1,344,146** | **4,311,715** | **1,535,405** |
| **Credit related commitments** | **(114,777)** | **(620,976)** | **(217,408)** | **(3,277,813)** | **(4,230,974)** | **(4,230,974)** |

The liquidity position as at 31 December 2008 is as follows:

| | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total gross amount outflow | Carrying amount |
|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks | 2,023,874 | 30,660 | 5,579 | 30,753 | 2,090,866 | 2,072,228 |
| Current accounts and deposits from customers | 9,135,925 | 3,108,659 | 2,231,871 | 7,601,442 | 22,077,897 | 20,444,067 |
| Certificates of deposit and promissory notes | 43,373 | 825,838 | 718,067 | 144,158 | 1,731,436 | 1,584,019 |
| Other borrowed funds | 5,699 | 28,494 | 34,193 | 1,525,312 | 1,593,698 | 773,066 |
| Current tax liability | - | 6,275 | - | - | 6,275 | 6,275 |
| Other liabilities | 14,064 | 11,858 | 1,506 | 8,863 | 36,291 | 36,291 |
| **Total liabilities** | **11,222,935** | **4,011,784** | **2,991,216** | **9,310,528** | **27,536,463** | **24,915,946** |
| **Credit related commitments** | **313,586** | **1,504,270** | **589,491** | **1,652,932** | **4,060,279** | **4,060,279** |

The key measure used by the Bank for managing liquidity risk are projections of the CBRF N3 and N4 ratios for a one month horizon. Current Liquidity Ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days. Long-term Liquidity Ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year. As at 31 December 2009 and 2008, these ratios are as follows:

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| At 31 December | | |
| N3 "Current Liquidity Ratio" (minimum 50%) | 138.10% | 109.90% |
| N4 "Long-term Liquidity Ratio (maximum 120%) | 33.30% | 41.50% |

For further information on the exposure to liquidity risk at year end refer to note 36.

# 29 Capital management

The CBRF sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2009, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2009 and 31 December 2008.

# 30 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Contracted amount** | | |
| Unused loans and overdrafts | 810,496 | 1,492,353 |
| Guarantees issued | 3,420,478 | 2,567,926 |
| **Total credit related commitments** | **4,230,974** | **4,060,279** |

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

# 31 Operating leases

## Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Less than 1 year | 61,748 | 122,244 |
| Between 1 and 5 years | 120,827 | 209,647 |
| More than 5 years | 28,459 | 27,675 |
| | **211,034** | **359,566** |

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2009 and 2008 RUR 136,903 thousand and RUR 134,437 thousand respectively are recognised as an expense in profit or loss in respect of operating leases.

# 32 Contingencies

## Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on its operations and financial position.

## Litigation

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

## Taxation contingencies

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

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

# 33 Related party transactions

## Control relationships

Banking transactions are entered into in the normal course of business with the shareholders of the Bank, members of the Board of Directors and the Management Board, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank's shareholders, members of the Board of Directors and the Management Board of the Bank. These transactions include settlements, loans and deposits taking. The outstanding balances and average interest rates as of 31 December 2009 and 2008 as well as income and expenses on operations with the related parties are as follows:

| | 2009 RUR'000 | | | | 2008 RUR'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Members of the Board of Directors and the Management Board** | **Average interest rate** | **Other** | **Average interest rate** | **Members of the Board of Directors and the Management Board** | **Average interest rate** | **Other** | **Average interest rate** |
| **Statement of financial position** | | | | | | | | |
| **Loans and advances to customers** | | | | | | | | |
| Loans and advances | - | - | 48,194 | 19.0% | 108 | 20.0% | 19,488 | 16.0% |
| **Customer accounts** | | | | | | | | |
| Current accounts | 30,356 | 0.0% | 956,422 | 0.0% | 6,961 | 0.0% | 8,491 | 0.0% |
| Term deposits | 289,058 | 9.8% | - | - | 333,465 | 9.8% | - | - |
| **Statement of comprehensive income** | | | | | | | | |
| Interest income for the year | 7 | - | 71,533 | - | 12 | - | 7,093 | - |
| Interest expense for the year | 28,521 | - | - | - | 22,370 | - | 81 | - |

In 2009 and 2008 the total remuneration of members of the Board of Directors and the Management Board of the Bank amounts to RUR 368,323 thousand and RUR 324,448 thousand respectively.

# 34 Fair value of financial instruments

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale assets are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Except as disclosed below, management believes that the fair values of all financial instruments do not differ significantly from their carrying values.

| **RUR'000** | **31 December 2009** | | **31 December 2008** | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Loans to customers | 7,869,720 | 7,016,041 | 13,183,668 | 10,346, 474 |
| Current accounts and deposits from customers | 13,193,310 | 13,325,768 | 20,444,067 | 15,707,823 |

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

# 35 Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2009 and 2008. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | **2009 Average effective interest rate, %** | | | **2008 Average effective interest rate, %** | | |
|---|---|---|---|---|---|---|
| | **RUR** | **USD** | **Other currencies** | **RUR** | **USD** | **Other currencies** |
| **Interest bearing assets** | | | | | | |
| Loans to banks | 3.7% | - | - | 10.5% | - | - |
| Financial instruments at fair value through profit or loss | 12.8% | - | - | 11.6% | - | 5.3% |
| Loans to customers | 16.2% | 14.4% | 15.6% | 15.8% | 14.1% | 16.3% |
| Availiable-for-sale assets | 7.8% | - | - | - | - | - |
| Held-to-maturity investments | - | - | - | 7.3% | - | - |
| **Interest bearing liabilities** | | | | | | |
| Deposits and balances from banks | | | | | | |
| - Term deposits | 10.9% | - | - | 12.0% | - | - |
| Current accounts and deposits from customers | | | | | | |
| - Term deposits | 11.8% | 8.8% | 8.9% | 12.5% | 10.6% | 9.9% |
| Certificates of deposit and promissory notes | 11.3% | 6.7% | 9.0% | 12.0% | 6.9% | 9.5% |
| Other borrowed funds | 8.9% | - | - | 8.9% | - | - |

# 36 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009:

| RUR'000 | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | No stated maturity/ Overdue | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 5,989,322 | - | - | - | - | 5,989,322 |
| Due from the Central Bank of the Russian Federation | 94,610 | - | - | - | - | 94,610 |
| Loans to banks | 702,639 | 610 | - | - | - | 703,249 |
| Financial instruments at fair value through profit or loss | 922,044 | - | - | - | - | 922,044 |
| Loans to customers | 590,769 | 2,532,799 | 1,527,258 | 3,178,690 | 40,204 | 7,869,720 |
| Available-for-sale assets | - | 111,938 | - | 1,378,996 | - | 1,490,934 |
| Property, equipment and intangible assets | - | - | - | - | 359,482 | 359,482 |
| Investment property | - | - | - | - | 677,753 | 677,753 |
| Current tax asset | - | 39,957 | - | - | - | 39,957 |
| Deferred tax asset | - | - | - | - | 17,213 | 17,213 |
| Other assets | 452,424 | 52,651 | 3,775 | 18,506 | - | 527,356 |
| **Total assets** | **8,751,808** | **2,737,955** | **1,531,033** | **4,576,192** | **1,094,652** | **18,691,640** |
| **LIABILITIES** | | | | | | |
| Deposits and balances from banks | 11 | 2,400 | 7,250 | 13,000 | - | 22,661 |
| Current accounts and deposits from customers | 6,610,364 | 1,971,984 | 2,035,504 | 2,575,458 | - | 13,193,310 |
| Certificates of deposit and promissory notes | 77,140 | 110,426 | 70,322 | 1,255,192 | - | 1,513,080 |
| Other borrowed funds | - | - | - | 773,066 | - | 773,066 |
| Other liabilities | 11,374 | 20,008 | 854 | 121 | - | 32,357 |
| **Total liabilities** | **6,698,889** | **2,104,818** | **2,113,930** | **4,616,837** | **-** | **15,534,474** |
| **Net position as at 31 December 2009** | **2,052,919** | **633,137** | **(582,897)** | **(40,645)** | **1,094,652** | **3,157,166** |
| Net position as at 31 December 2008 | 1,612,268 | (181,455) | 1,135,609 | (556,562) | 1,150,551 | 3,160,411 |

Financial instruments at fair value through profit or loss are classified within demand and less than one month as these financial instruments are of a trading nature and the management believes better reflects the Bank's liquidity position.

The following table shows financial assets at fair value through profit or loss by their remaining contractual maturity as of 31 December 2009 and 2008.

| | 31 December 2009 RUR'000 | 31 December 2008 RUR'000 |
|---|---|---|
| On demand and less than 1 month | 434,345 | 979,222 |
| 1 to 6 months | 487,699 | - |
| 6 to 12 months | - | 78,590 |
| More than 1 year | - | 18,794 |
| No stated maturity | - | 5,926 |
| **Financial instruments at fair value through profit or loss** | **922,044** | **1,082,532** |

# 37 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

| | RUR RUR'000 | USD RUR'000 | EUR RUR'000 | Other currencies RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 2,766,480 | 1,396,766 | 1,815,509 | 10,567 | 5,989,322 |
| Due from the Central Bank of the Russian Federation | 94,610 | - | - | - | 94,610 |
| Loans to banks | 700,088 | 2,728 | 433 | - | 703,249 |
| Financial instruments at fair value through profit or loss | 922,044 | - | - | - | 922,044 |
| Loans to customers | 7,843,717 | 24,712 | 1,291 | - | 7,869,720 |
| Available-for-sale assets | 1,490,934 | - | - | - | 1,490,934 |
| Property, equipment and intangible assets | 359,482 | - | - | - | 359,482 |
| Investment property | 677,753 | - | - | - | 677,753 |
| Current tax asset | 39,957 | - | - | - | 39,957 |
| Deferred tax asset | 17,213 | - | - | - | 17,213 |
| Other assets | 524,892 | 1,575 | 889 | - | 527,356 |
| **Total assets** | **15,437,170** | **1,425,781** | **1,818,122** | **10,567** | **18,691,640** |
| **LIABILITIES** | | | | | |
| Deposits and balances from banks | 22,661 | - | - | - | 22,661 |
| Current accounts and deposits from customers | 11,144,115 | 1,009,347 | 1,028,594 | 11,254 | 13,193,310 |
| Certificates of deposit and promissory notes | 263,377 | 440,424 | 809,279 | - | 1,513,080 |
| Other borrowed funds | 773,066 | - | - | - | 773,066 |
| Other liabilities | 32,041 | 206 | 110 | - | 32,357 |
| **Total liabilities** | **12,235,260** | **1,449,977** | **1,837,983** | **11,254** | **15,534,474** |
| **Net position as of 31 December 2009** | **3,201,910** | **(24,196)** | **(19,861)** | **(687)** | **3,157,166** |
| Net position as of 31 December 2008 | 3,196,923 | (33,086) | (2,468) | (958) | 3,160,411 |

# 38 Events subsequent to the reporting date

On 29 January 2010 share capital of the Bank was increased from RUR 1,000,000 thousand to RUR 1,890,000 thousand by increasing the nominal value of shares from RUR 1 to RUR 1.89. The increase was made by a transfer of retained earnings in the amount of RUR 890,000 thousand.