# Hlynov Commercial Bank
# (Open Joint Stock Company)
# Non-Consolidated Financial Statements
# 31 December 2009
# and Independent Auditor's Report

**Contents**

## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of OJSC CB Hlynov ('the Bank') has prepared and is responsible for the contents of the accompanying financial statements of the Bank and its related notes The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates made by the Bank's management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

N.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

19 May 2010

# AUDITOR'S REPORT

To the Board of Directors of OJSC CB Hlynov

## Report on the financial statements

We have audited the accompanying financial statements of 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.

This report is made solely to the Bank's Management and the Supervisory Board ("Management"), as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Bank's Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's management as a body, for our audit work, for this report, or for the opinions we have formed.

## Management's responsibility for preparation of financial statements

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

## Auditor's responsibility

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing necessary procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' professional 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 the internal control system 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 Bank's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Auditor's opinion

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

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 113093

19 May 2010

*OJSC CB Hlynov*
***Non-Consolidated Statement of Financial Position as at 31 December 2009***
***(in thousands of Russian Roubles)***

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalents | **5** | 1,088,440 | 1,192,895 |
| Mandatory Balances with the CBRF | **6** | 44,202 | 7,397 |
| Due from Banks | **7** | 730,000 | 430,000 |
| Securities at Fair Value through Profit or Loss | **8** | 217,750 | 95,541 |
| Loans and Advances to Customers | **9** | 5,008,686 | 4,580,973 |
| Investment in Subsidiary | **10** | 7,957 | 24,513 |
| Accrued Interest and Other Assets | **11** | 180,163 | 38,189 |
| Property, Plant and Equipment | **12** | 229,575 | 259,461 |
| Investment properties | **12** | 72,028 | - |
| **Total Assets** | | **7,578,801** | **6,628,969** |
| **Liabilities** | | | |
| Due to Banks | **13** | 25,800 | 96,000 |
| Customer Accounts | **14** | 6,294,689 | 5,265,371 |
| Debt Securities Issued | **15** | 4,013 | 11,017 |
| Taxation | **16** | 36,110 | 55,804 |
| Other Liabilities | **17** | 14,513 | 9,456 |
| **Total Liabilities** | | **6,375,125** | **5,437,648** |
| **Equity** | | | |
| Share Capital | **18** | 627,198 | 627,198 |
| Retained Earnings | | 529,108 | 494,426 |
| Revaluation Reserve | | 47,370 | 69,697 |
| **Total Equity** | | **1,203,676** | **1,191,321** |
| **Total Liabilities and Equity** | | **7,578,801** | **6,628,969** |
| **Credit Related Commitments** | **19** | **366,356** | **234,234** |

Signed and authorised for release on behalf of the Executive Board of the Bank on 19 May 2010

N.V. Popov
Chairman of the Executive Board

G.N. Anisimova
Chief accountant

*OJSC CB Hlynov*
*Non-Consolidated Statement of Comprehensive Income*
*for the year ended 31 December 2009*
*(in thousands of Russian Roubles)*

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Interest income** | | | |
| Loans and advances to legal entities | | 690,950 | 561,207 |
| Loans and advances to individuals | | 175,974 | 159,187 |
| Securities | | 18,808 | 23,368 |
| Due from banks | | 42,986 | 6,613 |
| | | **928,718** | **750,375** |
| **Interest expense** | | | |
| Term deposits of individuals | | (468,468) | (270,942) |
| Term deposits of legal entities | | (28,562) | (37,132) |
| Debt securities issued | | - | (46) |
| Current/settlement accounts | | (19,070) | (20,476) |
| Due to banks | | (7,195) | (12,941) |
| | | **(523,295)** | **(341,537)** |
| **Net interest income** | | **405,423** | **408,838** |
| Allowance for impairment | **20** | (253,049) | (119,402) |
| **Net interest income less allowance for losses** | | **152,374** | **289,436** |
| Net fee and commission income | **22** | 176,085 | 196,921 |
| Gains / (losses) from trading with securities | **21** | 20,743 | (25,341) |
| Gains less losses from transactions with foreign currencies | | 31,021 | 20,139 |
| Net losses from revaluation of items in foreign currencies | | (7,828) | (4,627) |
| Losses from disposal of property, plant and equipment | | (4,724) | (17) |
| Fair value adjustment of investment in subsidiary | **10** | (16,556) | 20,548 |
| Other operating income | | 9,716 | 5,764 |
| **Operating income** | | **360,831** | **502,823** |
| Staff costs | **23** | (143,601) | (137,643) |
| Administrative and other operating costs | **23** | (97,018) | (106,792) |
| Depreciation and amortisation | **12** | (15,983) | (13,430) |
| **Operating expenses** | | **(256,602)** | **(257,865)** |
| **Transfer value on loans issued at less than commercial rates** | | (627) | (386) |
| **Profit before tax** | | **103,602** | **244,572** |
| Income tax charge | **16** | (8,420) | (57,417) |
| **Profit for the period** | | **95,182** | **187,155** |
| **Other comprehensive income** | | | |
| (Losses) / gains on property revaluation | | (22,327) | 39,415 |
| **Total comprehensive income for the year** | | **72,855** | **226,570** |

**_OJSC CB Hlynov_**
**_Non-Consolidated Statement of Cash Flows_**
**_for the year ended 31 December 2009_**
**_(in thousands of Russian Roubles)_**

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received on credits | | 881,380 | 713,628 |
| Interest paid | | (525,046) | (341,142) |
| Income from securities trading | | 18,808 | 23,322 |
| Income from trading in foreign currencies | | 31,021 | 20,139 |
| Commissions received | | 196,559 | 217,422 |
| Commissions paid | | (20,474) | (20,501) |
| Losses from disposal of property, plant and equipment | | (4,724) | (17) |
| Other operating incomes received | | 9,716 | 5,764 |
| Other operating expenses paid | | (253,181) | (270,556) |
| Income tax paid | | (28,114) | (49,953) |
| **Cash flows from operating activities received before changes in operating assets and liabilities** | | **305,945** | **298,106** |
| *Net (increase)/decrease in operating assets* | | | |
| Mandatory balance with CBRF | | (36,805) | 39,682 |
| Securities at fair value through profit or loss | | (111,479) | 153,683 |
| Due from banks | | (299,505) | (471,971) |
| Loans and advances to customers | | (688,205) | (814,630) |
| Other assets | | (146,104) | 1,770 |
| *Net increase /(decrease) in operating liabilities* | | | |
| Due to banks | | (70,200) | 21,427 |
| Customer accounts | | 1,024,001 | 1,237,545 |
| Debt securities issued | | (7,004) | (35,755) |
| Other liabilities | | 3,190 | (4,602) |
| **Net cash (paid)/received from operating activities** | | **(26,166)** | **425,255** |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (9,918) | (46,192) |
| Sale of fixed assets | | | - |
| **Net cash paid in investing activities** | | **(9,918)** | **(46,192)** |
| **Cash flows from financing activities** | | | |
| Proceeds from shares issued | **18** | - | 120,000 |
| Dividends paid | **18** | (60,543) | - |
| **Net cash received from financing activities** | | **(60,543)** | **120,000** |
| Effect of exchange rate on cash and cash equivalents | | (7,828) | (4,627) |
| **Net increase of cash and cash equivalents** | | **(104,455)** | **494,436** |
| **Cash and cash equivalents at the beginning of the year** | **5** | **1,192,895** | **698,459** |
| **Cash and cash equivalents at the end of the year** | **5** | **1,088,440** | **1,192,895** |

*(in thousands of Russian Roubles)*

| | Share capital | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|
| **01 January 2008** | **507,198** | **30,282** | **307,271** | **844,751** |
| Issue of shares | 120,000 | - | - | **120,000** |
| Total comprehensive income for the year | **-** | 39,415 | 187,155 | **226,570** |
| **01 January 2009** | **627,198** | **69,697** | **494,426** | **1,191,321** |
| Dividends declared in the reporting period | - | **-** | (60,500) | **(60,500)** |
| Total comprehensive income for the year | **-** | (22,327) | 95,182 | **72,855** |
| **01 January 2010** | **627,198** | **47,370** | **529,108** | **1,203,676** |

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Bank's reserves.

As at 31 December 2009, retained earnings of the Bank calculated in accordance with Russian accounting standards were 367,587 (2008: 349,906).

## 1. Principal Activities

On 6 March 1990, Bank "KirovCoopBank" was registered with the Central Bank of the Russian Federation ("CBRF"). In the year 1991 it was renamed as "Commercial Bank Hlynov" (Open Joint Stock Company).

The Bank conducts its business under general license № 254 issued by the CBRF on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank has also been granted licenses as professional participant of the Securities Market allowing it to carry out depository functions, and to act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the population and legal entities in the Kirov district.

The structure of the Bank comprises a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 27 supplementary offices and 8 cash in offices. The Bank does not have any branches.

During 2009 the Bank has had an average of 431 members of staff (2008: 387).

In the opinion of the Bank's management, and considering the structure and nature of the shareholders, described in Note 18, the Bank does not have a single ultimate controlling party.

## 2. Operating Environment of the Bank

In 2008 Russia was seriously affected by the economic crisis that affected a large number of countries in the world. Oil and many commodity prices dropped sharply there were capital outflows and a sharply depreciating exchange rate. Stock market indexes were also adversely affected. The impact on the banking sector was severe, and interbank market disappeared and there were heavy withdrawals by individuals from the system along with many mergers and takeovers. In 2009 however the picture reversed in many ways, the rouble has appreciated strongly again, stock markets have increased substantially and commodity prices most notably gold and oil have also risen sharply. GDP which went through accelerating decline in the first half of 2009 has begun to recover and overall for 2009 was approximately 8% negative primarily thanks to gains in the second half of the year. Liquidity is still at substantially lower levels than pre 2008 but is improving, there has been widespread loan restructuring and non performing loans are believed to be peaking. Progressive cuts to the CBRF rate, from 13% to 8.75% at the end of 2009 have provided a form of stimulus and made credit more affordable and this policy is likely to continue.

Although, at the date of signing these financial statements Management, cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management's assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management's assessment. They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

## 3. Basis of Presentation

### *a) General*

The non-consolidated financial statements of the Bank have been prepared on the going concern basis in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

**Basis of Presentation (continued)**

These financial statements are based on the Bank's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These financial statements are presented and rounded to thousands of Roubles (RUR) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Bank's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies other then RUR are treated as transactions in foreign currencies.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

***b) Use of estimates***

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements' preparation, and although are based on Management's best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

*(i) Impairment losses on loans to customers*

The Bank reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. The credits exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairments is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

Impairment amount is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (less future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Comprehensive Income for the year.

*(ii) Impairment losses on receivables other than loans*

The Bank reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the Statement of Comprehensive Income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

*(iii) Fair values*

For assets and liabilities estimated at fair value the Bank applies the latest market bid prices where possible. In case this is not it uses evaluation techniques or conventions. Further details are given in Note 8.

*(iv) Related party transactions*

In the normal course of business the Bank enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

*(in thousands of Russian Roubles)*

**Basis of Presentation (continued)**

*(v) Depreciation*
The Bank applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Managements knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in the future.

***c) Standards, interpretations and amendments that are not yet effective***

During the reporting year the following standards were new, or were amended:

*New International Financial Reporting Standard*

| | |
|---|---|
| IFRS 8 | Operating Segments |

*International Financial Reporting Interpretations Committee (IFRIC) Interpretations*

| | |
|---|---|
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| IFRIC 15 | Agreements for the Construction of Real Estate |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |
| IFRIC 18 | Transfers of Assets from Customers |

*Amendments to existing standards*

| | |
|---|---|
| IAS1 | Presentation of Financial Statements |
| IAS 7 | Statement of Cash Flows |
| IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 | Events after the Reporting Period |
| IAS 12 | Income Taxes |
| IAS 16 | Property, Plant and Equipment |
| IAS 18 | Revenue |
| IAS 19 | Employee Benefits |
| IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| IAS 23 | Borrowing Costs |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates |
| IAS 29 | Financial Reporting in Hyperinflationary Economies |
| IAS 31 | Interests in Joint Ventures |
| IAS 32 | Financial Instruments: Presentation |
| IAS 36 | Impairment of Assets |
| IAS 38 | Intangible Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IAS 40 | Investment Property |
| IAS 41 | Agriculture |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards |

*(in thousands of Russian Roubles)*

**Basis of Presentation (continued)**

| | |
|---|---|
| IFRS 2 | Share-based Payment |
| IFRS 5 | Non-Current Assets held for Sale and Discontinued Operations |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRS 7 | Financial Instruments: Disclosures |

Of the above, only the following have had a significant impact on the financial statements:

*IAS1 Presentation of Financial Statements* has had an impact on the financial statements. The standard has made substantial changes to the disclosure required in financial statements, as well as changing the presentation of performance. The Bank has opted to present a single statement of comprehensive income.

*IFRS 7 - Financial Instruments: Disclosures*

The major changes to IFRS 7 arise out of the introduction to IFRS 9 (see below). The changes to the standard reflect the replacement of the four categories of financial assets under IAS 39 with the two under IFRS 9. All of the IFRS 7 disclosures by category of financial asset will be altered to reflect the new categorisation. There are also changes associated with the potentially different measurement bases applied by IFRS 9. IFRS 7 also has a number of disclosures which deal with the transition from IAS 39 to IFRS 9 for financial assets.

At the date of the Statement of Financial Position, the following Standards, Interpretations and Amendments were in issue but not mandatory for accounting periods starting before the date indicated:

*New International Financial Reporting Standard*

| | | |
|---|---|---|
| IFRS 9 | Financial Instruments | 1 January 2013 |

*International Financial Reporting Interpretations Committee (IFRIC) Interpretations*

| | | |
|---|---|---|
| IFRIC 9 | Reassessment of Embedded Derivatives | 1 July 2009 |
| IFRIC 14 – IAS 19 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | 1 July 2009 |
| IFRIC 17 | Distributions of Non-Cash Assets to Owners | 1 July 2009 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |

*Amendments to existing standards*

| | | |
|---|---|---|
| IAS 1 | Presentation of Financial Statements | 1 July 2009 |
| IAS 7 | Statement of Cash Flows | 1 July 2009 |
| IAS 12 | Income Taxes | 1 July 2009 |
| IAS 16 | Property, Plant and Equipment | 1 January 2010 |
| IAS 17 | Leases | 1 January 2010 |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates | 1 July 2009 |
| IAS 24 | Related Party Disclosures | 1 January 2011 |
| IAS 27 | Consolidated and Separate Financial Statements | 1 July 2009 |
| IAS 28 | Investments in Associates | 1 July 2009 |
| IAS 31 | Interests in Joint Ventures | 1 July 2009 |
| IAS 32 | Financial Instruments: Presentation | 1 July 2009 |
| IAS 33 | Earnings Per Share | 1 July 2009 |

*(in thousands of Russian Roubles)*

**Basis of Presentation (continued)**

| | | |
|---|---|---|
| IAS 36 | Impairment of Assets | |
| IAS 37 | Provisions, Contingent Liabilities and Contingent Assets | 1 July 2009 |
| IAS 38 | Intangible Assets | 1 July 2009 |
| IAS 39 | Financial Instruments: Recognition and Measurement | 1 July 2009 |
| IFRS 2 | Share-Based Payment | 1 July 2009 |
| IFRS 3 | Business Combinations | 1 July 2009 |
| IFRS 5 | Non-Current Assets held for Sale and Discontinued Operations | 1 July 2009 |
| IFRS 7 | Financial Instruments: Disclosures | 1 July 2009 |

Management has decided not to early adopt any of the Standards, Interpretations and Amendments. Of the above Management believes that only the following will have a significant impact on the Bank's financial statements:

*IAS 1 - Presentation of Financial Statements*

The changes to the Standard for periods starting on or after 1 July 2009 introduce changes to the disclosures in the Statement of Changes in Equity. There are also changes to IAS 1, which come into force for accounting periods beginning on or after 1 January 2010, with regard to the classification of liabilities as current or non-current.

*IAS 24 - Related Party Disclosures*

IAS 24 has been amended effective for accounting periods beginning on or after 1 January 2011, on a retrospective basis. The main changes are to provide a partial exemption from the requirements of the standard for entities that are controlled or influenced by government, and to clarify the definition of a related party.

*IFRS 9 - Financial Instruments*

IFRS 9 *Financial Instruments* changes requirements for the classification and measurement of financial assets. The four categories of financial asset set out in IAS 39 are reduced to two by IFRS 9: those that are carried at amortised cost and those that are not, and must be carried at fair value. In deciding into which category a financial asset falls, an entity must normally take account of:

- the entity's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Financial assets are measured at amortised cost if:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets which do not fall into this category must be stated at fair value.

As the Bank does not have a complex range of financial instruments at present the anticipated changes are expected largely to relate to disclosure requirements under IFRS 7.

Management has considered the issue of interpretations of the standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Bank. The Bank will adopt these standards when they become effective.

*(in thousands of Russian Roubles)*

**Basis of Presentation (continued)**

***d) Inflation accounting***

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *“Financial Reporting in Hyperinflationary Economies”*, and therefore, the Bank ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002.

Consequently, monetary items and results of operations for 2008 and 2009 are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost (“restated cost”) through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

***e) Reconciliation of RAS and IFRS equity and net income***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | **Equity** | **Net profit** | **Equity** | **Net profit** |
| **RAS** | **997,607** | **78,181** | **1,003,982** | **178,271** |
| Transfer value of loans | 237 | 882 | (585) | 169 |
| Additional allowance for loans and correspondent accounts | 192,752 | (2,187) | 194,939 | (8,756) |
| Accrued discount/interest on securities at fair value through profit or loss | - | - | - | 687 |
| Interest expense/income | 18,867 | 16,337 | 2,530 | 2,226 |
| Allowance for other assets | - | - | - | (103) |
| Write off of low value assets | (28) | 432 | (460) | 1,577 |
| Expenses on purchased promissory notes | - | - | - | 2,933 |
| Charge of expenses recorded through capital reserves | - | - | - | (5,699) |
| Additional depreciation | (914) | (2,655) | (4,494) | (92) |
| Revaluation of subsidiary | 7,957 | (16,556) | 24,513 | 20,548 |
| Adjustments of fixed assets | 11,129 | 2,080 | 12,844 | 3,487 |
| Deferred tax | (36,110) | 19,694 | (55,804) | (7,464) |
| Deposit insurance system | (4,444) | (1,255) | (3,189) | (705) |
| Revaluation of fixed assets | 7,964 | - | 8,858 | - |
| Other | 8,659 | 289 | 8,187 | 76 |
| **IFRS** | **1,203,676** | **95,182** | **1,191,321** | **187,155** |

**Basis of Presentation (continued)**

### *f) Fair value of financial instruments*

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their measured fair values in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"*. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm's length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

## 4. Significant Accounting Policies

### *a) Consolidation*

These financial statements present the Bank's activities and balances on a non-consolidated basis. The Bank has produced separate financial statements presenting the consolidated Statement of Comprehensive Income and Statement of Financial Position of the Bank and its subsidiary.

### *b) Recognition of Financial Instruments*

The Bank recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is 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

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

### *c) Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

### *d) Mandatory Balances with the CBRF*

Mandatory balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

### *e) Due from Banks*

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

**Significant Accounting Policies (continued)**

***f) Securities at Fair Value through Profit or Loss (“FVPL”)***

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the reporting date.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Comprehensive Income as interest income on securities.

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

***g) Investment in subsidiary***

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in Note 3 (f) above.

***h) Securities Available for Sale (“AFS”)***

AFS securities are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Investment securities available for sale are initially recognised at cost (which includes transaction costs).

AFS securities are subsequently valued at market value with gains and losses taken through the statement of changes in equity except for losses arising from impairment. When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in this way for equity instruments are not reversed through the Statement of Comprehensive Income.

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

***i) Sale and Repurchase Agreements***

Sale and repurchase (“repo”) agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell (“reverse repo”) are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

**Significant Accounting Policies (continued)**

### *j) Promissory Notes Purchased*

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

### *k) Loans and Advances to Customers*

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

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Comprehensive Income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

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

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

### *l) Impairment of Financial Assets*

*(i) Assets carried at amortised cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

**Significant Accounting Policies (continued)**

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers' competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

**Significant Accounting Policies (continued)**

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Comprehensive Income in impairment charge for credit losses.

*(ii) Assets classified as available for sale*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Comprehensive Income – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

*(iii) Renegotiated loans*

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

***m) Financial Guarantee Contracts***

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The potential liability is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4j. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

***n) Property, Plant and Equipment***

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

**Significant Accounting Policies (continued)**

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

| | Years |
|---|---|
| Premises | 50 – 80 |
| Computer Equipment | 3 – 4 |
| Office Equipment | 3 – 10 |
| Furniture | 3 – 5 |
| Motor Vehicles | 3 – 7 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Comprehensive Income.

***o) Investment Property***

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

***p) Operating Leases***

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**Significant Accounting Policies (continued)**

***q) Due to Banks and Customers Accounts***

Amounts due to banks and customer accounts are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

***r) Debt Securities Issued***

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

***s) Provisions***

Provisions for legal claims or other purposes are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

***t) Retirement and Other Benefit Obligations***

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

***u) Share Capital***

Share capital is recognised at restated cost. When the bank holds treasury shares the fair value of consideration paid is recognised as a deduction from equity as treasury shares until they are cancelled. When the shares are subsequently sold or reissued the fair value of consideration received is added to equity.

***v) Dividends***

Dividends are recognised as a reduction in equity in the period in which they are declared. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

***w) Taxation***

The income tax charge in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

**Significant Accounting Policies (continued)**

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

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### *x) Interest Income and Expense*

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### *y) Fee and Commission Income*

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

### *z) Foreign Currency Translation*

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2009 and 31 December 2008 were RUR 30.2442 and 29.3804 RUR to 1 USD, respectively, and RUR 43.3883 and 41.4411 RUR to 1 EUR, respectively.

*(in thousands of Russian Roubles)*

## 5. Cash and Cash Equivalents

| | 2009 | 2008 |
|---|---|---|
| Cash on hand | 485,063 | 428,932 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 52,677 | 396,938 |
| Correspondent accounts with other banks | | |
| Russian Federation | 16,252 | 243,544 |
| Other countries | 524,268 | 109,804 |
| | 540,520 | 353,348 |
| Other market placements | 10,180 | 13,677 |
| | **1,088,440** | **1,192,895** |

As at 31 December 2009 the aggregate amount of NOSTRO accounts with the biggest counterparty (VTB Deutschland AG) amounted to 524,268 or 97.02 % of total NOSTRO accounts (2008: 109,804 or 31.07%).

Information about the credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

| | 2009 | 2008 |
|---|---|---|
| Rated A- | - | 2,620 |
| Rated BBB+ | 1 | - |
| Rated BBB | 531,949 | 350,249 |
| Rated BBB- | 2,994 | - |
| Rated B | 340 | 465 |
| Rated B- | 183 | - |
| Other (including banks that do not have a credit rating) | 5,053 | 14 |
| | **540,520** | **353,348** |

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 24.

## 6. Mandatory Balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

The ratio of such deposits required to be held was initially reduced by the CBRF as a measure to assist Russian banks in times of crisis and has now been increased again.

*(in thousands of Russian Roubles)*

## 7. Due from Banks

| | 2009 | 2008 |
|---|---|---|
| Interbank loans | 733,649 | 434,144 |
| | **733,649** | **434,144** |
| Less: Allowance for impairment | (3,649) | (4,144) |
| | **730,000** | **430,000** |

As at 31 December 2009 85.2% of due from banks balances are represented by deposits in CBRF (2008: 53.5%).

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 24.

## 8. Securities at Fair Value through Profit or Loss

| | 2009 | 2008 |
|---|---|---|
| Credit organisation bonds | 51,906 | 16,536 |
| Corporate bonds | 45,264 | 341 |
| Promissory notes | 43,403 | 45,298 |
| Government and municipal bonds | 41,864 | 32,078 |
| Eurobonds | 32,644 | - |
| Corporate equity securities | 1,695 | 819 |
| Shares in credit organisations | 974 | 469 |
| | **217,750** | **95,541** |

As at 31 December 2009 credit organization bonds comprise MICEX quoted bonds issued by OJSC MDM Bank and OJSC VTB Bank with coupon rates of 10% and 13% respectively. These credit institutions were ranked respectively 12th and 2nd among Russian banks by net assets value at 31 December 2009.

As at 31 December 2009 corporate bonds comprise MICEX quoted bonds issued by OJS Oil Company Lukoil and OJSC Russian Railway with a coupon rates of 9% and 7% respectively. As at 31 December 2009 the issuers have a Fitch rating of BBB (rus) (Stable under the National Scale Russia) and AAA (rus) (Stable under the National Scale Russia) respectively.

As at 31 December 2009 government and municipal bonds comprise MICEX quoted bonds issued by Moscow Region government, Samara Region government and Kazan City with coupon rates of 8%, 9% and 12% respectively. As at 31 December 2009 the issuers have a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2009 Eurobonds comprise actively quoted on Irish Stock Exchange bonds issued by VTB Capital SA and URSA Finance Public Limited Company with a coupon rates from 7% to 8.3% and maturity dates varying from 21 May 2010 to 16 November 2011. VTB Capital SA and URSA Finance Public Limited Company are Special Purpose Entities of leading Russian banks OJSC VTB Bank and OJSC MDM Bank, which were ranked respectively 2nd and 12th among Russian banks by net assets value at 31 December 2009.

*(in thousands of Russian Roubles)*

**Securities at Fair Value through Profit or Loss (continued)**

As at 31 December 2009 promissory notes comprise promissory notes of OAO “Kirovsky Myasokombinat” for a total amount of 37,441 or 86% denominated in RUR with the interest rate 15% and maturity period 12 January 2010 and 15 February 2010, and promissory notes of Sberbank (1st Russian bank by net assets value) for a total amount of 5,962 or 14% denominated in RUR with interest rates from 11% to 12% and maturity period from 16 January 2010 to 29 January 2010.

As at 31 December 2008 promissory notes included promissory notes of OAO “Kirovsky myasokombinat” and the total value is 34,101 or 36%. Government and municipal bonds included bonds of Moscow region with total value 15,406 or 16%.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank’s market assumptions. The hierarchy is as follows:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

| **31 December 2009** | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| Credit organisations bonds | 51,906 | - | 51,906 |
| Corporate Bonds | 45,264 | - | 45,264 |
| Promissory notes | - | 43,403 | 43,403 |
| Government and municipal bonds | 41,864 | - | 41,864 |
| Eurobonds | 32,644 | - | 32,644 |
| Corporate equity securities | 1,695 | - | 1,695 |
| Shares of credit organisations | 974 | - | 974 |
| | **174,347** | **43,403** | **217,750** |

Geographical, currency, maturity and interest rate analyses of the securities at fair value through profit or loss are disclosed in Note 24.

*(in thousands of Russian Roubles)*

## 9. Loans and Advances to Customers

| | 2009 | 2008 |
|---|---|---|
| Loans and advances to customers | 5,241,918 | 4,595,495 |
| Mortgage loans for sale | 246,703 | 212,544 |
| Factoring | 7,355 | 6,680 |
| | **5,495,976** | **4,814,719** |
| Less: Allowance for impairment | (487,290) | (233,746) |
| | **5,008,686** | **4,580,973** |

The aggregate value of collateral received by the Bank in respect of its lending operations amounts to 6,001,077 (2008: 6,074,865).

In the normal course of business the Bank sells mortgage loans to JSC "Kirov Regional Real Estate Mortgage Corporation" (81.4% of total sales in 2009) and other financial organisations. These loans are therefore held on the balance sheet for a relatively short period of time and have been described as mortgage loans for sale in these notes.

The loan portfolio has been assigned to finance the following economic sectors:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Amount** | **Allowance** | **Amount** | **Allowance** |
| Trade | 2,900,357 | 269,188 | 2,796,829 | 136,286 |
| Individuals | 648,904 | 78,360 | 744,478 | 29,023 |
| Municipal operation organs | 592,075 | 13,136 | 6,699 | 461 |
| Construction | 319,461 | 16,160 | 201,211 | 6,737 |
| Operations with immovable property, lease | 237,785 | 52,007 | 263,400 | 23,499 |
| Manufacturing industry | 165,663 | 14,571 | 228,284 | 16,943 |
| Timber industry | 110,581 | 18,120 | 88,789 | 6,222 |
| Agriculture | 98,483 | 5,093 | 140,390 | 4,101 |
| Transport and communication | 61,451 | 5,665 | 37,313 | 789 |
| Light industry | 51,626 | 1,639 | 4,332 | 340 |
| Social and personal services, culture | 16,882 | 7,969 | 1,230 | 62 |
| Hotels | 15,020 | 211 | 7,340 | 367 |
| Maintenance of residential properties | 8,097 | 243 | 221 | 11 |
| Publishing | 7,082 | 212 | 5,560 | 608 |
| Medicine and tourism | 5,734 | 172 | 5,615 | 281 |
| Fishing | 2,750 | 83 | 284 | 14 |
| Energy, gas and water | 1,050 | 53 | 243 | 38 |
| Mining | 932 | 932 | - | - |
| Education | 373 | 11 | 473 | 24 |
| Sport | 367 | 92 | 3,855 | 770 |
| Insurance | 300 | - | - | - |
| Chemical | - | - | 26,000 | 3,900 |
| Engineering | - | - | 1,467 | 220 |
| Finance | - | - | 800 | 120 |
| Other | 4,300 | 129 | 5,478 | 374 |

*(in thousands of Russian Roubles)*

| | | | | |
|---|---|---|---|---|
| | **5,249,273** | **484,046** | **4,602,175** | **231,473** |
| Mortgage loans for sale | 246,703 | 3,244 | 212,544 | 2,273 |
| | **5,495,976** | **487,290** | **4,814,719** | **233,746** |

*(in thousands of Russian Roubles)*

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

In the statement of comprehensive income for the year ended 31 December 2009 the Bank reflected the value transfer on loans granted at less than commercial rates in the amount of 627 (2008: 386).

As at 31 December 2009 the Bank took possession of collateral for the total amount of 140,413 (2008: none). This is shown in other assets (Note 11) and investment property (Note 13). The Bank's policy for disposing of such collateral is usually to sell it to a third party for maximum possible consideration.

Loans classified as current that had been subject to re-negotiation and would otherwise had been categorised as overdue comprise 115 loans for a total amount of 151,212 (2008: none).

Movements in the allowance for impairment on loans to customer are disclosed in Note 20.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 24.

Loans granted to related parties are disclosed in Note 25.

## 10. Investment in Subsidiary

| | 2009 | 2008 |
|---|---|---|
| Valuation at start of year (Original cost 100) | 24,513 | 3,965 |
| Fair value adjustment in the year, recognized in Statement of Comprehensive Income | (16,556) | 20,548 |
| | **7,957** | **24,513** |

In 2004 the Bank acquired OOO "Leasing-Hlynov" a company specialising in leasing services. At 31 December 2008 and 2009 the Bank owned 100% of its share capital.

With regard to the hierarchies described in Note 8 the Bank considers the valuation to have been conducted under level 3.

The Bank has produced separate consolidated financial statements with the financial statements of OOO "Leasing-Hlynov".

*(in thousands of Russian Roubles)*

## 11. Accrued Interest and Other Assets

| | 2009 | 2008 |
|---|---|---|
| Repossessed collateral | 68,385 | - |
| Accrued interest income | 56,166 | 26,464 |
| Debtors and prepayments | 53,685 | 10,137 |
| Settlements with the budget | 1,431 | 743 |
| Other | 496 | 845 |
| | **180,163** | **38,189** |

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land plots repossessed by the Bank in respect of making recoveries for its lending operations for a total of 68,385. As at the reporting date no decision has been made by Management as to how these assets will be utilised and accordingly they have not been shown in Property and Equipment or Investment Property.

Geographical, currency and maturity analyses of other assets are disclosed in Note 24.

*(in thousands of Russian Roubles)*

## 12. Property, Plant and Equipment

| | Investment properties | Land | Buildings | Motor vehicles | Computer and other | Office equipment and furniture | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost of Valuation** | | | | | | | | |
| **31 December 2007** | **-** | **3,652** | **117,918** | **1,967** | **20,926** | **27,743** | **51,246** | **223,452** |
| Additions | - | - | 5,263 | 430 | 7,779 | 10,994 | 21,726 | 46,192 |
| Transfer | - | - | 57,727 | - | 68 | (68) | (57,727) | - |
| Disposals | - | - | (275) | - | (1,158) | (3,094) | - | (4,527) |
| Revaluation | - | - | 31,104 | - | - | - | - | 31,104 |
| **31 December 2008** | **-** | **3,652** | **211,737** | **2,397** | **27,615** | **35,575** | **15,245** | **296,221** |
| Additions | 72,028 | - | 172 | - | 2,370 | 4,471 | 3,077 | 82,118 |
| Transfer | - | - | 15,673 | - | - | - | (15,673) | - |
| Disposals | - | - | - | - | (291) | (1,754) | - | (2,045) |
| Revaluation | - | - | (26,291) | - | - | - | - | (26,291) |
| **31 December 2009** | **72,028** | **3,652** | **201,291** | **2,397** | **29,694** | **38,292** | **2,649** | **350,003** |
| **Depreciation** | | | | | | | | |
| **31 December 2007** | - | - | **(7,064)** | **(1,326)** | **(10,128)** | **(14,527)** | **-** | **(33,045)** |
| Charge for the year | - | - | (2,090) | (174) | (5,568) | (5,598) | - | (13,430) |
| Depreciation of revalued part | - | - | 9,154 | - | - | - | - | 9,154 |
| Disposals | - | - | - | - | 522 | 39 | - | 561 |
| **31 December 2008** | - | - | **-** | **(1,500)** | **(15,174)** | **(20,086)** | **-** | **(36,760)** |
| Charge for the year | - | - | (3,964) | (279) | (6,416) | (5,324) | - | (15,983) |
| Depreciation of revalued part | - | - | 3,964 | - | - | - | - | 3,964 |
| Disposals | - | - | - | - | 198 | 181 | - | 379 |
| **31 December 2009** | - | - | **-** | **(1,779)** | **(21,392)** | **(25,229)** | **-** | **(48,400)** |
| **Net Book Values** | | | | | | | | |
| **31 December 2009** | **72,028** | **3,652** | **201,291** | **618** | **8,302** | **13,063** | **2,649** | **301,603** |
| **31 December 2008** | **-** | **3,652** | **211,737** | **897** | **12,441** | **15,489** | **15,245** | **259,461** |
| **31 December 2007** | **-** | **3,652** | **110,854** | **641** | **10,798** | **13,216** | **51,246** | **190,407** |

As at 31 December 2009 property, plant and equipment was insured to a value of 11,208 (2008: 2,500).

On 31 December 2009 the Bank revalued buildings held by and used by the Bank. The valuation was performed by independent appraisers "Viatskoe Property Agency" on the basis of open market value.

If buildings had been carried at cost the carrying value would be 138,623 (2008: 54,946).

*(in thousands of Russian Roubles)*

**Property, Plant and Equipment (continued)**

Investment property includes two buildings repossessed by the Bank in respect of making recoveries for its lending operations. As at the reporting date these buildings are leased to third parties.

Rental income from investment properties was 1,629 (2008: nil). Direct operating expenses of investment properties were 15 (2008: nil).

## 13. Due to Banks

| | 2009 | 2008 |
|---|---|---|
| Short-term loans and deposits from other banks | 25,800 | 96,000 |
| | **25,800** | **96,000** |

All interbank loans are represented by loans received from the JSC "Rossisskiy Bank Razvitiya" at interest rates of 11.5% and 12.5% (2008: 100% at 11.5%).

The aggregate value of collateral given by the Bank to JSC "Rossisskiy Bank Razvitiya" in respect of its interbank lending operations amounts to 5,614 (2008: nil).

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 24.

## 14. Customer Accounts

| | 2009 | 2008 |
|---|---|---|
| **Individuals** | | |
| Current accounts | 614,598 | 424,866 |
| Term deposits | 4,052,633 | 2,917,357 |
| | 4,667,231 | 3,342,223 |
| **Other legal entities** | | |
| Current accounts | 1,328,256 | 1,179,582 |
| Term deposits | 214,504 | 278,913 |
| | 1,542,760 | 1,458,495 |
| **State and budgetary organisations** | | |
| Current accounts | 80,510 | 149,771 |
| Term deposits | 4,188 | 314,882 |
| | 84,698 | 464,653 |
| | **6,294,689** | **5,265,371** |

*(in thousands of Russian Roubles)*

**Customer Accounts (continued)**

The breakdown of customer accounts per sector is presented in the following table:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Individuals | 4,658,230 | 74.0 | 3,324,660 | 63.1 |
| Trade | 1,006,019 | 16.0 | 843,485 | 16.0 |
| Construction | 245,940 | 3.9 | 143,666 | 2.7 |
| Services | 135,638 | 2.2 | 150,274 | 2.9 |
| Manufacturing | 81,158 | 1.3 | 64,278 | 1.2 |
| Transport and telecommunication | 41,278 | 0.7 | 41,736 | 0.8 |
| Education | 26,169 | 0.4 | 20,326 | 0.4 |
| Other | 25,602 | 0.4 | 25,947 | 0.5 |
| Health facilities | 23,691 | 0.4 | 10,199 | 0.2 |
| Fuel and energy | 14,392 | 0.2 | 355,638 | 6.8 |
| Agriculture | 14,202 | 0.2 | 8,245 | 0.2 |
| Insurance | 12,234 | 0.2 | 97,075 | 1.8 |
| Financial | 10,136 | 0.1 | 179,842 | 3.4 |
| **Total customer accounts** | **6,294,689** | **100.0** | **5,265,371** | **100.0** |

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 24.

Balances of term deposits and current accounts of related parties are disclosed in Note 25.

## 15. Debt Securities Issued

| | 2009 | 2008 |
|---|---|---|
| Promissory notes | 4,013 | 11,017 |
| | **4,013** | **11,017** |

As at 31 December 2009, promissory notes issued by the Bank were held by five investors, the maximum share of one investor in total amount of issued promissory notes is 53% (2008: 63.26% of issued promissory notes were purchased by 1 investor).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 24.

## 16. Taxation

The corporate income tax expense comprises:

| | 2009 | 2008 |
|---|---|---|
| Current tax charge | 28,114 | 49,953 |
| Deferred tax charge relating to the origination and reversal of temporary differences | (19,694) | 7,464 |
| **Income tax expense** | **8,420** | **57,417** |

**Taxation (continued)**

*(in thousands of Russian Roubles)*

The corporation tax rate applicable to the majority of the Bank's income was 20% for 2009 (2008: 24%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

| | 2009 | 2008 |
|---|---|---|
| **Profit before tax** | **105,392** | **244,572** |
| Statutory tax rate | 20% | 24% |
| Theoretical income tax expense at the statutory rate | 21,078 | 58,697 |
| Tax on state securities income taxable at different rates | (489) | (457) |
| Tax on dividends paid | - | - |
| Effect of non deductible/(taxable) items | 7,525 | (8,287) |
| **Income tax expense** | **28,114** | **49,953** |

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes.

The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2008: 20%).

Deferred tax assets and (liabilities) comprise as at 31 December 2009:

| Tax effect of deductible temporary differences | 31 Dec 09 | Taken to equity | Taken to SOCI | 31 Dec 08 |
|---|---|---|---|---|
| Allowance for losses on loans and promissory notes | (38,872) | - | 116 | (38,988) |
| Debtors and prepayments | 1,419 | - | 1,028 | 391 |
| Premises and equipment | 3,397 | - | 15,481 | (12,084) |
| Investments in subsidiary | (1,571) | - | 3,312 | (4,883) |
| Other assets | (483) | - | (243) | (240) |
| | **(36,110)** | **-** | **19,694** | **(55,804)** |

*(in thousands of Russian Roubles)*

**Taxation (continued)**

Deferred tax assets and (liabilities) comprise as at 31 December 2008:

| Tax effect of deductible temporary differences | 31 Dec 08 | Taken to equity | Taken to SOCI | 31 Dec 07 |
|---|---|---|---|---|
| Accrued discount on securities | - | - | 9,584 | (9,584) |
| Allowance for losses on loans and promissory notes | (38,988) | - | (3,070) | (35,918) |
| Debtors and prepayments | 391 | - | (9,041) | 9,432 |
| Accrued interest income | - | - | 4,998 | (4,998) |
| Premises and equipment | (12,084) | - | (4,170) | (7,914) |
| Debt securities issued | - | - | (7) | 7 |
| Investments in subsidiary | (4,883) | - | (5,835) | 952 |
| Other assets | (240) | - | 77 | (317) |
| | **(55,804)** | **-** | **(7,464)** | **(48,340)** |

No deferred tax is recognised on the revaluation of buildings as the revaluation is also recognised in RAS tax books therefore there are no material differences arising.

## 17. Other Liabilities

| | 2009 | 2008 |
|---|---|---|
| Accounts payable | 9,990 | 5,920 |
| Operating taxes payable | 4,245 | 1,649 |
| Dividends payable | 66 | 109 |
| Accrued interest | 7 | 1,539 |
| Other | 205 | 239 |
| | **14,513** | **9,456** |

Geographical, currency and maturity analyses of other liabilities are detailed in Note 24.

## 18. Share Capital

Statutory share capital authorised, issued and fully paid comprises:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Number of shares ('000) | Par value | Value | Number of shares ('000) | Par value | Value |
| Common shares | 12,100 | 0.05 | 605,000 | 12,100 | 0.05 | 605,000 |
| IAS 29 adjustments | | | 22,198 | | | 22,198 |
| | | | **627,198** | | | **627,198** |

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. In 2009 dividends of RUR 0.5 (not thousands) per common share of 60,500 were declared (2008: none).

*(in thousands of Russian Roubles)*

**Share capital (continued)**

In 2009 the Bank did not increase share capital. (2008: 2,400,000 of nominal value RUR 50 (not thousands)).

| | 2009 | 2008 |
|---|---|---|
| Dividends payable at 1 January | 109 | 224 |
| Dividends declared during the year | 60,500 | - |
| Dividends paid during the year | (60,543) | (115) |
| **Dividends payable at 31 December** | **66** | **109** |

All dividends are paid and declared in Russian Roubles.

Shareholders of the Bank were as follows:

| Shareholder | 2009 % | 2008 % |
|---|---|---|
| Rekha Holdings Limited | 20.0 | 20.0 |
| OOO «Monolit» | 11.1 | 11.1 |
| OOO «Norma» | 10.0 | 10.0 |
| Quest Advisory Restructing Ltd. | 9.3 | - |
| OOO «Konkurent» | 8.8 | 8.8 |
| OOO «Strike» | 8.4 | 8.4 |
| OOO «Avangard» | 7.3 | 7.3 |
| OOO «Standart» | 6.0 | 6.0 |
| Individuals with less than 5% each (151) | 10.8 | 20.1 |
| Legal entities with less than 5% each (19) | 8.3 | 8.3 |
| | **100.0** | **100.0** |

## 19. Commitments and Contingencies

***Legal actions***

From time to time and in the normal 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 the financial condition or the results of future operations of the Bank.

***Operating lease commitments***

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Bank acts as a tenant:

| | 2009 | 2008 |
|---|---|---|
| Not later than 1 year | 2,632 | 3,989 |
| Later than 1 year and not later than 5 years | 45,074 | 24,381 |
| Later than 5 years | - | 28,762 |
| | **47,706** | **57,132** |

*(in thousands of Russian Roubles)*

**Commitments and Contingencies (continued)**

***Capital commitments***

As at 31 December 2009 and 31 December 2008 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

***Credit related commitments***

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

Credit related commitments comprise:

| | **2009** | **2008** |
|---|---|---|
| Undrawn loan commitments | 63,502 | 45,196 |
| Unused limits of overdrafts | 36,605 | 20,877 |
| Guaranties | 266,249 | 168,161 |
| | **366,356** | **234,234** |

***Derivatives***

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 31 December 2009 the Bank had four financial instruments, foreign currency forward contracts (2008: none).

| | **Notional amount 31 Dec 09** | **CBRF rate 31 Dec 09** |
|---|---|---|
| **Buy RUR sell USD** | | |
| Less than one month | 148,197 | 30.2442 |
| **Buy RUR sell EUR** | | |
| Less than one month | 295,040 | 43.3883 |

The corresponding fair value gain and asset of 286 has been recorded in statement of comprehensive income and the relevant asset in other assets.

*(in thousands of Russian Roubles)*

## 20. Allowance for Impairment

The movements in allowances for impairment of financial assets were as follows:

| | Correspondent accounts | Loans and advances to customers | Total |
|---|---|---|---|
| **31 December 2007** | **-** | **118,488** | **118,488** |
| Charge | 4,144 | 115,258 | 119,402 |
| **31 December 2008** | **4,144** | **233,746** | **237,890** |
| Charge / (release) | (495) | 253,544 | 253,049 |
| **31 December 2009** | **3,649** | **487,290** | **490,939** |

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

## 21. Gains less Losses from Trading with Securities

| | 2009 | 2008 |
|---|---|---|
| Fair value adjustments | 19,806 | (25,831) |
| Gains less losses realized from sales and redemptions | 924 | 452 |
| Other losses from trading with securities | 13 | 38 |
| | **20,743** | **(25,341)** |

## 22. Commission Income and Expenses

| | 2009 | 2008 |
|---|---|---|
| **Commission income** | | |
| Cash operations | 104,776 | 141,543 |
| Settlements and foreign currency exchange transactions | 71,863 | 60,952 |
| Commission from loans to customers | 9,281 | 7,418 |
| Commission on guarantees | 6,372 | 3,267 |
| Commission from transaction with plastic cards | 2,016 | 2,360 |
| Commission on other operations | 2,251 | 1,882 |
| | **196,559** | **217,422** |
| **Commission expense** | | |
| Settlements and foreign currency exchange transactions | (9,634) | (8,831) |
| Commission from transaction with plastic cards | (5,168) | (5,355) |
| Commission on collection | (3,492) | (3,634) |
| Cash operations | (1,198) | (1,736) |
| Other commissions | (982) | (945) |
| | **(20,474)** | **(20,501)** |
| | **176,085** | **196,921** |

*(in thousands of Russian Roubles)*

## 23. Staff, Administrative and Other Operating Costs

| | 2009 | 2008 |
|---|---|---|
| Salaries | 73,323 | 64,434 |
| Bonuses | 44,560 | 50,265 |
| Social security costs | 25,718 | 22,944 |
| | **143,601** | **137,343** |
| Deposit insurance system payment | 16,070 | 14,195 |
| Rent | 12,177 | 11,269 |
| Taxes other than income tax | 11,104 | 18,129 |
| Software expenses | 9,237 | 5,624 |
| Security | 8,146 | 6,470 |
| Advertising and marketing | 7,066 | 8,459 |
| Maintenance of building | 5,774 | 4,306 |
| Postage | 4,535 | 4,353 |
| Repair of fixed assets | 4,254 | 7,532 |
| Stationery | 4,112 | 9,564 |
| Printing expenses, document processing | 2,687 | 2,451 |
| Related to computers, vehicles and information service | 1,531 | 3,474 |
| Statutory Duty | 1,237 | 534 |
| Personnel training, travel and representative expenses | 1,109 | 1,482 |
| Personnel insurance | 546 | 975 |
| Assigning of credit rating | 98 | 885 |
| Other | 7,335 | 7,090 |
| | **97,018** | **106,792** |

## 24. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Bank’s operations. The risk management function within the Bank is carried out in respect of financial risks (credit, market, price, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

***Credit risk***

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Bank’s business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

**Financial Risk Management (continued)**

**a) Credit Risk Measurement**

*(i) Loans and advances*

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default")

These credit risk measurements, which reflect expected losses (the "expected loss model"), are applied following the normative and instructions issued by the Central Bank of the Russian Federation and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the "incurred loss model") rather than expected losses.

*(ii) Debt securities*

For debt securities and other equity instruments, external ratings or equivalents are used by the Bank for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

**b) Risk limit control and mitigation policies**

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

*(i) Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

*(ii) Credit related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**c) Impairment policies**

Impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the reportingt date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the Statement of Financial Position under IFRS at year-end is derived from each of the five statutory risk categories.

The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| **Risk category** | **Loans and advances (%)** | **Allowance for impairment (%)** | **Overall allowance rate (%)** | **Loans and advances (%)** | **Allowance for impairment (%)** | **Overall allowance rate (%)** |
| I | 5.72 | - | - | 6.18 | - | - |
| II | 73.05 | 7.87 | 1.26 | 69.73 | 15.63 | 1.91 |
| III | 10.11 | 15.04 | 17.42 | 20.21 | 53.21 | 22.48 |
| IV | 4.67 | 23.53 | 59.16 | 2.67 | 17.02 | 54.50 |
| V | 6.45 | 53.56 | 97.62 | 1.21 | 14.14 | 99.82 |
| | **100.00** | **100.00** | **11.71** | **100.00** | **100.00** | **8.54** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the Statement of Financial Position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to financial instruments in the Statement of Financial Position. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

Loans and advances to customers include the following portfolios:

| | **2009** | **2008** |
|---|---|---|
| **Individuals (retail customers)** | | |
| Overdrafts | 1,157 | 1,185 |
| Term loans | 647,808 | 743,293 |
| Mortgage loans | 246,642 | 212,544 |
| | **895,607** | **957,022** |
| **Legal entities** | | |
| Large corporate customers | 444,227 | 485,469 |
| SMEs | 3,556,713 | 3,326,965 |
| Federal and governmental organizations; local authorities | 592,074 | 38,583 |
| Factoring | 7,355 | 6,680 |
| | **4,600,369** | **3,857,697** |
| | **5,495,976** | **4,814,719** |
| Less allowance for impairment | (487,290) | (233,746) |
| | **5,008,686** | **4,580,973** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

The loan portfolio of the Bank is summarised as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Loans and advances to customers** | **Due from banks** | **Loans and advances to customers** | **Due from banks** |
| Neither past due nor impaired | 5,069,376 | 730,000 | 4,732,296 | 430,000 |
| Past due but not impaired | 378,770 | - | 77,235 | - |
| Impaired | 47,830 | 3,649 | 5,188 | 4,144 |
| | **5,495,976** | **733,649** | **4,814,719** | **434,144** |
| Less allowance for impairment | (487,290) | (3,649) | (233,746) | (4,144) |
| | **5,008,686** | **730,000** | **4,580,973** | **430,000** |

a) *Loans and advances neither past due nor impaired*

As at 31 December 2009 loans and advances neither past due nor impaired to individuals were composed of:

| **Risk category** | **Overdrafts** | **Term loans** | **Mortgage loans** | **Total** |
|---|---|---|---|---|
| I | - | 6,038 | 15,578 | **21,616** |
| II | 1,157 | 456,088 | 211,053 | **668,298** |
| III | - | 36,731 | 874 | **37,605** |
| IV | - | 7,654 | 4,270 | **11,924** |
| V | - | 3,176 | - | **3,176** |
| | **1,157** | **509,687** | **231,775** | **742,619** |

As at 31 December 2009 loans and advances neither past due nor impaired to legal entities were composed of:

| **Risk category** | **Large corporate clients** | **SMEs** | **Municipal, federal and governmental organizations** | **Factoring** | **Total** |
|---|---|---|---|---|---|
| I | 147,290 | 143,766 | - | 1,814 | **292,870** |
| II | 265,540 | 2,468,367 | 592,074 | 3,746 | **3,329,727** |
| III | - | 508,117 | - | 345 | **508,462** |
| III | - | 179,939 | - | - | **179,939** |
| IV | - | 15,759 | - | - | **15,759** |
| | **412,830** | **3,315,948** | **592,074** | **5,905** | **4,326,757** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

In summary:

| Risk category | Individuals | Legal entities | Total |
|---|---|---|---|
| I | 21,616 | 292,870 | **314,486** |
| II | 668,298 | 3,329,727 | **3,998,025** |
| III | 37,605 | 508,462 | **546,067** |
| IV | 11,924 | 179,939 | **191,863** |
| V | 3,176 | 15,759 | **18,935** |
| | **742,619** | **4,326,757** | **5,069,376** |

As at 31 December 2008 loans and advances neither past due not impaired to individuals were composed of:

| Risk category | Overdrafts | Term loans | Mortgag e loans | Total |
|---|---|---|---|---|
| I | - | 7,167 | 17,390 | **24,557** |
| II | 1,185 | 647,593 | 183,774 | **832,552** |
| III | - | 27,580 | - | **27,580** |
| IV | - | 9,620 | 7,392 | **17,012** |
| V | - | 3,301 | - | **3,301** |
| | **1,185** | **695,261** | **208,556** | **905,002** |

As at 31 December 2008 loans and advances neither past due nor impaired to legal entities were composed of:

| Risk category | Major corporate clients | SMEs | Municipal, federal and governmental organizations | Factoring | Total |
|---|---|---|---|---|---|
| I | 13,750 | 258,967 | - | **-** | **272,717** |
| II | 398,019 | 2,071,391 | 34,600 | 4,037 | **2,508,047** |
| III | 73,700 | 863,719 | 3,983 | - | **941,402** |
| III | - | 86,410 | - | - | **86,410** |
| IV | - | 18,718 | - | - | **18,718** |
| | **485,469** | **3,299,205** | **38,583** | **4,037** | **3,827,294** |

In summary:

| Risk category | Individuals | Legal entities | Total |
|---|---|---|---|
| I | 24,557 | 272,717 | **297,274** |
| II | 832,552 | 2,508,047 | **3,340,599** |
| III | 27,580 | 941,402 | **968,982** |
| IV | 17,012 | 86,410 | **103,422** |
| V | 3,301 | 18,718 | **22,019** |
| | **905,002** | **3,827,294** | **4,732,296** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

*b) Loans and Advances Past due but Not Impaired:*

As at 31 December 2009 past due but not impaired loans to individuals and legal entities were composed of:

| | Past due up to 30 days | Past due 31-60 days | Past due 61-90 days | Past due over 90 days | Total | Fair value of collateral |
|---|---|---|---|---|---|---|
| **Individuals (retail customers)** | | | | | | |
| Term loans | 17,180 | 15,538 | 10,964 | 78,767 | **122,449** | 61,755 |
| Mortgage loans | 10,629 | 2,766 | - | 1,472 | **14,867** | 8,210 |
| **Legal entities** | | | | | | |
| SMEs | - | - | - | 31,397 | **31,397** | 30,556 |
| Factoring | 6,564 | 6,883 | 2,936 | 193,674 | **210,057** | 175,484 |
| | **34,373** | **25,187** | **13,900** | **305,310** | **378,770** | **276,005** |

As at 31 December 2008 past due but not impaired loans to individuals and legal entities were composed of:

| | Past due up to 30 days | Past due 31-60 days | Past due 61-90 days | Past due over 90 days | Total | Fair value of collateral |
|---|---|---|---|---|---|---|
| **Individuals (retail customers)** | | | | | | |
| Term loans | 17,417 | 10,747 | 10,137 | 5,993 | **44,294** | 39,631 |
| Mortgage loans | 3,503 | 485 | | | **3,988** | 4,636 |
| **Legal entities** | | | | | | |
| SMEs | - | 243 | 6,047 | 21,470 | **27,760** | 23,890 |
| Factoring | 761 | - | - | 432 | **1,193** | |
| | **21,681** | **11,475** | **16,184** | **27,895** | **77,235** | **68,157** |

*c) Loans and Advances Individually Impaired*

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Balance (gross) | Fair value of collateral | Balance (gross) | Fair value of collateral |
| **Individuals (retail customers)** | | | | |
| Term loans | 15,672 | 3,508 | 3,738 | 883 |
| **Legal entities** | | | | |
| SMEs | 30,708 | 2,920 | - | - |
| Factoring | 1,450 | - | 1,450 | - |
| | **47,830** | **6,428** | **5,188** | **883** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

In 2009 the movement of the allowance for impairment of loans and advances to individuals was as follows:

| | Overdrafts | Term loans | Mortgage loans | Total |
|---|---|---|---|---|
| As at 1 January 2009 | 36 | 28,987 | 2,273 | **31,296** |
| Charge for the period | 57 | 49,280 | 971 | **50,308** |
| Amounts recovered | - | - | - | **-** |
| **As at 31 December 2009** | **93** | **78,267** | **3,244** | **81,604** |

In 2009 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

| | Large corporate clients | SMEs | Municipal, federal and governmental organizations | Factoring | Total |
|---|---|---|---|---|---|
| As at 1 January 2009 | 18,281 | 181,836 | 744 | 1,589 | **202,450** |
| Charge for the period | (2,640) | 193,533 | 12,393 | (50) | **203,236** |
| Amounts recovered | - | - | - | - | **-** |
| **As at 31 December 2009** | **15,641** | **375,369** | **13,137** | **1,539** | **405,686** |

In summary:

| | Individuals | Legal entities | Total |
|---|---|---|---|
| As at 1 January 2009 | 31,296 | 202,450 | **233,746** |
| Charge for the period | 50,308 | 203,236 | **253,544** |
| Amounts recovered | - | - | **-** |
| **As at 31 December 2009** | 81,604 | 405,686 | **487,290** |

In 2008 the movement of the allowance for impairment of loans and advances to individuals was as follows:

| | Overdrafts | Term loans | Mortgage loans | Total |
|---|---|---|---|---|
| As at 1 January 2008 | 30 | 15,661 | 1,545 | **17,236** |
| Charge for the period | 6 | 13,326 | 728 | **14,060** |
| Loans written off | - | - | - | **-** |
| Amounts recovered | - | - | - | **-** |
| **As at 31 December 2008** | **36** | **28,987** | **2,273** | **31,296** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

In 2008 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

| | Large corporate clients | SMEs | Municipal, federal and governmental organizations | Factoring | Total |
|---|---|---|---|---|---|
| As at 1 January 2008 | 3,087 | 93,765 | 686 | 3,714 | **101,252** |
| Charge for the period | 15,194 | 88,071 | 58 | - | **103,323** |
| Amounts recovered | - | - | - | (2,125) | **(2,125)** |
| **As at 31 December 2008** | **18,281** | **181,836** | **744** | **1,589** | **202,450** |

In summary:

| | Individuals | Legal entities | Total |
|---|---|---|---|
| As at 1 January 2008 | 17,236 | 101,252 | **118,488** |
| Charge for the period | 14,060 | 103,323 | **117,383** |
| Amounts recovered | **-** | (2,125) | **(2,125)** |
| **As at 31 December 2008** | **31,296** | **202,450** | **233,746** |

***Geographical risk***

Geographical risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk associated with the Russian tax are set out in Note 16. The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

The geographical concentration of the Bank’s assets and liabilities as at 31 December 2009 is set out below:

| | Russia | OECD | Non - OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 564,172 | 524,268 | - | **1,088,440** |
| Mandatory balances with the CBRF | 44,202 | - | - | **44,202** |
| Due from banks | 730,000 | - | - | **730,000** |
| Securities at fair value through profit or loss | 185,106 | 32,644 | - | **217,750** |
| Loans and advances to customers | 5,008,686 | - | - | **5,008,686** |
| Accrued interest and other assets | 180,163 | - | - | **180,163** |
| Investments in subsidiary | 7,957 | - | - | **7,957** |
| Fixed assets | 301,603 | - | - | **301,603** |
| | **7,021,889** | **556,912** | **-** | **7,578,801** |
| **Liabilities** | | | | |
| Due to banks | 25,800 | - | - | **25,800** |
| Customer accounts | 6,294,689 | - | - | **6,294,689** |
| Debt securities issued | 4,013 | - | - | **4,013** |
| Deferred tax liability | 36,110 | - | - | **36,110** |
| Other liabilities | 14,513 | - | - | **14,513** |
| | **6,375,125** | **-** | **-** | **6,375,125** |
| **Net balance sheet position** | **646,764** | **556,912** | **-** | **1,203,676** |

As at 31 December 2008, the Bank had the following positions in geographical concentration:

| | Russia | OECD | Non - OECD | Total |
|---|---|---|---|---|
| **Net on-balance sheet position** | **1,256,517** | **109,804** | **(175,000)** | **1,191,321** |

***Market Risk***

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

***Price risk***

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

An analysis of sensitivity of the Bank’s net profit before tax and equity to changes in quoted debt securities prices based on positions existing as at 31 December 2009 and a simplified scenario of a 10% change in quoted debt securities prices is as follows:

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

| | Net profit before tax | Equity |
|---|---|---|
| 10% decrease in quoted securities prices | 21,775 | 17,420 |
| 10% increase in quoted securities prices | (21,775) | (17,420) |

***Currency risk***

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Bank's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Bank's equity. However, its real target is more conservative, and that is to reach only 1%, or 2% for overnight exposure. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately. A review of the currency exposure is also conducted by the Asset and Liability Committee which normally meets weekly.

This committee has representatives from senior management, treasury, finance and other key departments. The Bank takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market which currently comprises related parties.

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia.

As at 31 December 2009, the Bank had the following positions in currencies:

| | RUR | USD | EUR | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 483,888 | 181,833 | 422,719 | **1,088,440** |
| Mandatory balances with the CBRF | 44,202 | - | - | **44,202** |
| Due from banks | 730,000 | - | - | **730,000** |
| Securities at fair value through profit or loss | 185,106 | - | 32,644 | **217,750** |
| Loans and advances to customers | 4,969,261 | 38,470 | 955 | **5,008,686** |
| Investment in subsidiary | 7,957 | - | - | **7,957** |
| Accrued interest and other assets | 179,037 | 778 | 348 | **180,163** |
| Fixed assets | 301,603 | - | - | **301,603** |
| | **6,901,054** | **221,081** | **456,666** | **7,578,801** |
| **Liabilities** | | | | |
| Due to banks | 25,800 | - | - | **25,800** |
| Customer accounts | 6,058,652 | 75,096 | 160,941 | **6,294,689** |
| Debt securities issued | 4,013 | - | - | **4,013** |
| Taxation | 36,110 | - | - | **36,110** |
| Other liabilities | 11,937 | 2,576 | - | **14,513** |
| | **6,136,512** | **77,672** | **160,941** | **6,375,125** |
| **Net on-balance sheet position** | **764,542** | **143,409** | **295,725** | **1,203,676** |

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

As at 31 December 2008, the Bank had the following positions in currencies:

| | RUR | USD | EUR | Total |
|---|---|---|---|---|
| **Net on-balance sheet position** | **1,194,791** | **(340)** | **(3,130)** | **1,191,321** |

The table below analyses the risk of foreign currency rate as to Russian Federation Rouble:

| | As at 31 December 2009 | | As at 31 December 2008 | |
|---|---|---|---|---|
| | Effect on profit or loss | Effect on equity | Effect on profit or loss | Effect on equity |
| Strengthening of USD for 30% | 34,418 | 34,418 | n/a | n/a |
| Weakening of USD for 30% | (34,418) | (34,418) | n/a | n/a |
| Strengthening of Euro for 30% | 70,974 | 70,974 | 304 | 243 |
| Weakening of Euro for 30% | (70,974) | (70,974) | (304) | (243) |

***Liquidity Risk***

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Bank or securities retained for short term capital appreciation and thus do not have a stated maturity date.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide a relatively long-term and stable source of funding for the Bank.

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

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

The Bank was in compliance with the above ratios during the year ended 31 December 2009 and year ended 31 December 2008.

The following table represents the mandatory liquidity ratios for the Bank calculated at 31 December 2009 and 31 December 2008:

| | Requirement | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Instant liquidity ratio (N2) | Minimum 15% | 50.9% | 77.6% |
| Current liquidity ratio (N3) | Minimum 50% | 77.4% | 109.9% |
| Long-term liquidity ratio (N4) | Maximum 120% | 33.4% | 35.8% |

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2009. Amounts shown are contractual undiscounted cashflows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

| | On demand or less than 1 month | 1 to 6 months | 6 months to 1 year | Over 1 year | Overdue/ no stated maturity | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | 248 | 3,962 | 18,806 | 6,079 | - | **29,095** |
| Customer accounts | 2,699,943 | 1,220,950 | 1,486,795 | 1,345,122 | 1,946 | **6,754,756** |
| Debt securities issued | 4,013 | - | - | - | - | **4,013** |
| Other liabilities | 12,544 | 1,646 | - | 323 | - | **14,513** |
| Taxation | - | - | - | - | 36,110 | **36,110** |
| **Total liabilities** | **2,716,748** | **1,226,558** | **1,505,601** | **1,351,524** | **38,056** | **6,838,487** |
| **Assets held for managing liquidity risk** | **2,246,054** | **1,969,791** | **2,322,528** | **1,458,478** | **522,044** | **8,518,895** |
| **Credit Related Commitments** | **100,311** | **168,892** | **97,153** | **-** | **-** | **366,356** |

The data in the table above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2009, and IFRS 7 revised does not require such reconciliation. Management includes loans in assets held for managing liquidity risk as they can be sold.

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

Bank's assets and liabilities on contractual maturity basis at 31 December 2008, as compiled under previous IFRS 7:

| | On demand or less than 1 month | 1 to 6 months | 6 months to 1 year | Over 1 year | Overdue/ no stated maturity | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | - | 6,100 | 24,100 | 65,800 | - | **96,000** |
| Customer accounts | 1,897,010 | 1,021,071 | 1,409,990 | 937,300 | - | **5,265,371** |
| Debt securities issued | 11,017 | - | - | - | - | **11,017** |
| Deferred tax liability | - | - | - | - | 55,804 | **55,804** |
| Other liabilities | 8,210 | 1,101 | - | - | 145 | **9,456** |
| **Total liabilities** | **1,916,237** | **1,028,272** | **1,434,090** | **1,003,100** | **55,949** | **5,437,648** |
| **Total assets** | **1,955,656** | **1,291,674** | **1,347,818** | **1,725,881** | **307,940** | **6,628,969** |
| **Net liquidity gap** | **39,419** | **263,402** | **(86,272)** | **722,781** | **251,991** | **1,191,321** |
| **Credit Related Commitments** | **66,073** | **168,161** | **-** | **-** | **-** | **234,234** |

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

***Interest Rate Risk***

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.  The majority of the Bank's assets and liabilities are priced on a fixed rate basis.

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2009 is presented below.

| | On demand or less than 1 month | 1 to 6 months | 6 months to 1 year | Over 1 year | Overdue |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Due from banks | 4.96 | - | - | - | - |
| Securities at a fair value through profit or loss | 10.44 | - | - | - | - |
| Loans and advances to customers | 19.03 | 17.86 | 16.38 | 17.10 | 17.74 |
| **Liabilities** | | | | | |
| Due to banks | - | 11.50 | 11.50 | 12.50 | - |
| Customer accounts | 5.12 | 12.34 | 12.11 | 12.63 | - |
| Debt securities issued | - | - | - | - | - |

The analysis of the Bank's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2008 is presented below.

| | On demand or less than 1 month | 1 to 6 months | 6 months to 1 year | Over 1 year | Overdue |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Due from banks | 7.71 | - | - | - | - |
| Securities at a fair value through profit or loss | 8.75 | 16.00 | - | - | - |
| Loans and advances to customers | 15.22 | 17.12 | 16.97 | 15.80 | 21.51 |
| **Liabilities** | | | | | |
| Due to banks | - | 11.50 | 11.50 | 11.50 | - |
| Customer accounts | 2.57 | 12.13 | 13.02 | 11.99 | - |
| Debt securities issued | - | - | - | - | - |

Assuming the financial assets and liabilities as at 31 December 2009 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 3 % in market interest rates across all maturities and currencies would increase profit for the current year by approximately 21,751 (2008: 3% or 31,293) as a result of higher interest income from interest bearing assets.

*(in thousands of Russian Roubles)*

**Financial Risk Management (continued)**

In the table below given is the analysis of the interest rate fluctuation risk to which the Bank is exposed as at 31 December 2009. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

| | On demand or less than 1 month | 1 to 6 months | 6 months to 1 year | Over 1 year | Overdue/ no stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Due from banks | 730,000 | - | - | - | - | **730,000** |
| Securities at a fair value through profit or loss | 215,081 | - | - | - | - | **215,081** |
| Loans and advances to customers | 124,216 | 1,253,415 | 2,051,155 | 1,516,307 | 63,593 | **5,008,686** |
| **Total assets** | **1,069,297** | **1,253,415** | **2,051,155** | **1,516,307** | **63,593** | **5,953,767** |
| **Liabilities** | | | | | | |
| Due to banks | - | 2,800 | 18,000 | 5,000 | - | **25,800** |
| Customer accounts | 2,113,779 | 1,061,538 | 1,261,901 | 1,273,437 | - | **5,710,655** |
| **Total liabilities** | **2,113,779** | **1,064,338** | **1,279,901** | **1,278,437** | **-** | **5,736,455** |
| **Net liquidity** | **(1,044,482)** | **189,077** | **771,254** | **237,870** | **63,593** | **217,412** |
| **Accumulated gap as at 31 December 2009** | **(1,044,482)** | **(855,405)** | **(84,151)** | **153,719** | **217,412** | |
| **Accumulated gap as at 31 December 2008** | **(665,712)** | **(402,461)** | **(489,341)** | **228,843** | **243,517** | |

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

| | **2009** | | | **2008** | | |
|---|---|---|---|---|---|---|
| | **RUR** | **USD** | **Euro** | **RUR** | **USD** | **Euro** |
| **Interest bearing assets** | | | | | | |
| Due from banks | 4.96 | - | - | 7.71 | - | - |
| Securities at a fair value through profit or loss | 9.81 | - | 7.73 | 11.38 | - | - |
| Loans and advances to customers | 16.81 | 10.15 | 12.00 | 16.51 | 11.69 | 14.00 |
| **Interest bearing liabilities** | | | | | | |
| Due to banks | 11.69 | - | - | 11.50 | - | - |
| Customer accounts | 9.90 | 4.22 | 4.80 | 9.63 | 8.01 | 7.23 |
| Debt securities issued | - | - | - | - | - | - |

## 25. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

At 31 December 2009 entities considered related parties of the Bank included the following:

| Related parties per category | Activity |
|---|---|
| **Shareholders** | |
| Rekha Holdings Ltd. | Finance |
| Quest Advisory Restructuring Ltd. | Finance |
| OOO «Strike» | Trade and intermediary |
| OOO «Konkurent» | Trade and intermediary |
| OOO «Monolit» | Trade and intermediary |
| OOO «Norma» | Trade and intermediary |
| OOO «Avangard» | Trade and intermediary |
| OOO «Standart» | Trade and intermediary |
| **Under common control by virtue of having the same shareholders** | |
| OOO Leasing-Hlynov | Financial leasing |
| OOO Firm «Globus» | Trade and intermediary |
| OOO «NTI» | Trade and intermediary |
| OOO «Poseydon» | Trade and intermediary |
| OOO «Vyatskiy privoz» | Trade and intermediary |
| OOO «Grand-Tandem» | Trade and intermediary |
| OOO «Stromit» | Production |
| OOO «Rokset-S» | Trade and intermediary |
| OOO «Bio Gran» | Production |
| **Other, including Management of the Bank** | |
| Oleg Yuryevich Berezin | |
| Nikolay Vasilyevich Popov | |
| Sergey Petrovich Nazarov | |
| Mikhail Vladimirovich Zhuravlev | |
| Alexey Viktorovich Filipchenko | |
| Vladimir Anatolyevich Repnyakov | |
| Alexander Yuryevich Vtyurin | |
| Irina Anatolyevna Skobeleva | |
| Galina Nikolayevna Anisimova | |
| Lyubov Nikolayevna Prosvirnina | |
| Oleg Vladimirovich Pestov | |

**Related Party Transactions (continued)**

At 31 December 2008 entities considered related parties of the Bank included the following:

| Related parties per category | Activity |
|---|---|
| **Shareholders** | |
| REKHA HOLDINGS LIMITED | Finance |
| OOO «Strike» | Trade and intermediary |
| OOO «Konkurent» | Trade and intermediary |
| OOO «Monolit» | Trade and intermediary |
| OOO «Norma» | Trade and intermediary |
| OOO «Avangard» | Trade and intermediary |
| OOO «Standart» | Trade and intermediary |
| **Under common control by virtue of having the same shareholders** | |
| OOO Leasing-Hlynov | Financial leasing |
| OOO Firm «Globus» | Trade and intermediary |
| OOO «NTI» | Trade and intermediary |
| OOO «Poseydon» | Trade and intermediary |
| OOO «Vyatskiy privoz» | Trade and intermediary |
| **Other, including Management of the Bank** | |
| Oleg Yuryevich Berezin | |
| Nikolay Vasilyevich Popov | |
| Sergey Petrovich Nazarov | |
| Mikhail Vladimirovich Zhuravlev | |
| Alexey Viktorovich Filipchenko | |
| Vladimir Anatolyevich Repnyakov | |
| Alexander Yuryevich Vtyurin | |
| Irina Anatolyevna Skobeleva | |
| Galina Nikolayevna Anisimova | |
| Lyubov Nikolayevna Prosvirnina | |
| Oleg Vladimirovich Pestov | |

*(in thousands of Russian Roubles)*

**Related Party Transactions (continued)**

The total outstanding balances at 31 December 2009 and the related income and expense transactions during 2009 with related parties were as follows:

| | Shareholders | Under common control by virtue of having the same shareholders | Other including management | Total Related party balance/result | Total per category in the financial statement |
|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | |
| **Loans and advances to customers** | | | | | |
| At beginning of year | - | 426,952 | 2,675 | **429,627** | **4,814,719** |
| Granted during year | - | 1,213,547 | 2,276 | **1,215,823** | **n/a** |
| Repaid during the year | - | (1,084,198) | (1,937) | **(1,086,135)** | **n/a** |
| **At the end of the year** | **-** | **556,301** | **3,014** | **559,315** | **5,495,976** |
| Allowance for losses | - | (14,397) | (237) | **(14,634)** | **(487,290)** |
| **Other assets (accrued interest income)** | **-** | **3,913** | **24** | **3,937** | **56,166** |
| **Current accounts** | | | | | |
| At beginning of year | 887 | 697 | 1,548 | **3,132** | **1,754,219** |
| Opened during year | 303,711 | 5,953,382 | 14,660 | **6,271,753** | **n/a** |
| Repaid during the year | (304,471) | (5,953,548) | (14,238) | **(6,272,257)** | **n/a** |
| **At the end of the year** | **127** | **531** | **1,970** | **2,628** | **2,023,364** |
| **Term deposits** | | | | | |
| At beginning of year | 175,000 | - | 5,045 | **180,045** | **3,511,152** |
| Received during year | - | - | 18,001 | **18,001** | **n/a** |
| Repaid during the year | (175,000) | - | (18,021) | **(193,021)** | **n/a** |
| **At the end of the year** | **-** | **-** | **5,024** | **5,024** | **4,271,325** |
| **Statement of Comprehensive Income** | | | | | |
| **Interest Income on loans** | **-** | **65,909** | **326** | **66,235** | **866,924** |
| **Interest expenses** | | | | | |
| On term deposits | 11,309 | - | 617 | **11,926** | **497,030** |
| On current accounts | - | 3 | 74 | **76** | **19,070** |
| **Commission income** | | | | | |
| From guarantees issued | - | 80 | - | **80** | **6,372** |
| From settlement operations | 30 | 1,257 | - | **1,287** | **71,863** |
| Salary and bonuses | - | - | 15,577 | **15,577** | **117,883** |
| **Off-balance Sheet** | | | | | |
| Guarantees issued | - | 4,000 | - | **4,000** | **266,249** |

*(in thousands of Russian Roubles)*

**Related Party Transactions (continued)**

The total outstanding balances at 31 December 2008 and the related income and expense transactions during 2008 with related parties were as follows:

| | Shareholders | Under common control by virtue of having the same shareholders | Other including management | Total Related party balance/result | Total per category in the financial statement |
|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | |
| **Loans and advances to customers** | | | | | |
| At beginning of year | - | 289,994 | 452 | **290,446** | **3,651,471** |
| Granted during year | - | 596,220 | 4,506 | **600,726** | **n/a** |
| Repaid during the year | - | (618,182) | (2,284) | **(620,466)** | **n/a** |
| **At the end of the year** | **-** | **268,032** | **2,674** | **270,706** | **4,814,719** |
| Allowance for losses | - | (21,626) | (77) | **(21,703)** | **(233,746)** |
| **Other assets (accrued interest income)** | **-** | **1,162** | **27** | **1,189** | **38,189** |
| **Current accounts** | | | | | |
| At beginning of year | 31 | 344 | 1,022 | **1,397** | **1,680,764** |
| Opened during year | 190,695 | 3,705,155 | 22,031 | **3,917,881** | **n/a** |
| Repaid during the year | (189,840) | (3,705,413) | (21,506) | **(3,916,759)** | **n/a** |
| **At the end of the year** | **886** | **86** | **1,547** | **2,519** | **1,754,219** |
| **Term deposits** | | | | | |
| At beginning of year | 200,000 | - | 6,739 | **206,739** | **2,347,062** |
| Received during year | 400,000 | - | 14,252 | **414,252** | **n/a** |
| Repaid during the year | (425,000) | - | (15,945) | **(440,945)** | **n/a** |
| **At the end of the year** | **175,000** | **-** | **5,046** | **180,046** | **3,511,152** |
| **Statement of Comprehensive Income** | | | | | |
| **Interest Income on loans** | **-** | **41,681** | **111** | **41,792** | **720,394** |
| **Interest expenses** | | | | | |
| On term deposits | 20,119 | - | 627 | **20,746** | **308,074** |
| On current accounts | - | 14 | 59 | **73** | **20,476** |
| **Commission income** | | | | | |
| From settlement operations | **104** | **143** | **-** | **247** | **60,952** |
| From operations with plastic cards | 14 | 38 | - | **52** | **2,360** |
| Salary and bonuses | - | - | 19,559 | **19,559** | **137,643** |
| **Off-balance Sheet** | | | | | |
| Credit related commitments | - | 285 | - | **285** | **234,234** |

*(in thousands of Russian Roubles)*

**Related Party Transactions (continued)**

In 2009 salaries and other short term payment to the 11 members of Council and members of the Executive Board amounted to 14,980 (2008: 19,029), including 5,808 (2008: 6,651) salaries, other short term payments 9,172 (2008:12,378). Other short term payments to the members of the Executive Board, who are not employed with the Bank, amounted to 597 (2008: 530).

## 26. Capital Management

The Bank's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Bank's operations.

The Central Bank of the Russian Federation sets capital requirements to the Bank and monitors compliance with these requirements. Currently, under requirements of the Central Bank of the Russian Federation, the Bank has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2009, this minimum level was 10% (2008: 10%).

The regulatory capital on the basis of the Bank's reports prepared under Russian legislation as at 31 December 2009 and 31 December 2008 is presented in the following table:

| | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| **Capital** | | |
| Share capital | 590,227 | 590,227 |
| Funds | 90,750 | 90,750 |
| Previous years profit | 195,355 | 78,475 |
| Current year profit | 73,106 | 172,489 |
| **Additional capital** | | |
| Additional capital formed by capitalisation of property revaluation | 14,773 | 14,773 |
| Property surplus due to revaluation | 33,499 | 57,372 |
| Investments in subsidiary | (100) | (100) |
| Intangible assets | (3) | (4) |
| **Total regulatory capital** | **997,607** | **1,003,982** |
| **Capital adequacy ratio** | **18.28%** | **19.06%** |

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these financial statements is an additional allowance performed for the purposes of IFRS for loans and other assets and amortisation for property, plant and equipment.

During 2009 and 2008 the Bank's capital adequacy ratio was line with regulations.

The Bank can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Bank's long-term management plans and prospects are taking into calculation. The Bank's capital management and its distribution is regularly analyzed by the Directors of the Bank during the review and approval of annual budget.