

CB “LOCKO-BANK” (CJSC)

Consolidated Financial Statements
for the Year Ended 31 December 2009

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Shareholders, Officers and Auditors as at 31 December 2009

Shareholders	% Ownership	% Votes
International Finance Corporation	15.000%	15.000%
Bulley Investments Limited	14.404%	14.404%
Caplane Investments Limited	13.454%	13.454%
Samsoniawood Holdings Limited	13.246%	13.246%
East Capital Explorer Financial Institutions Fund AB	11.062%	11.062%
Stanislav I. Boguslavsky	6.744%	6.744%
Vios Holdings Limited	6.500%	6.500%
Glaysom Investments Limited	6.460%	6.460%
Andrei V. Kulikov	5.586%	5.586%
Vladimir Yu. Davydik	4.613%	4.613%
Victor Yu. Davydik	1.923%	1.923%
Anzhelika E. Semenova	1.008%	1.008%
	100.00%	100.00%

Board of Directors

Stanislav I. Boguslavsky
 Victor Yu. Davydik
 Dmitry V. Kryukov
 Erik Radgendra
 Yurki Talvitie

Executive Board

Dmitry V. Kryukov	Chairman
Andrey V. Nekrasov	Senior Deputy Chairman
Natalia V. Isaeva	Deputy Chairman
Andrey M. Lyushin	Deputy Chairman
Mikhail G. Pavlov	Deputy Chairman
Pavel A. Voznesenskiy	Vice-President, Head of Financial Risks Department

Auditors

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Independent Auditors' Report

To the Board of Directors of CB "Locko-Bank" (CJSC)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CB "Locko-Bank" (CJSC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

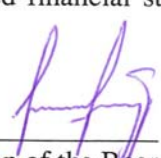
ZAO KPMG
20 April 2010


CB "Locko-bank" (CJSC)
Consolidated statement of comprehensive income for the year ended 31 December 2009

	Notes	2009 RUB'000	2008 RUB'000
Interest income	4	3,553,134	3,726,003
Interest expense	4	(2,380,783)	(2,017,538)
Net interest income		1,172,351	1,708,465
Fee and commission income	5	339,675	323,238
Fee and commission expense	6	(70,554)	(60,737)
Net fee and commission income		269,121	262,501
Net gain/(loss) on financial instruments at fair value through profit or loss	7	1,433,455	(78,591)
Net foreign exchange income	8	327,812	154,431
Gain on repurchase of issued loan participation notes	21	24,958	260,265
Net gain on disposal of subsidiary		-	24,270
Other income		65,262	94,306
		3,292,959	2,425,647
Impairment losses	9	(1,204,383)	(639,616)
General administrative expenses	10	(1,246,764)	(1,290,247)
Operating expenses		(2,451,147)	(1,929,863)
Profit before taxes		841,812	495,784
Income tax expense	11	(216,003)	(95,378)
Profit		625,809	400,406
Other comprehensive income			
Revaluation of buildings, net of deferred tax		(85,764)	240,546
Total other comprehensive income, net of tax		(85,764)	240,546
Total comprehensive income		540,045	640,952

The consolidated financial statements were approved by the Executive Board of the Group on 20 April 2010.




Deputy Chairman of the Board
Andrey M. Eyushin


Chief Accountant
Nina N. Guseva

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

CB "Locko-bank" (CJSC)
Consolidated statement of financial position as at 31 December 2009

	Notes	2009 RUB'000	2008 RUB'000
ASSETS			
Cash		497,867	515,088
Due from the Central Bank of the Russian Federation	12	1,796,995	2,318,326
Placements with banks and other financial institutions	13	4,277,353	4,647,814
Financial instruments at fair value through profit or loss	14	5,450,427	3,509,014
Amounts receivable under reverse repurchase agreements	15	921,421	-
Loans to customers	16	19,730,830	21,337,694
Property and equipment	17	341,691	476,724
Current income tax prepayment		76,695	2,876
Other assets	18	123,515	66,067
Total Assets		33,216,794	32,873,603
LIABILITIES AND EQUITY			
Financial instruments at fair value through profit or loss	14	307	22,109
Deposits and balances from banks and other financial institutions	19	8,105,621	8,607,906
Amounts payable under repurchase agreements		85,039	-
Current accounts and deposits from customers	20	15,059,546	12,377,169
Own securities issued	21	4,575,311	6,989,564
Current income tax payable		790	60,728
Deferred tax liability	22	98,955	98,614
Other liabilities		96,657	62,990
Total Liabilities		28,022,226	28,219,080
Equity			
Share capital	23	3,381,047	3,381,047
Additional paid-in-capital		67,476	67,476
Revaluation reserve for buildings		154,782	240,546
Retained earnings		1,591,263	965,454
Total Equity		5,194,568	4,654,523
Total Liabilities and Equity		33,216,794	32,873,603
Commitments and Contingencies	27-29		

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

CB "Locko-bank" (CJSC)
Consolidated statement of cash flows for the year ended 31 December 2009

	Notes	2009 RUB'000	2008 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3,362,400	3,614,908
Interest payments		(2,451,216)	(2,039,091)
Fee and commission receipts		333,472	318,366
Fee and commission payments		(66,409)	(60,737)
Net receipts from financial instruments at fair value through profit or loss		1,146,360	175,667
Net receipts from foreign exchange		292,147	163,621
Other receipts		62,035	43,802
General administrative payments		(1,177,361)	(1,224,855)
(Increase)/decrease in operating assets			
Minimum reserve deposit and term deposit with the Central Bank of the Russian Federation		(564,876)	260,581
Placements with banks and other financial institutions		(316,998)	(1,914,204)
Financial instruments at fair value through profit or loss		(1,535,513)	(290,219)
Amounts receivable under reverse repurchase agreements		(920,291)	100,801
Loans to customers		170,437	(26,255)
Other assets		(66,799)	32,107
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		20,825	842,473
Amounts payable under repurchase agreements		85,000	-
Current accounts and deposits from customers		2,828,856	1,391,809
Promissory notes issued		990,826	92,659
Other liabilities		38,249	75,339
Net cash from operating activities before income tax paid		2,231,144	1,556,772
Income tax paid		(315,384)	(193,142)
Cash flows from operations		1,915,760	1,363,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash outflow on disposal of subsidiary		-	(72,564)
Net purchases of property and equipment		(42,787)	(56,269)
Cash flows used in investing activities		(42,787)	(128,833)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of loan participation notes issued		(3,168,000)	(473,569)
Net receipts from issuance of share capital		-	600,000
Cash flows (used in)/from financing activities		(3,168,000)	126,431
Net (decrease)/increase in cash and cash equivalents		(1,295,027)	1,361,228
Effect of changes in exchange rates on cash and cash equivalents		191,143	48,823
Cash and cash equivalents at the beginning of the year		2,792,260	1,382,209
Cash and cash equivalents as at the end of the year	32	1,688,376	2,792,260

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

CB "Locko-bank" (CJSC)
Consolidated statement of changes in equity for the year ended 31 December 2009

	Share capital RUB'000	Additional paid-in- capital RUB'000	Revaluation reserve for buildings RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 January 2008	2,781,047	67,476	-	565,048	3,413,571
Total comprehensive income					
Profit	-	-	-	400,406	400,406
Other comprehensive income					
Revaluation of buildings, net of deferred tax of RUB 60,137 thousand	-	-	240,546	-	240,546
Total other comprehensive income	-	-	240,546	-	240,546
Total comprehensive income	-	-	240,546	400,406	640,952
Shares issued	600,000	-	-	-	600,000
Balance at 31 December 2008	3,381,047	67,476	240,546	965,454	4,654,523
Total comprehensive income					
Profit	-	-	-	625,809	625,809
Other comprehensive income					
Revaluation of buildings, net of deferred tax of RUB 21,441 thousand	-	-	(85,764)	-	(85,764)
Total other comprehensive income	-	-	(85,764)	-	(85,764)
Total comprehensive income	-	-	(85,764)	625,809	540,045
Balance at 31 December 2009	3,381,047	67,476	154,782	1,591,263	5,194,568

1 Background

Principal activities

The major operating companies of the "Locko-Bank" Group (the "Group") are the parent company CB "Locko-bank" (CJSC) (the "Bank"), its 100% subsidiary LLC "OFLK" and its special purpose entity ("SPE") Locko Finance Plc.

- The Bank was established in the Russian Federation as a limited liability company, converting in November 2005 to a closed joint-stock company. The Bank was granted its general banking license in 2003. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation ("the CBR"). The majority of the Bank's assets and liabilities are located in the Russian Federation. The Bank is a member of the state deposit insurance system in the Russian Federation. The registered address of the head office is Gospitalnaya str., 14, Moscow, Russian Federation. The average number of persons employed by the Bank during 2009 was 852 (2008: 1,004).
- LLC "OFLK" was established in the Russian Federation as a limited liability company in March 2002 and started performing active business operations in 2003. Its principal activity is the provision of finance leasing. The average number of persons employed during 2009 was 5 (2008: 5).
- Locko Finance Plc. is special purpose entity established to facilitate the Group's issue of loan participation notes (refer to Note 21). The entity is not owned by the Group and the control arises through the predetermination of the entity's activities.

Russian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management has determined the Group's functional currency to be the RUB as it reflects the economic substance of the majority of underlying events and circumstances of the Group. The RUB is also the Group's presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRS that have a significant effect on these consolidated financial statements are described in note 16 "Loans to customers" in respect of the loan impairment allowance and in note 17 "Property and equipment" in respect of the building revaluation.

3 Significant accounting policies

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

Basis of consolidation

Subsidiaries

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

Special purpose entities

The Group established a special purpose entity (SPE) to act to facilitate the issue of loan participation notes. The Group does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE management over the operations of the SPE. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

Associates

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

Transactions eliminated on consolidation

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

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the CBR in cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

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

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

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

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

Derecognition

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

The Group also derecognises and writes off assets which are deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

Leases

Finance leases

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss 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 recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment, except for buildings, are stated at cost less accumulated depreciation and impairment losses.

Buildings are stated at revalued amount less subsequent accumulated depreciation and impairment losses.

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

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on an item of buildings is recognized as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on an item of buildings is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized directly in equity.

Depreciation

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

Buildings	40 years
Office furniture and equipment	3 to 25 years
Vehicles	5 to 10 years
Leasehold improvements	1 to 5 years

Intangible assets

Intangible assets that are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over 5 years.

Impairment

Financial assets carried at amortized cost

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

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

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

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

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

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

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

Financial assets carried at cost

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

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

Non financial assets

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

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

Provisions

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

Credit related commitments

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

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

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

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

Share capital

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

Repurchase of share capital

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

Dividends

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

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

Taxation

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

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

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

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

Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in profit or loss using the effective interest method. Coupon income on financial assets held for trading and on other financial instruments at fair value through profit or loss is recognised in net gain on financial instruments at fair value through profit or loss.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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

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

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

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Changes in accounting policies

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

Starting from 1 January 2009 the Group adopted IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

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

New standards and interpretations not yet adopted

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

- IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.
- IFRS 3 *Business Combinations* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure minority interest using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 January 2010) clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (effective for annual periods beginning on or after 1 July 2009) clarifies the classification of assets and liabilities on disposal of a subsidiary.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009) addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised.

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

4 Net interest income

	2009	2008
	RUB'000	RUB'000
Interest income		
Loans to customers	3,398,004	3,579,799
Amounts receivable under reverse repurchase agreements	72,427	8,130
Placements with banks and other financial institutions	57,940	76,263
Net investment in leases	24,763	61,811
	3,553,134	3,726,003
Interest expense		
Current accounts and deposits from customers	863,497	519,044
Deposits and balances from banks and other financial institutions	782,350	649,622
Own securities issued	724,174	844,396
Amounts payable under repurchase agreements	10,762	4,476
	2,380,783	2,017,538

5 Fee and commission income

	2009	2008
	RUB'000	RUB'000
Settlements	138,255	109,118
Currency exchange fees	54,689	74,529
Cash transactions	67,193	72,263
Trade finance and guarantees	69,086	47,609
Other	10,452	19,719
	339,675	323,238

6 Fee and commission expense

	2009	2008
	RUB'000	RUB'000
Trade finance and guarantees	28,367	31,091
Settlements	20,234	16,270
Cash transactions	11,324	4,602
Brokerage	2,954	2,635
Other	7,675	6,139
	70,554	60,737

7 Net gain/(loss) on financial instruments at fair value through profit or loss

	2009	2008
	RUB'000	RUB'000
Debt instruments	1,415,867	(62,540)
Equity instruments	17,588	(16,051)
	1,433,455	(78,591)

8 Net foreign exchange income

	2009	2008
	RUB'000	RUB'000
Income/(loss) from revaluation of financial assets and liabilities	35,665	(9,190)
Income on spot transactions and derivatives	292,147	163,621
	327,812	154,431

9 Impairment losses

	2009	2008
	RUB'000	RUB'000
Loans to customers	1,196,158	639,079
Other assets	8,225	537
	1,204,383	639,616

10 General administrative expenses

	2009	2008
	RUB'000	RUB'000
Employee compensation	827,133	797,009
Occupancy	91,341	129,186
Depreciation	63,411	67,898
Professional services	40,378	30,840
Communication and information services	39,423	51,678
Taxes other than on income	37,845	46,977
Security	37,508	33,633
Advertising and marketing	25,060	41,498
Insurance	24,790	26,029
Repairs and maintenance	17,013	19,307
Office supplies	10,313	13,273
Travel	6,645	6,313
Other	25,904	26,606
	1,246,764	1,290,247

11 Income tax expense

	2009	2008
	RUB'000	RUB'000
Current tax expense		
Current year	194,221	238,455
Deferred tax expense		
Origination and reversal of temporary differences	21,782	(143,077)
Total income tax expense	216,003	95,378

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

Reconciliation of effective tax rate:

	2009	%	2008	%
	RUB'000		RUB'000	
Income before taxes	841,812		495,784	
Income tax at the applicable tax rate	168,362	20	118,988	24
Non-deductible costs	51,635	6	5,449	1
Non-taxable income	(2,519)	(0)	(20,190)	(4)
Income taxed at lower tax rates	(1,475)	(0)	(1,174)	(0)
Tax rate change effect	-	0	(7,695)	(2)
	216,003	26	95,378	19

12 Due from the Central Bank of the Russian Federation

	2009 RUB'000	2008 RUB'000
Minimum reserve deposit	156,030	41,154
Nostro accounts	1,190,509	2,277,172
Term deposits	450,456	-
	1,796,995	2,318,326

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro accounts represent balances with the CBR related to settlement activity and are available for withdrawal at year end. Term deposits are available for withdrawal at the end of the deposit period.

13 Placements with bank and other financial institutions

	2009 RUB'000	2008 RUB'000
<i>Not impaired or overdue</i>		
Nostro accounts		
OECD banks	830,734	497,965
Largest 30 Russian banks	342,073	2,116,994
Other Russian banks and stock exchanges	285,301	1,357,016
Other foreign banks	734	464
Total nostro accounts	1,458,842	3,972,439
Loans and deposits		
OECD banks	1,124,475	-
Russian subsidiaries of OECD banks	302,482	-
Largest 30 Russian banks	919,472	11,752
Other Russian banks	472,082	663,623
Total loans and deposits	2,818,511	675,375
	4,277,353	4,647,814

Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 31 December 2008, balances with banks and other financial institutions, which individually comprised more than 10% of placements with banks and other financial institutions, are as follows:

	2009 RUB'000	2008 RUB'000
Citibank	958,445	-
Sberbank	604,921	-
The Bank for Foreign Economic Affairs (VEB)	-	1,895,011
Bank "National Clearing Centre"	-	1,344,693
	1,563,366	3,239,704

14 Financial instruments at fair value through profit or loss

	2009 RUB'000	2008 RUB'000
Assets		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	394,453
Municipal bonds	81,364	-
Total government and municipal bonds	81,364	394,453
- Corporate bonds		
Rated BBB- to BBB+	905,827	878,865
Rated BB- to BB+	628,628	1,043,317
Rated B- to B+	1,308,747	483,261
Not rated	857,183	276,741
Total corporate bonds	3,700,385	2,682,184
- Promissory notes		
Rated BBB- to BBB+	28,530	-
Rated B- to B+	203,735	-
Total promissory notes	232,265	-
Equity investments		
Corporate shares	122,883	-
Derivative financial instruments		
Foreign currency contracts	4,889	197,415
	4,141,786	3,274,052
<i>Blocked for undrawn facilities from the Central Bank of the Russian Federation</i>		
Debt and other fixed-income instruments		
- Corporate bonds		
Rated BB- to BB+	741,845	193,526
Rated B- to B+	470,952	41,436
	1,212,797	234,962
<i>Pledged under sale and repurchase agreements</i>		
Debt and other fixed-income instruments		
Rated BB- to BB+	55,938	-
Rated B- to B+	39,906	-
	95,844	-
Total financial assets at fair value through profit or loss	5,450,427	3,509,014

All financial instruments at fair value through profit or loss are classified as held for trading.

As of 31 December 2009 financial instruments at fair value through profit and loss that were listed in the Lombard list of the CBR amount to RUB 3,494,453 thousand (31 December 2008: RUB 2,455,225 thousand).

	2009 RUB'000	2008 RUB'000
Liabilities		
Derivative financial instruments		
Foreign currency contracts	307	22,109

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2009 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2009 RUB'000	2008 RUB'000	2009	2008
Buy USD sell RUB				
Less than three months	314,016	805,085	29.91	24.41
Sell USD buy RUB				
Less than three months	60,410	914,633	30.21	29.26
Buy Euros sell RUB				
Less than three months	92,112	-	43.45	-

15 Amounts receivable under reverse repurchase agreements

	2009 RUB'000	2008 RUB'000
Amounts receivable from banks and other financial institutions		
Other than largest 30 Russian banks	88,739	-
Amounts receivable from customers		
Russian corporates	832,682	-
	921,421	-

Collateral

As of 31 December 2009, amounts receivable under reverse repurchase agreements are collateralised by the following securities:

	2009	2008
	RUB'000	RUB'000
Corporate bonds		
Rated BBB- to BBB+	729,374	-
Rated BB- to BB+	193,777	-
Rated B- to B+	32,917	-
Not rated	66,836	-
	1,022,904	-

16 Loans to customers

	2009	2008
	RUB'000	RUB'000
Commercial loans		
Large sized enterprises	8,018,727	7,141,967
Upper stratum of medium sized enterprises	6,087,507	4,537,729
Lower stratum of medium sized enterprises	952,843	1,998,228
Small enterprises	3,596,453	5,078,594
Total loans to legal entities	18,655,530	18,756,518
Individuals	2,672,326	3,482,246
Gross loans to customers	21,327,856	22,238,764
Impairment allowance	(1,597,026)	(901,070)
Net loans to customers	19,730,830	21,337,694

Movements in loan impairment allowance for the year ended 31 December 2009 and 31 December 2008 are as follows:

	2009	2008
	RUB'000	RUB'000
Balance at the beginning of the year	901,070	289,353
Net charge for the year	1,196,158	639,079
Write-offs	(500,202)	(27,362)
Balance at the end of the year	1,597,026	901,070

As at 31 December 2009, interest accrued on impaired loans net of impairment allowance amounts to RUB 47,683 thousand (31 December 2008: RUB 16,765 thousand).

Net investment in leases

Included within loans to customers are net investments in leases. As of 31 December 2009 and 2008 the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	2009	2008
	RUB'000	RUB'000
Net investment in leases		
Gross investment in leases	229,411	341,590
Unearned finance income	(38,548)	(76,491)
Net investment in leases	190,863	265,099
Impairment allowance	(1,069)	(1,723)
Net investment in leases less allowance	189,794	263,376

The contractual maturity of the net investment in leases as at 31 December 2009 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
	RUB'000	RUB'000	RUB'000	RUB'000
Less than one year	97,959	(23,765)	(416)	73,778
One year to five years	131,452	(14,783)	(653)	116,016
	229,411	(38,548)	(1,069)	189,794

The contractual maturity of the net investment in leases as at 31 December 2008 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
	RUB'000	RUB'000	RUB'000	RUB'000
Less than one year	103,014	(37,064)	(429)	65,521
One year to five years	238,576	(39,427)	(1,294)	197,855
	341,590	(76,491)	(1,723)	263,376

Credit quality of loan portfolio

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

	Gross loans	Impairment allowance	Net Loans	Impairment allowance to gross loans %
	RUB'000	RUB'000	RUB'000	%
Loans to large sized enterprises				
Loans for which no impairment has been identified	7,657,241	(303,238)	7,354,003	3.96%
Impaired loans:				
- not past due	263,438	(102,576)	160,862	38.94%
- overdue more than 90 days and less than 1 year	98,048	(44,150)	53,898	45.03%
Total impaired loans	361,486	(146,726)	214,760	40.59%
Total loans to large sized enterprises	8,018,727	(449,964)	7,568,763	5.61%
Loans to upper stratum of medium sized enterprises				
Loans for which no impairment has been identified	5,968,038	(258,842)	5,709,196	4.34%
Impaired loans:				
- overdue less than 90 days	61,762	(37,864)	23,898	61.31%
- overdue more than 1 year	57,707	(40,694)	17,013	70.52%
Total impaired loans	119,469	(78,558)	40,911	65.76%
Total loans to upper stratum of medium sized enterprises	6,087,507	(337,400)	5,750,107	5.54%
Loans to lower stratum of medium sized enterprises				
- not past due	908,229	(44,961)	863,268	4.95%
- overdue less than 30 days	4,941	(1,287)	3,654	26.05%
- overdue more than 30 and less than 90 days	17,196	(9,066)	8,130	52.72%
- overdue more than 90 and less than 180 days	2,213	(1,749)	464	79.03%
- overdue more than 180 days and less than 1 year	15,699	(13,563)	2,136	86.39%
- overdue more than 1 year	4,565	(4,565)	-	100.00%
Total loans to lower stratum of medium sized enterprises	952,843	(75,191)	877,652	7.89%
Loans to small enterprises				
- not past due	3,163,642	(185,046)	2,978,596	5.85%
- overdue less than 30 days	98,902	(24,001)	74,901	24.27%
- overdue more than 30 and less than 90 days	117,646	(65,475)	52,171	55.65%
- overdue more than 90 and less than 180 days	105,629	(71,763)	33,866	67.94%
- overdue more than 180 days and less than 1 year	92,960	(78,981)	13,979	84.96%
- overdue more than 1 year	17,674	(17,674)	-	100.00%
Total loans to small enterprises	3,596,453	(442,940)	3,153,513	12.32%
Loans to individuals				
- not past due	2,362,179	(194,986)	2,167,193	8.25%
- overdue less than 30 days	164,000	(11,685)	152,315	7.13%
- overdue more than 30 and less than 90 days	22,650	(9,506)	13,144	41.97%
- overdue more than 90 and less than 180 days	20,948	(13,331)	7,617	63.64%
- overdue more than 180 days and less than 1 year	84,006	(43,480)	40,526	51.76%
- overdue more than 1 year	18,543	(18,543)	-	100.00%
Total loans to individuals	2,672,326	(291,531)	2,380,795	10.91%
Total loans to customers	21,327,856	(1,597,026)	19,730,830	7.49%

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

	Gross loans	Impairment allowance	Net Loans	Impairment allowance to gross loans %
	RUB'000	RUB'000	RUB'000	%
Loans to large sized enterprises				
Loans for which no impairment has been identified	7,141,967	(94,261)	7,047,706	1.32%
Total loans to large sized enterprises	7,141,967	(94,261)	7,047,706	1.32%
Loans to upper stratum of medium sized enterprises				
Loans for which no impairment has been identified	4,449,455	(56,703)	4,392,752	1.27%
Impaired loans:				
- overdue less than 90 days	16,352	(823)	15,529	5.03%
- overdue more than 90 days and less than 1 year	71,922	(35,252)	36,670	49.01%
Total impaired loans	88,274	(36,075)	52,199	40.87%
Total loans to upper stratum of medium sized enterprises	4,537,729	(92,778)	4,444,951	2.04%
Loans to lower stratum of medium sized enterprises				
- not past due	1,836,211	(80,226)	1,755,985	4.37%
- overdue less than 30 days	67,305	(16,811)	50,494	24.98%
- overdue more than 30 and less than 90 days	35,037	(6,607)	28,430	18.86%
- overdue more than 90 and less than 180 days	19,369	(11,472)	7,897	59.23%
- overdue more than 180 days and less than 1 year	40,306	(32,009)	8,297	79.41%
Total loans to lower stratum of medium sized enterprises	1,998,228	(147,125)	1,851,103	7.36%
Loans to small enterprises				
- not past due	4,353,330	(212,510)	4,140,820	4.88%
- overdue less than 30 days	337,061	(80,869)	256,192	23.99%
- overdue more than 30 and less than 90 days	202,014	(68,568)	133,446	33.94%
- overdue more than 90 and less than 180 days	57,554	(16,777)	40,777	29.15%
- overdue more than 180 days and less than 1 year	62,333	(31,607)	30,726	50.71%
- overdue more than 1 year	66,302	(50,384)	15,918	75.99%
Total loans to small enterprises	5,078,594	(460,715)	4,617,879	9.07%
Loans to individuals				
- not past due	3,349,924	(69,082)	3,280,842	2.06%
- overdue less than 30 days	89,298	(8,728)	80,570	9.77%
- overdue more than 30 and less than 90 days	23,426	(14,611)	8,815	62.37%
- overdue more than 90 and less than 180 days	9,530	(8,709)	821	91.39%
- overdue more than 180 days and less than 1 year	7,143	(2,136)	5,007	29.90%
- overdue more than 1 year	2,925	(2,925)	-	100.00%
Total loans to individuals	3,482,246	(106,191)	3,376,055	3.05%
Total loans to customers	22,238,764	(901,070)	21,337,694	4.05%

The Group estimates loan impairment for loans to large sized enterprises, loans to upper stratum of medium sized enterprises and loans to VIP clients included in loans to individuals based on an analysis of the future cash flows for impaired loans. For portfolios of loans for which no indications of impairment is identified, it has based its provision on its past experience and factored in the current economic conditions.

For auto, consumer and credit card loans included in loans to individuals and loans to small and lower stratum of medium sized enterprises, the Group estimates loan impairment based on its past historical loss experience. Management estimates losses based on the historic loss migration pattern for the past 18 months and adjusts such statistics to reflect the current market environment.

In many cases the Group estimates loan impairment based on the discounted cash flows which could be received from sale of different types of collateral. To estimate the realizable value of the collateral (taking into account the costs of sale) the Group uses different discount rates applied to the fair value of collateral as at 31 December 2009: real estate – 20%-30%, automobiles – 50%-70%, equipment – 50%-70%.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the level of impairment as of 31 December 2009 would be RUB 197,308 thousand (31 December 2008: RUB 213,377 thousand) lower/higher.

During the year ended 31 December 2009 the Group renegotiated commercial loans that would otherwise be overdue of RUB 836,936 thousand (the year ended 31 December 2008: RUB 88,677 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities. Renegotiated loans are included in loans for which no impairment has been identified unless the borrower is not able to meet the renegotiated terms.

Analysis of collateral

Principal types of collateral used by the Group for commercial loans are pledges over real estate, equipment or motor vehicles or guarantees and sureties.

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit cards, overdrafts and consumer loans are not secured.

Impaired loans as of 31 December 2009 with a gross value of RUB 505,381 thousand (2008: RUB 105,384 thousand) are secured by pledge of real estate with a fair value of RUB 1,067,900 thousand (2008: RUB 107,106 thousand). Impaired loans with a gross value of RUB 597,379 thousand (2008: RUB 650,685 thousand) are secured by pledge of equipment and cars with a fair value of RUB 1,268,519 thousand (2008: RUB 802,815 thousand). For the remaining impaired loans of RUB 198,596 thousand (2008: RUB 75,197 thousand) it is impracticable to determine fair value of collateral or there is no collateral.

During the year ended 31 December 2009 the Group obtained real estate, cars and equipment with a carrying amount of RUB 5,297 thousand by taking control of collateral securing loans to customers. These assets are included in other assets (2008: RUB 7,482 thousand). For further information refer to note 18.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for loans to customers for the year ended 31 December 2009 are as follows:

	Loans to large sized enterprises	Loans to upper stratum of medium sized enterprises	Loans to lower stratum of medium sized enterprises	Loans to small enterprises	Loans to individuals	Total
	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000
Balance at the beginning of the year	94,261	92,778	147,125	460,715	106,191	901,070
Net charge	355,703	253,529	13,119	343,801	230,006	1,196,158
Write-offs	-	(8,907)	(85,053)	(361,576)	(44,666)	(500,202)
Balance at the end of the year	449,964	337,400	75,191	442,940	291,531	1,597,026

Movements in the impairment allowance for loans to customers for the year ended 31 December 2008 are as follows:

	Loans to large sized enterprises	Loans to upper stratum of medium sized enterprises	Loans to lower stratum of medium sized enterprises	Loans to small enterprises	Loans to individuals	Total
	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000
Balance at the beginning of the year	66,220	28,226	16,187	146,141	32,579	289,353
Net charge	28,041	64,552	130,938	340,220	75,328	639,079
Write-offs	-	-	-	(25,646)	(1,716)	(27,362)
Balance at the end of the year	94,261	92,778	147,125	460,715	106,191	901,070

Industry analysis of the loan portfolio

Loans are issued to customers who operate in the following economic sectors:

	31 December 2009		31 December 2008	
	RUB'000	%	RUB'000	%
Loans to individuals	2,672,326	12.5	3,482,246	15.7
Large sized, medium sized and small enterprises				
Construction	2,597,570	12.2	2,909,101	13.1
Food and beverages trading	2,299,586	10.8	1,137,683	5.1
Transport	1,749,800	8.2	2,800,206	12.6
Catering, hotel and entertainment	1,735,310	8.1	805,141	3.6
Electric and consumer goods trading	1,602,751	7.5	651,983	2.9
Rent of real estate	1,348,843	6.3	2,452,828	11.0
Cars, tyres and spare parts trading	1,037,536	4.9	1,423,049	6.4
Production of construction and decoration materials	724,693	3.4	680,642	3.1
Food production	628,426	2.9	266,299	1.2
Construction and decoration materials trading	544,024	2.6	699,298	3.1
Instruments and equipment production and trading	512,481	2.4	960,357	4.3
Collector services	499,118	2.3	-	-
Chemicals production and trading	365,420	1.7	121,924	0.6
Warehouse services	361,270	1.7	430,729	1.9
Rent of vehicles and equipment	248,133	1.2	468,984	2.1
Financial intermediary	220,875	1.0	-	-
Paintwork materials production and trading	220,451	1.0	173,725	0.8
Commercial education	198,255	0.9	171,775	0.8
Medication trading	194,373	0.9	42,694	0.2
Securities trading	184,490	0.9	-	-
Household goods	162,642	0.8	-	-
Textile production and trading	158,390	0.8	517,708	2.3
Agricultural products trading	115,420	0.5	512,775	2.3
Metal and metal-roll trading	96,348	0.5	217,018	1.0
Pipeline construction	-	-	258,686	1.2
Mineral oil trading	-	-	76,640	0.3
Advertising	-	-	25,976	0.1
Other	849,325	4.0	951,297	4.3
	21,327,856	100.0	22,238,764	100.0
Impairment allowance	(1,597,026)		(901,070)	
	19,730,830		21,337,694	

Geographical analysis of the loan portfolio

Loans are issued to customers, who operate in the following Federal regions:

	2009		2008	
	RUB'000	%	RUB'000	%
Central Federal region	18,356,860	86.1	18,368,897	82.6
Volga Federal region	1,109,008	5.2	1,131,900	5.1
Southern Federal region	660,248	3.1	960,517	4.3
North-western Federal region	491,251	2.3	778,174	3.5
Ural Federal region	383,611	1.8	394,069	1.8
Siberian Federal region	326,878	1.5	605,207	2.7
	21,327,856	100.0	22,238,764	100.0
Impairment allowance	(1,597,026)		(901,070)	
	19,730,830		21,337,694	

Loan maturities

The maturity of the loan portfolio is presented in note 35, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

17 Property and equipment

The movement of property and equipment during 2009 is as follows:

RUB'000	Building	Office furniture and equipment	Vehicles	Intangible assets	Leasehold improve- ments	Total
Cost/Revalued amount						
At 1 January 2009	348,040	141,769	15,199	57,997	72,345	635,350
Additions	-	32,097	5,458	-	5,942	43,497
Building revaluation	(107,205)	-	-	-	-	(107,205)
Elimination of accumulated depreciation of revalued assets	(10,992)	-	-	-	-	(10,992)
Disposals	-	(10,123)	(405)	-	-	(10,528)
At 31 December 2009	229,843	163,743	20,252	57,997	78,287	550,122
Depreciation						
At 1 January 2009	-	(53,598)	(6,681)	(32,817)	(65,530)	(158,626)
Depreciation charge	(10,992)	(28,730)	(3,459)	(11,612)	(8,618)	(63,411)
Elimination of accumulated depreciation of revalued assets	10,992	-	-	-	-	10,992
Disposals	-	2,260	354	-	-	2,614
At 31 December 2009	-	(80,068)	(9,786)	(44,429)	(74,148)	(208,431)
Carrying value						
At 31 December 2009	229,843	83,675	10,466	13,568	4,139	341,691
At 31 December 2008	348,040	88,171	8,518	25,180	6,815	476,724

The building was independently valued at 31 December 2009. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and market approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales of similar buildings. Final fair value was calculated based on integrated analysis of both approaches.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy and collection losses as a percentage of potential gross rent income are estimated as 7.7%-20%;
- buildings maintenance and general administrative expenses are estimated as 10% of effective gross rent income;
- discount rate of 15.7% is applied to future cash flows.

Changes in these estimates could effect the value of the building. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2009 would be RUB 22,984 thousand (2008: RUB 34,804 thousand) higher/lower.

The carrying value of the buildings as at 31 December 2009, if the buildings would not have been revalued, would be RUB 52,790 thousand (31 December 2008: RUB 54,471 thousand).

The movement of property and equipment during 2008 was as follows:

RUB'000	Building	Office furniture and equipment	Vehicles	Intangible assets	Leasehold improve- ments	Total
Cost/Revalued amount						
At 1 January 2008	67,259	102,218	10,761	56,028	62,224	298,490
Additions	-	41,717	5,866	1,969	10,121	59,673
Building revaluation	300,683	-	-	-	-	300,683
Elimination of accumulated depreciation of revalued assets	(19,902)	-	-	-	-	(19,902)
Disposals	-	(2,166)	(1,428)	-	-	(3,594)
At 31 December 2008	348,040	141,769	15,199	57,997	72,345	635,350
Depreciation						
At 1 January 2008	(11,107)	(30,677)	(5,035)	(21,033)	(45,474)	(113,326)
Depreciation charge	(8,795)	(24,893)	(2,370)	(11,784)	(20,056)	(67,898)
Elimination of accumulated depreciation of revalued assets	19,902	-	-	-	-	19,902
Disposals	-	1,972	724	-	-	2,696
At 31 December 2008	-	(53,598)	(6,681)	(32,817)	(65,530)	(158,626)
Carrying value						
At 31 December 2008	348,040	88,171	8,518	25,180	6,815	476,724
At 31 December 2007	56,152	71,541	5,726	34,995	16,750	185,164

18 Other assets

	2009	2008
	RUB'000	RUB'000
Advances and accounts receivable	77,752	26,365
Assets for leasing	10,494	-
Settlement commission	9,536	4,872
Penalty fees and commissions on loan agreements	5,604	13,266
Collateral accepted as security for commercial loans	5,233	7,482
Settlements with suppliers, customers and sub-contractors	3,862	7,655
VAT receivable	-	1,081
Other	11,034	5,883
Impairment allowance	-	(537)
	123,515	66,067

Analysis of movements in the impairment allowance:

	2009	2008
	RUB'000	RUB'000
Balance at the beginning of the year	537	-
Net charge	8,225	537
Write-offs	(8,762)	-
Balance at the end of the year	-	537

19 Deposits and balances from banks and other financial institutions

	2009	2008
	RUB'000	RUB'000
Term deposits of banks	4,232,994	2,212,736
Due to IFC and development banks	1,969,850	2,040,717
Subordinated loan from EBRD	603,909	586,616
Syndicated loans	514,380	2,749,876
Due to banks under post-finance agreements	491,266	1,011,567
Vostro accounts	293,222	6,394
	8,105,621	8,607,906

As at 31 December 2009 the amount due to IFC and development banks includes the following:

- 6 loans from EBRD: 3 loans denominated in USD (RUB 50,691 thousand) and 3 loans denominated in RUB (RUB 790,916 thousand) with a current average interest rate of 11.4%;
- 1 loan denominated in USD from IFC (RUB 343,910 thousand) with a current interest rate of 5.2%;
- 1 loan denominated in USD from KfW Bankengruppe (RUB 372,243 thousand) with a current interest rate of 4.3%;
- 1 loan denominated in USD from National City Bank (RUB 412,090 thousand) with a current interest rate of 5.2%.

On 23 February 2007 the Group received a USD denominated subordinated loan of USD 20,000 thousand from the EBRD with a maturity in 2014 and a current interest rate of 5.7%.

As at 31 December 2009 the Group had 2 syndicated loans from the IFC: one loan denominated in RUB (RUB 361,440 thousand) with a current interest rate of 9.7% and another loan denominated in USD (RUB 152,940 thousand) with a current interest rate of 4.1%.

Due to banks under post-finance agreements represent financing received from banks for documentary credit transactions.

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2009 and 2008 deposits and balances from banks and other financial institutions, which individually comprised more than 10% of deposits and balances from banks and other financial institutions, are as follows:

	2009	2008
	RUB'000	RUB'000
European Bank for Reconstruction and Development	1,972,008	1,407,550
The Central Bank of the Russian Federation	1,437,553	-
VTB Bank and subsidiaries	961,676	-
International Finance Corporation	858,290	-
	5,229,527	1,407,550

Minus signs as at 31 December 2008 for VTB Bank and subsidiaries and International Finance Corporation denotes that deposits and balances from those banks and financial institutions did not individually comprise more than 10% of deposits and balances from banks and other financial institutions as at 31 December 2008

20 Current accounts and deposits from customers

	2009	2008
	RUB'000	RUB'000
Current accounts and demand deposits		
Legal entities	5,954,202	6,868,849
Individuals	391,425	424,417
Total current accounts and demand deposits	6,345,627	7,293,266
Term deposits		
Legal entities	3,569,505	2,012,839
Individuals	5,144,414	3,071,064
Total term deposits	8,713,919	5,083,903
	15,059,546	12,377,169

Blocked accounts

As of 31 December 2009, the Group maintains customer deposit balances of RUB 1,078,161 thousand (2008: nil) that serve as collateral for loans and off-balance sheet credit instruments granted by the Group.

Concentrations of current accounts and customer deposits

As of 31 December 2009 and 2008 current accounts and deposits from customers, which individually comprised more than 10% of total current accounts and deposits from customers, were as follows:

	2009	2008
	RUB'000	RUB'000
Mining and Metallurgical Company "Norilsk Nickel"	1,517,343	-
SMU Ingeokom LLC	-	1,579,722
	1,517,343	1,579,722

Minus signs as at 31 December 2009 for SMU Ingeokom LLC denotes that current accounts and deposits from the customer did not comprise more than 10% of current accounts and deposits from the customers as at 31 December 2008.

21 Own securities issued

	2009	2008
	RUB'000	RUB'000
Loan participation notes	2,248,311	5,355,121
Promissory notes	2,327,000	1,634,443
	4,575,311	6,989,564

The table below provides a summary of loan participation notes as at 31 December 2009:

Nominal amount of the initial issue	Current issued amount	Issue date	Maturity date	Interest rate	Interest payment
100,000,000 USD	72,310,000 USD	01.03.2007	01.03.2010	10.0%	Semi-annual

The table below provides a summary of loan participation notes as at 31 December 2008:

Nominal amount of the initial issue	Current issued amount	Issue date	Maturity date	Interest rate	Interest payment
100,000,000 USD	88,300,000 USD	01.03.2007	01.03.2010	10.0%	Semi-annual
3,000,000,000 RUB	2,654,600,000 RUB	24.07.2007	24.07.2009	10.5%	Semi-annual

During the the year ended 31 December 2009 the Group repurchased loan participation notes with nominal amounts of RUB 575,000 thousand and USD 15,990 thousand at their market prices. As a result of these transactions the Group recognized a gain of RUB 24,958 thousand. In July 2009 the Group redeemed the remaining RUB denominated loan participation notes issued in 2007 at their nominal amounts (RUB 2,079,600 thousand).

During the year ended 31 December 2008 the Group repurchased issued loan participation notes with nominal amounts of RUB 495,400 thousand and USD 11,700 thousand at their market prices. As a result of these transactions the Group recognized a gain of RUB 260,265 thousand. Repurchased loan participation notes with a nominal amount of RUB 150,000 thousand were later sold to third parties.

22 Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2009 and 2008.

These deductible temporary differences as at 31 December, which have no expiry dates, are listed below at their tax effected accumulated values:

RUB'000	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Financial instruments at fair value through profit or loss	14,518	2,090	(34,387)	(6,509)	(19,869)	(4,419)
Loans to customers	14,076	23,818	(48,092)	(53,497)	(34,016)	(29,679)
Property and equipment	-	-	(46,195)	(70,347)	(46,195)	(70,347)
Other assets	6,599	5,147	(15,858)	(1,774)	(9,259)	3,373
Deposits and balances from banks and other financial institutions	-	-	(10,996)	(6,679)	(10,996)	(6,679)
Current accounts and deposits from customers	406	-	(258)	(1,625)	148	(1,625)
Own securities issued	16,044	30,361	(2,350)	(20,855)	13,694	9,506
Other liabilities	9,774	1,752	(2,236)	(496)	7,538	1,256
Total deferred tax assets/(liabilities)	61,417	63,168	(160,372)	(161,782)	(98,955)	(98,614)

Tax rate applicable for deferred taxes is 20% (2008: 20%).

Movement in temporary differences during the year ended 31 December 2009

RUB'000	Balance 1 January 2009	Recognised in income	Recognised in equity	Balance 31 December 2009
Financial instruments at fair value through profit or loss	(4,419)	(15,450)	-	(19,869)
Loans to customers	(29,679)	(4,337)	-	(34,016)
Property and equipment	(70,347)	2,711	21,441	(46,195)
Other assets	3,373	(12,632)	-	(9,259)
Deposits and balances from banks and other financial institutions	(6,679)	(4,317)	-	(10,996)
Current accounts and deposits from customers	(1,625)	1,773	-	148
Own securities issued	9,506	4,188	-	13,694
Other liabilities	1,256	6,282	-	7,538
	(98,614)	(21,782)	21,441	(98,955)

Movement in temporary differences during the year ended 31 December 2008

RUB'000	Balance 1 January 2008	Recognised in income	Recognised in equity	Balance 31 December 2008
Financial instruments at fair value through profit or loss	(4,157)	(262)	-	(4,419)
Amounts receivable under reverse repurchase agreements	(344)	344	-	-
Loans to customers	(158,368)	128,689	-	(29,679)
Property and equipment	(13,322)	3,112	(60,137)	(70,347)
Other assets	3,694	(321)	-	3,373
Deposits and balances from banks and other financial institutions	(3,178)	(3,501)	-	(6,679)
Current accounts and deposits from customers	376	(2,001)	-	(1,625)
Own securities issued	(17,752)	27,258	-	9,506
Other liabilities	11,497	(10,241)	-	1,256
	(181,554)	143,077	(60,137)	(98,614)

23 Share capital

Issued capital

The authorised, issued and outstanding share capital comprises 2.6 million ordinary shares (31 December 2008: 2.6 million). All shares have a par value of RUB 1,000.

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

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amounts to RUB 1,764,374 thousand (2008: RUB 1,243,786 thousand).

24 Analysis by segment

The Group identified four operating segments that represent key business lines. Each segment reports directly to a responsible member of the Board. Segments and the respective responsible members of the Board are presented below:

- Corporate segment – includes deposit taking from and lending to large sized enterprises and upper stratum of medium sized enterprises, trade finance, issue of guarantees. This segment reports to Deputy Chairman of the Executive Board Natalia V. Isaeva.
- Small and medium sized enterprises ("SME") segment – includes deposit taking from and lending to SME and individual entrepreneurs. This segment reports to Senior Deputy Chairman of the Executive Board Andrey V. Nekrasov.

- Retail segment – includes deposit taking from and lending to individual clients, including VIP clients. This segment reports directly to the Chairman of the Executive Board Dmitriy V. Kryukov.
- Financial segment – includes deposit taking from and lending to banks and other financial institutions, securities and currency trading, issue of guarantees, trade finance, issue of own debt securities. This segment reports to Deputy Chairman of the Executive Board Mikhail G. Pavlov.

Segment results are reviewed by the Executive Board at least quarterly. Management reporting is based on accounting records prepared in accordance with International Financial Reporting Standards, adjusted as necessary for inter-segment settlements in accordance with internal regulations of the Group. Management assesses segment performance using a number of key indicators, regularly monitored based on monthly, quarterly, and annual internal management reports.

Segment information for the main reportable segments for the year ended 31 December 2009 is set below:

2009 RUB'000	Corporate segment	SME segment	Retail segment	Financial segment	Unallocated	Total
Interest income	1,796,687	1,113,964	512,116	130,367	-	3,553,134
Net fee and commission income	199,526	32,945	37,197	20,310	(20,857)	269,121
Net gain on financial instruments at fair value through profit or loss	-	-	-	1,433,455	-	1,433,455
Gain on repurchase of issued loan participation notes	-	-	-	24,958	-	24,958
Net foreign exchange income	-	-	-	327,812	-	327,812
Other income	-	33,306	10,042	5,521	16,393	65,262
Revenue	1,996,213	1,180,215	559,355	1,942,423	(4,464)	5,673,742
Interest expense	(427,216)	(11,135)	(439,682)	(1,502,750)	-	(2,380,783)
Impairment losses	(609,232)	(356,920)	(230,006)	-	(8,225)	(1,204,383)
General administrative expenses	(80,907)	(251,818)	(119,031)	(101,050)	(693,958)	(1,246,764)
Operating expenses	(1,117,355)	(619,873)	(788,719)	(1,603,800)	(702,183)	(4,831,930)
Inter-segment gain/(loss)	(681,780)	(718,680)	46,928	823,454	530,078	-
Segment result	197,078	(158,338)	(182,436)	1,162,077	(176,569)	841,812
Income tax expense						(216,003)
Profit						625,809

Segment information for the main reportable business segments for the year ended 31 December 2008 is set below:

2008 RUB'000	Corporate segment	SME segment	Retail segment	Financial segment	Unallocated	Total
Interest income	1,974,946	1,178,981	487,683	84,393	-	3,726,003
Net fee and commission income	219,665	22,142	33,026	(605)	(11,727)	262,501
Net loss on financial instruments at fair value through profit or loss	-	-	-	(78,591)	-	(78,591)
Gain on repurchase of issued loan participation notes	-	-	-	260,265	-	260,265
Net foreign exchange income	-	-	-	154,431	-	154,431
Other income	11,791	17,520	14,227	7,341	67,697	118,576
Revenue	2,206,402	1,218,643	534,936	427,234	55,970	4,443,185
Interest expense	(306,374)	(2,468)	(339,494)	(1,369,202)	-	(2,017,538)
Impairment losses	(92,593)	(471,158)	(75,328)	-	(537)	(639,616)
General administrative expenses	(39,169)	(447,514)	(130,484)	(48,688)	(624,392)	(1,290,247)
Operating expenses	(438,136)	(921,140)	(545,306)	(1,417,890)	(624,929)	(3,947,401)
Inter-segment gain/(loss)	(1,086,315)	(796,927)	18,691	1,379,586	484,965	-
Segment result	681,951	(499,424)	8,321	388,930	(83,994)	495,784
Income tax expense						(95,378)
Profit						400,406

Segment breakdown of assets and liabilities as at 31 December is set out below:

	2009 RUB'000	2008 RUB'000
Assets		
Corporate segment	13,318,870	11,492,657
SME segment	4,031,166	6,468,983
Retail segment	2,380,794	3,376,055
Financial segment	12,446,197	10,475,154
Unallocated assets	1,039,767	1,060,754
Total Assets	33,216,794	32,873,603
Liabilities		
Corporate segment	9,824,622	8,906,430
SME segment	694,253	510,164
Retail segment	5,535,839	3,495,481
Financial segment	11,771,110	15,084,673
Unallocated assets	196,402	222,332
Total Liabilities	28,022,226	28,219,080

Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation and substantially all non-current assets are located in the Russian Federation.

25 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

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

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

The Executive Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Executive Board is also responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

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

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

Audit and Risk Committee (“ARCO”)

ARCO is responsible for monitoring of and control over the accuracy of the financial statements, analysis of the internal financial control system, risk management system and efficiency of internal audit. This committee advises the Board of Directors on terms of appointment of external auditors and monitors external auditors’ performance. ARCO reports directly to the Board of Directors.

Market risk

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

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

Overall authority for market risk is vested in ALCO, chaired by the Chairman of the Executive Board. Market risk limits are approved by ALCO based on recommendations of the Treasury Department.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the ALCO.

The management of the interest rate risk component of market risk is monitored by interest rate gap analysis and is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

The Group also utilizes Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

Interest rate risk

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

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Repricing risk

Interest rate repricing risk is the risk that movements in interest rates will affect the Group's income.

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

	2009	2008
	RUB'000	RUB'000
100 bp parallel increase	(33,141)	(27,536)
100 bp parallel decrease	10,418	27,536

Fair value interest rate risk

An analysis of sensitivity of profit or loss and equity as a result of changes in fair value of debt securities at fair value through profit or loss due to changes in the interest rates (also named present value basis point ("PVBP")) based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 bp rise in all yield curves is as follows:

	2009	2008
	RUB'000	RUB'000
100 bp parallel rise	(103,329)	(60,818)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than liabilities in that currency. For further information on the exposure to currency risk at 31 December refer to notes 14 and 36.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2009	2008
	RUB'000	RUB'000
5% appreciation of USD against RUB	(15,145)	6,450
5% depreciation of USD against RUB	15,145	(6,450)
5% appreciation of EUR against RUB	13,747	3,503
5% depreciation of EUR against RUB	(13,747)	(3,503)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of Credit Committees at various levels, which actively monitor credit risk in accordance with authority delegated to them. The credit policy is reviewed and approved by the Board of Directors. Members of the Credit Committees are approved by the Executive Board.

The credit policy establishes:

- general approaches for issuing loans to various segments of legal entities and individuals;
- procedures for review and approval of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate, SME and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures;
- requirements for concentration risk of loan portfolio in context of industries, credit exposure on one borrower (or group of related borrowers), credit exposure on largest 20 and 30 borrowers (or group of related borrowers).

The Group grants loans to large sized, medium sized and small enterprises as well as to individuals.

Loans to small enterprises and the lower stratum of medium sized enterprises are issued by specialized local subdivisions of the Group which exist in all regions in which the Group is present.

There are 3 levels of decision making limits regarding loans approval to small enterprises and lower stratum of medium sized enterprises:

- responsible Deputy Chairman of the Executive Board has authority to approve loans not exceeding 1.5 million RUB;
- small Credit Committee has authority to approve loans not exceeding 10 million RUB;
- principal Credit Committee of the Group has authority to approve loans not exceeding 50 million RUB.

After granting a loan to small enterprises or the lower stratum of medium sized enterprises the Group monitors compliance by the borrower with the loan terms and in some cases its financial position and existence of the collateral. The frequency and necessity of monitoring of collateral and borrowers' financial position depends on the size of the credit exposure. A special unit within the SME Lending Department and the Bad Debt Collection Department are responsible for recovery of overdue and impaired loans. Analysis of loan portfolio credit risk attributable to small enterprises and the lower stratum of medium sized enterprises is regularly performed by the Risk Control Department.

Only local subdivisions located in the Moscow region grant loans to the upper stratum of medium sized enterprises and large sized enterprises. Corporate loan/credit applications are originated by the client managers of the Corporate Clients Department and are then passed on to the Corporate Lending Department, which is responsible for lending to the upper stratum of medium sized enterprises and large sized enterprises as well as for lending to the lower stratum of medium sized enterprises attracted by managers from the Corporate Clients Department.

Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Control Department and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Corporate Lending Department and the Risk Control Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

There are 2 levels of decision making limits regarding loans issuance to the upper stratum of medium sized enterprises and large sized enterprises:

- principal Credit Committee has authority to approve loans not exceeding 50 million RUB;
- extended Credit Committee has authority to approve loans exceeding 50 million RUB.

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

The Group grants standardised retail loans and other loans to individuals. Retail loan/credit applications are reviewed by the Retail Lending Department through the use of application data verification procedures developed together with the Risk Control Department.

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

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

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 16 "Loans to customers".

Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized credit related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

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

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative assets							
Due from the Central Bank of the Russian Federation	1,642,404	-	-	-	156,030	1,798,434	1,796,995
Placements with banks and other financial institutions	3,867,853	6,255	9,257	428,177	-	4,311,542	4,277,353
Financial instruments at fair value through profit or loss, excluding corporate shares	87,568	191,929	194,135	331,405	6,637,204	7,442,241	5,322,655
Amounts receivable under reverse repurchase agreements	923,484	-	-	-	-	923,484	921,421
Loans to customers	2,320,491	2,560,695	3,498,994	6,495,148	10,709,413	25,584,741	19,730,830
Other assets	8,198	15,807	1,201	1,376	1,698	28,280	28,280
Derivative assets							
- Inflow	321,904	-	-	-	-	321,904	4,889
- Outflow	(318,323)	-	-	-	-	(318,323)	-
Total assets	8,853,579	2,774,686	3,703,587	7,256,106	17,504,345	40,092,303	32,082,423
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	(505,217)	(563,710)	(2,535,786)	(1,321,304)	(4,331,253)	(9,257,270)	(8,105,621)
Amounts payable under repurchase agreements	(85,196)	-	-	-	-	(85,196)	(85,039)
Current accounts and deposits from customers	(7,900,851)	(1,192,218)	(3,043,420)	(2,564,360)	(930,998)	(15,631,847)	(15,059,546)
Own securities issued	(149,980)	(2,769,658)	(548,924)	(590,507)	(875,330)	(4,934,399)	(4,575,311)
Current income tax payable	-	(790)	-	-	-	(790)	(790)
Other liabilities	(17,540)	(40,548)	(3,285)	(14,240)	(2)	(75,615)	(75,615)
Derivative liabilities							
- Inflow	148,054	-	-	-	-	148,054	-
- Outflow	(148,293)	-	-	-	-	(148,293)	(307)
Total liabilities	(8,659,023)	(4,566,924)	(6,131,415)	(4,490,411)	(6,137,583)	(29,985,356)	(27,902,229)
Net position	194,556	(1,792,238)	(2,427,828)	2,765,695	11,366,762	10,106,947	
Credit related commitments	(3,701,720)	-	-	-	-	(3,701,720)	(3,701,720)

The liquidity position of financial liabilities as at 31 December 2008 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	(470,067)	(1,339,117)	(2,450,937)	(2,061,486)	(3,348,190)	(9,669,797)	(8,607,906)
Current accounts and deposits from customers	(7,777,508)	(946,421)	(1,492,432)	(2,316,541)	(144,333)	(12,677,235)	(12,377,169)
Own securities issued	(619,449)	(415,939)	(507,386)	(3,324,402)	(3,605,817)	(8,472,993)	(6,989,564)
Current income tax payable	-	(60,728)	-	-	-	(60,728)	(60,728)
Other liabilities	(8,630)	(18,309)	(35,819)	(232)	-	(62,990)	(62,990)
Derivative liabilities							
- Inflow	1,208,437	675,749	-	-	-	1,884,186	197,415
- Outflow	(1,154,410)	(569,660)	-	-	-	(1,724,070)	(22,109)
Total liabilities	(8,821,627)	(2,674,425)	(4,486,574)	(7,702,661)	(7,098,340)	(30,783,627)	(27,923,051)
Credit related commitments	(2,486,739)	-	-	-	-	(2,486,739)	(2,486,739)

The key measure used by the Group for managing liquidity risk is the current liquidity ratio calculated in accordance with statutory regulations established by the CBR (N3 ratio). The minimum allowable limit for the ratio established by the CBR is 50%. The reported current liquidity ratios during the reporting period are as follows:

	2009 RUB'000	2008 RUB'000
Maximum for the year	216%	137%
Minimum for the year	110%	67%

For further information on the exposure to liquidity risk at year end refer to note 35.

26 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Bank.

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

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

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2009 and 31 December 2008:

	2009 RUB'000	2008 RUB'000
Tier 1 capital		
Share capital	3,381,047	3,381,047
Additional paid-in-capital	67,476	67,476
Retained earnings	1,591,263	965,454
Total tier 1 capital	5,039,786	4,413,977
Tier 2 capital		
Revaluation reserve for building	154,782	240,546
Subordinated debt excluding accrued interest	536,313	587,608
Total tier 2 capital	691,095	828,154
Investments in equity of other banks and financial institutions	(10,162)	-
Total capital	5,720,719	5,242,131
Risk-weighted assets		
Banking book	22,441,231	23,082,794
Trading book	5,864,280	2,612,045
Total risk weighted assets	28,305,511	25,694,839
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	17.8%	17.2%
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	20.2%	20.4%

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

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The tier 1 capital ratio under these covenants should be not less than 8% and the total capital ratio should not be less than 12%. Further covenants require that the statutory capital ratio should not be less than 10% and the capital adequacy ratio calculated in accordance with methodology of IFC, the lender, should not be less than 12%. The Group complied with all externally imposed capital requirements during the years ended 31 December 2009 and 2008.

27 Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

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

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

	2009	2008
	RUB'000	RUB'000
Contracted amount		
Undrawn loan commitments	2,187,196	1,444,139
Guarantees and letters of credit	1,514,524	1,042,600
	3,701,720	2,486,739

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

28 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2009	2008
	RUB'000	RUB'000
Less than one year	77,949	153,830
Between one and five years	54,354	82,675
	132,303	236,505

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

During the year ended 31 December 2009 RUB 91,341 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: RUB 129,186 thousand).

29 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full coverage for its premises and equipment and cash in transit. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position. Starting from April 2006 the Group has an insurance agreement with Ingosstrakh which gives insurance coverage through a public (or third party) liability policy, bankers blanket bond (BBB), electronic and computer crime insurance (ECC) policies, covering the following risks: public (civil) liability, dishonest or fraudulent acts of employees, loss of money (valuables) and losses resulting from forged or altered valuable documents, securities and counterfeit currency, electronic fraud.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the Group.

Taxation contingencies

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

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

30 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

31 Related party transactions

Transactions with the members of the Board of Directors and the Executive Board

Total remuneration, included in personnel expenses, for members of the Board of Directors and Executive Board for the year ended 31 December is shown below. For further information refer to note 10:

	2009	2008
	RUB'000	RUB'000
Members of the Board of Directors	31,539	15,840
Members of the Executive Board	46,725	30,040
	78,264	45,880

The above amounts include non-cash benefits paid to members of the Board of Directors and the Executive Board.

The outstanding balances and average interest rates as of 31 December for transactions with the members of the Board of Directors and the Executive Board are as follows:

	2009		2008	
	RUB'000	Average Interest Rate	RUB'000	Average Interest Rate
Consolidated statement of financial position				
Assets				
Loans to customers	11,083	15.6%	38,164	15.4%
Liabilities				
Current accounts and deposits from customers	101,035	12.3%	92,502	8.8%

Other amounts included in profit or loss for the year ended 31 December in relation to transactions with the members of the Board of Directors and the Executive Board are as follows:

	2009	2008
	RUB'000	RUB'000
Consolidated statement of comprehensive income		
Interest income	4,441	2,345
Interest expense	(7,379)	(8,119)
Fee and commission income	656	8,491

Transactions with shareholders and other related parties

The outstanding balances and the related average interest rates as of 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with shareholders and other related parties are as follows. Other related parties include entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUB' 000	Average Interest Rate	RUB'000	Average Interest Rate	RUB'000
Consolidated statement of financial position					
Assets					
Loans to customers	230	19.7%	345,067	14.2%	345,297
Liabilities					
Current accounts and deposits from customers	93,981	7.8%	46,102	6.2%	140,083
Deposits and balances from banks and other financial institutions	858,290	6.9%	-	-	862,210
Consolidated statement of comprehensive income					
Interest income	10,257		87,846		98,103
Interest expense	(112,782)		(10,047)		(122,829)
Fee and commission income	760		29,627		30,387
Fee and commission expense	(6,346)		(128)		(6,474)

The outstanding balances and the related average interest rates as of 31 December 2008 and related profit or loss amounts of transactions for the year ended 31 December 2008 with other related parties are as follows. Other related parties include entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUB' 000	Average Interest Rate	RUB'000	Average Interest Rate	RUB'000
Consolidated statement of financial position					
Assets					
Loans to customers	140	17.0%	210,532	16.0%	210,672
Liabilities					
Current accounts and deposits from customers	131,236	8.6%	900,199	2.7%	1,031,435
Deposits and balances from banks and other financial institutions	847,291	7.4%	-	-	847,291
Consolidated statement of comprehensive income					
Interest income	88		53,782		53,870
Interest expense	(47,293)		(15,087)		(62,380)
Fee and commission income	3,112		51,345		54,457
Fee and commission expense	(6,869)		(45,574)		(52,443)

32 Cash and cash equivalents

Cash and cash equivalents as at 31 December as shown in the consolidated statement of cash flows are composed of the following items:

	2009	2008
	RUB'000	RUB'000
Cash	497,867	515,088
Due from the Central Bank of the Russian Federation – nostro accounts	1,190,509	2,277,172
	1,688,376	2,792,260

33 Fair value of financial instruments

Estimated fair value of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures". Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position is presented below:

RUB'000	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Due from the Central Bank of the Russian Federation excluding minimum reserve deposit	1,640,965	1,640,965	2,277,172	2,277,172
Placements with banks and other financial institutions	4,277,353	4,277,353	4,647,814	4,647,814
Financial instruments at fair value through profit or loss	5,450,427	5,450,427	3,509,014	3,509,014
Amounts receivable under reverse repurchase agreements	921,421	921,421	-	-
Loans to customers	19,730,830	19,437,866	21,337,694	19,957,915
Financial liabilities at fair value through profit or loss	307	307	22,109	22,109
Deposits and balances from banks and other financial institutions	8,105,621	8,023,208	8,607,906	7,097,877
Amounts payable under repurchase agreements	85,039	85,039	-	-
Current accounts and deposits from customers	15,059,546	15,059,546	12,377,169	12,377,169
Own securities issued	4,575,311	4,575,311	6,989,564	5,780,510

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value as at 31 December by the level in the fair value hierarchy into which the fair value measurements are categorised:

RUB'000	2009	
	Level 1	Level 2
Derivative financial instruments – assets	-	4,889
Trading securities	5,445,538	-
	5,445,538	4,889
Derivative financial instruments – liabilities	-	307

34 Average effective interest rates

The table below displays the interest bearing assets and liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at that dates.

	Value RUB'000	2009 Average Effective Interest Rate	Value RUB'000	2008 Average Effective Interest Rate
Interest Bearing Assets				
Due from Central Bank of the Russian Federation	1,640,965	1.5%	2,277,172	0.0%
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- RUB	146,761	0.0%	120,659	0.6%
- USD	662,472	0.0%	2,910,757	0.1%
- other currencies	649,609	0.0%	941,023	0.0%
<i>Loans and deposits</i>				
- RUB	472,081	8.4%	663,623	20.3%
- USD	2,129,437	0.7%	11,752	0.0%
- other currencies	216,993	1.1%	-	-
Financial instruments at fair value through profit or loss				
- RUB	4,308,069	11.7%	2,892,958	8.7%
- USD	1,014,586	8.7%	418,641	9.5%
Amounts receivable under reverse repurchase agreements				
- RUB	921,421	7.2%	-	-
Loans to customers				
- RUB	12,256,502	18.1%	13,107,326	18.9%
- USD	7,893,343	14.2%	8,393,529	15.2%
- other currencies	1,178,011	14.5%	737,909	11.6%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
<i>Vostro accounts</i>				
- RUB	5,406	0.0%	2,728	0.0%
- USD	287,802	0.0%	3,019	0.0%
- other currencies	14	0.0%	647	0.0%
<i>Term deposits</i>				
- RUB	3,640,173	11.3%	2,555,996	13.1%
- USD	3,969,931	5.6%	5,743,938	6.2%
- other currencies	202,295	10.1%	301,578	7.1%
Amounts payable under repurchase agreements				
- RUB	85,039	7.6%	-	-

	Value RUB'000	2009 Average Effective Interest Rate	Value RUB'000	2008 Average Effective Interest Rate
Current accounts and deposits from customers				
<i>Current accounts and demand deposits</i>				
- RUB	5,317,695	0.0%	6,432,389	0.8%
- USD	753,338	2.8%	554,504	2.4%
- other currencies	274,594	0.2%	306,373	0.0%
<i>Term deposits</i>				
- RUB	2,949,978	14.3%	1,931,846	10.3%
- USD	4,020,059	8.0%	2,190,250	9.8%
- other currencies	1,743,882	9.6%	961,807	9.2%
Own securities issued				
- RUB	1,657,867	14.2%	3,689,979	17.9%
- USD	2,895,201	10.7%	3,253,528	11.0%
- other currencies	22,243	9.7%	46,057	11.2%

35 Maturity analysis

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions.

The following table shows assets and liabilities by their remaining contractual maturity as at 31 December 2009. The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

	Less than 1 month RUB'000	1 to 3 months RUB'000	3 months to 1 year RUB'000	1 to 5 years RUB'000	More than 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Assets								
Cash	497,867	-	-	-	-	-	-	497,867
Due from the Central Bank of the Russian Federation	1,640,965	-	-	-	-	156,030	-	1,796,995
Placements with banks and other financial institutions	3,866,271	-	411,082	-	-	-	-	4,277,353
Financial instruments at fair value through profit or loss	4,889	159,181	246,460	3,374,470	1,542,544	122,883	-	5,450,427
Amounts receivable under reverse repurchase agreements	921,421	-	-	-	-	-	-	921,421
Loans to customers	1,327,742	1,918,085	7,939,603	8,012,890	34,798	-	497,712	19,730,830
Property and equipment	-	-	-	-	-	341,691	-	341,691
Current income tax prepayment	-	76,695	-	-	-	-	-	76,695
Other assets	68,113	40,185	12,043	3,174	-	-	-	123,515
Total assets	8,327,268	2,194,146	8,609,188	11,390,534	1,577,342	620,604	497,712	33,216,794
Liabilities								
Financial instruments at fair value through profit or loss	307	-	-	-	-	-	-	307
Deposits and balances from banks and other financial institutions	486,536	459,052	3,505,952	3,654,081	-	-	-	8,105,621
Amounts payable under repurchase agreements	85,039	-	-	-	-	-	-	85,039
Current accounts and deposits from customers	7,756,884	1,148,094	5,331,413	823,155	-	-	-	15,059,546
Own securities issued	148,872	2,712,722	1,066,619	647,098	-	-	-	4,575,311
Current income tax payable	-	790	-	-	-	-	-	790
Deferred tax liability	-	-	-	-	-	98,955	-	98,955
Other liabilities	32,078	42,943	21,628	8	-	-	-	96,657
Total liabilities	8,509,716	4,363,601	9,925,612	5,124,342	-	98,955	-	28,022,226
Net position as at 31 December 2009	(182,448)	(2,169,455)	(1,316,424)	6,266,192	1,577,342	521,649	497,712	5,194,568
Cumulative liquidity position as at 31 December 2009	(182,448)	(2,351,903)	(3,668,327)	2,597,865	4,175,207	4,696,856	5,194,568	
Net position as at 31 December 2008	675,658	2,597,263	(4,779,260)	6,186,812	(1,206,038)	426,746	753,342	4,654,523
Cumulative liquidity position as at 31 December 2008	675,658	3,272,921	(1,506,339)	4,680,473	3,474,435	3,901,181	4,654,523	

36 Currency analysis

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

	RUB RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
Assets				
Cash	304,906	103,679	89,282	497,867
Due from the Central Bank of the Russian Federation	1,796,952	-	43	1,796,995
Placements with banks and other financial institutions	618,842	2,791,909	866,602	4,277,353
Financial instruments at fair value through profit or loss	4,431,092	1,019,335	-	5,450,427
Amounts receivable under reverse repurchase agreements	921,421	-	-	921,421
Loans to customers	10,824,170	7,367,159	1,539,501	19,730,830
Property and equipment	341,691	-	-	341,691
Current income tax prepayment	76,695	-	-	76,695
Other assets	110,419	13,017	79	123,515
Total assets	19,426,188	11,295,099	2,495,507	33,216,794
Liabilities				
Financial instruments at fair value through profit or loss	307	-	-	307
Deposits and balances from banks and other financial institutions	3,645,579	4,257,733	202,309	8,105,621
Amounts payable under repurchase agreements	85,039	-	-	85,039
Current accounts and deposits from customers	8,267,673	4,773,397	2,018,476	15,059,546
Own securities issued	1,657,867	2,895,201	22,243	4,575,311
Current income tax payable	790	-	-	790
Deferred tax liability	98,955	-	-	98,955
Other liabilities	94,592	1,006	1,059	96,657
Total liabilities	13,850,802	11,927,337	2,244,087	28,022,226
Net on balance sheet position as of 31 December 2009	5,575,386	(632,238)	251,420	5,194,568
Net off balance sheet position as of 31 December 2009	(345,718)	253,606	92,112	-
Net on and off balance sheet position as of 31 December 2009	5,229,668	(378,632)	343,532	5,194,568
Net on and off balance sheet position as of 31 December 2008	4,405,705	161,245	87,573	4,654,523