

BANK «PRIME FINANCE» PLC

Consolidated Financial Statements
For the Year Ended 31 December 2009

BANK «PRIME FINANCE» PLC

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BANK «PRIME FINANCE» PLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Bank as at 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Bank, and which enable them to ensure that the consolidated financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were authorized for issue on 18 June 2010 by the Bank's Management Board.


On behalf of the Management Board:



M.S. Tabunov
Chairman of the Management Board

18 June 2010
Saint-Petersburg





A.V. Morosov
Chief Accountant

18 June 2010
Saint-Petersburg

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Supervisory Board of Bank "Prime Finance" Public Limited Company:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank "Prime Finance" Public Limited Company and its subsidiary ("Bank"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statements of changes in equity and 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 of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion

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

Deloitte & Touche

21 June 2010
Saint-Petersburg

BANK «PRIME FINANCE» PLC

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4, 21	62,563	38,031
Interest expense	4, 21	(1,543)	(493)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		61,020	37,538
Recovery of provision/(provision) for impairment losses on interest bearing assets	5	1,799	(16,706)
NET INTEREST INCOME		62,819	20,832
Net gain on foreign exchange operations	6	24,874	20,668
Fee and commission income	7	26,930	19,471
Fee and commission expense	7	(2,720)	(2,221)
Other income	8	1,301	24,284
Recovery of other provisions	5	7,529	4,944
NET NON-INTEREST INCOME		57,914	67,146
OPERATING INCOME		120,733	87,978
OPERATING EXPENSES	9, 21	(63,739)	(51,633)
PROFIT BEFORE INCOME TAX		56,994	36,345
Income tax expense	10	(6,741)	(9,085)
NET PROFIT		50,253	27,260
Attributable to:			
Owners of the parent Bank		50,878	27,260
Minority interest		(625)	-
		50,253	27,260

On behalf of the Management Board


M.S. Tabunov
Chairman of the Management Board

18 June 2010
Saint-Petersburg




A.V. Morosov
Chief Accountant

18 June 2010
Saint-Petersburg

The notes on pages 9-44 form an integral part of these financial statements.

BANK «PRIME FINANCE» PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009 (in thousands of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	11	205,996	193,223
Due from banks	12	62,313	61,364
Loans to customers	13, 21	341,222	289,906
Fixed assets	14	5,564	2,012
Current income tax assets		325	2,141
Deferred income tax assets	10	2,036	-
Other assets	15	10,649	1,602
TOTAL ASSETS		628,105	550,248
LIABILITIES AND EQUITY			
LIABILITIES:			
Customer accounts	16, 21	464,793	442,462
Other borrowed funds	17, 21	1,983	-
Deferred income tax liabilities	10	133	-
Other liabilities	18	5,572	4,801
Total liabilities		472,481	447,263
EQUITY:			
Share capital	19	81,547	81,547
Retained earnings		73,028	21,438
Total equity attributable to owners of the parent Bank		154,575	102,985
Minority interest		1,049	-
Total equity		155,624	102,985
TOTAL LIABILITIES AND EQUITY		628,105	550,248

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

18 June 2010
Saint-Petersburg




A.V. Morosov
Chief Accountant

18 June 2010
Saint-Petersburg

The notes on pages 9-44 form an integral part of these consolidated financial statements.

BANK «PRIME FINANCE» PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		56,994	36,345
Adjustments for:			
(Recovery of provision)/provision for impairment losses on interest bearing assets		(1,799)	16,706
(Recovery of provision)/provision for impairment losses on other transactions		(7,529)	(4,944)
Unrealised loss on foreign exchange operations		300	313
Depreciation		1,759	965
Loss on disposal of fixed assets		-	304
Change in other accruals, net		(1,194)	7,056
Change in interest accruals, net		303	(209)
		<u>48,834</u>	<u>56,536</u>
Cash inflow from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of Russian Federation		(3,539)	6,897
Due from banks		(302)	-
Loans to customers		(48,959)	(112,140)
Other assets		(1,176)	(846)
Increase/(decrease) in operating liabilities			
Customer accounts		22,338	(273)
Other liabilities		1,323	(3,757)
		<u>18,519</u>	<u>(53,583)</u>
Cash inflow/(outflow) from operating activities before taxation			
Income tax paid		(7,125)	(15,546)
		<u>11,394</u>	<u>(69,129)</u>
Net cash inflow/(outflow) from operating activities			

BANK «PRIME FINANCE» PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(5,311)	(432)
Net cash outflow from investing activities		<u>(5,311)</u>	<u>(432)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		-	37,500
Proceeds from other borrowed funds		<u>3,300</u>	<u>-</u>
Net cash inflow from financing activities		<u>3,300</u>	<u>37,500</u>
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		498	2,374
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		9,881	(29,687)
CASH AND CASH EQUIVALENTS, beginning of year	11	<u>253,893</u>	<u>283,580</u>
CASH AND CASH EQUIVALENTS, end of year	11	<u><u>263,774</u></u>	<u><u>253,893</u></u>

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to RUR 682 thousand and RUR 62,007 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2008 amounted to RUR 349 thousand and RUR 37,678 thousand, respectively.

On behalf of the Management Board


M.S. Tabunov
Chairman of the Management Board

18 June 2010
Saint-Petersburg


A.V. Morosov
Chief Accountant

18 June 2010
Saint-Petersburg

The notes on pages 9-44 form an integral part of these financial statements.

BANK «PRIME FINANCE» PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of Russian Roubles, unless otherwise indicated)

1. ORGANIZATION

Bank “Prime Finance” PLC (hereinafter – the “Bank”) is a public limited company which was incorporated in the Russian Federation in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2758. The Bank’s primary business consists of commercial banking activities, trading in foreign currencies, lending, issuance of guarantees, attracting deposits of legal entities and individuals.

At the general shareholders’ meeting held on 17 March 2009 it was decided to change the name of the Bank from Joint Stock Commercial Bank “Maritime Trade Industrial Bank” to Bank “Prime Finance” Public Limited Company. New revision of the Bank’s charter was registered by Licensing Department on 10 June 2009.

The registered office of the Bank is located at 5-a Krasnopoltilovskaya str., Saint-Petersburg.

As of 31 December 2009 and 2008 the Bank had 1 branch operating in the Russian Federation.

In 2008 the shareholders of the Bank decide to set up the subsidiary company Joint Stock Company “Prime Leasing”. Founders are the Bank and Chairman of the Management Board Mr. Tabunov M.S., holding 60% and 40% of the shares, respectively. This company was registered on 24 September 2008. Share capital is RUR 3,000 thousand. As of 31 December 2008 share capital was 50% paid. On 6 March 2009 share capital was paid in full. There were no business activities engaged by JSC “Prime Leasing” in year 2008. The first business operation occurred on 24 April 2009. Financial statements of Joint Stock Company “Prime Leasing” for 2009 year were consolidated into the Bank’s financial statements.

As of 31 December 2009 and 2008, the Bank’s shares were owned by the following shareholders:

Shareholders	31 December 2009, %	31 December 2008, %
Tabunov Mikhail Sergeyeovich	74.71%	62.76%
Brener Vladimir Yevgenyevich	15.69%	15.69%
Mukanayev Anatoliy Nailyeovich	4.65%	4.65%
Varshavsky Leonid Anatolyevich	4.41%	4.41%
CJSC SENTRA FAIRFIELD	0.54%	0.54%
Device LLC	-	5.98%
Aquitant LLC	-	5.97%
Total	<u>100.00%</u>	<u>100.00%</u>
Ultimate shareholders:		
Tabunov Mikhail Sergeyeovich	74.71%	62.76%
Brener Vladimir Yevgenyevich	15.69%	15.69%
Nikolayev Konstantin Andreyevich	-	5.98%
Filimonenko Tatyana Pavlovna	-	5.97%
Mukanayev Anatoliy Nailyeovich	4.65%	4.65%
Varshavsky Leonid Anatolyevich	4.41%	4.41%
Other	<u>0.54%</u>	<u>0.54%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

These financial statements were authorized for issue by the Management Board of the Bank on 18 June 2010.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Bank in the Russian Federation in corporate segment. The Management believe that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio which has been further strengthened with the receiving profit for 2009 year in amount RUR 50,253 thousand.

These consolidated financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis.

The Bank and its subsidiary maintain its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions

Functional currency

The functional currency of these financial statements is the Russian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used into line with those used by the Bank.

All significant intra-group transactions, balances, income and expenses between Bank and JSC “Prime Leasing” are eliminated on consolidation.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial 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 financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBR and advances to banks in countries included in the Organization for Economic Cooperation and Development (“OECD”) with original maturity within 90 days.

The minimum reserve deposits with the CBR are subject to restrictions over its availability and therefore are not included in cash and cash equivalents.

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses (if any).

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Allowance for impairment losses

The Bank accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Bank can incur losses greater than recorded impairment.

Fixed Assets

Fixed assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Fixed assets acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Vehicles	20%
Computer and office equipment	10-25%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of fixed assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Customer accounts, other borrowed funds

Customer accounts are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued

Financial guarantee contracts issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts issued.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

Retirement obligations

In accordance with the requirements of the Russian Federation (hereinafter -“RF”) legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation which transfers them to pension funds selected by employees. The Bank does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the RF. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Rates of exchange

The exchange rates used by the Bank in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2009	31 December 2008
RUR/1 US Dollar	30.2442	29.3804
RUR/1 Euro	43.3883	41.4411

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Bank does not offset the transferred asset and the associated liability.

Accounting for the effects of hyperinflation

In accordance with IAS 29, the economy of RF was treated as hyperinflationary until the end of 2002. Since 1 January 2003 economy of RF ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, was used to form the beginning balances as at 1 January 2003.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at 31 December 2009 and 2008 the financial assets totalled RUR 617,702 thousand and RUR 544,793 thousand, respectively, and allowance for impairment losses amounted to RUR 38,179 thousand and RUR 47,507 thousand, respectively.

Deferred tax assets

The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more than 50% likelihood that the deferred tax asset will be fully realized. The carrying value of deferred tax assets as of 31 December 2009 amounted to RUR 2,036 thousand.

Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2009. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendment to IAS 1 "Presentation of Financial Statements" – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

Standards and interpretations in issue and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007.

In May 2008, the IASB issued amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. It does not affect the consolidated financial statements but may prospectively affect the Bank's accounting and presentation of receipts of dividends from such entities. They are effective for accounting periods beginning on or after 1 July 2009.

IAS 17 "Lease" – Amendments to IAS 17 "Lease" were issued in 2009. The amendments delete specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. They are effective for accounting periods beginning on or after 1 January 2010.

IAS 27 - In 2008 the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Non-controlling Interests in Consolidated Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

Financial instruments: Classification and Measurement

The preliminary plan of the IFRIC project to replace IAS 39 includes three major phases:

Phase 1: Classification and measurement. On 12 November 2009, IFRIC published IFRS 9 Financial Instruments, which deals with classification and measurement of financial assets. IFRIC completed this phase in time to permit but not require its early adoption with respect to financial statements for 2009.

IFRIC continues to work on classification and measurement of financial liabilities. IFRIC plans to issue an exposure draft on this part of the project once FASB issues a comprehensive Exposure Draft on Accounting for Financial Instruments (which will cover classification and measurement, impairment, and hedge accounting for hedged financial instruments). The FASB exposure draft is tentatively scheduled to be issued in the first quarter of 2010.

Phase 2: Impairment methods. On 5 November 2009, IFRIC issued exposure draft Financial Instruments: Amortized Cost and Impairment for public discussion. Comments will be accepted until 30 June 2010.

Phase 3: Hedge accounting. IFRIC is currently holding discussions among its members, and it plans to issue an exposure draft on hedge accounting in the first quarter of 2010.

4. NET INTEREST INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	43,600	29,859
- interest income on unimpaired financial assets	<u>18,963</u>	<u>8,172</u>
Total interest income	<u>62,563</u>	<u>38,031</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	58,579	34,237
Interest on due from banks	<u>3,984</u>	<u>3,794</u>
Total interest income on financial assets recorded at amortized cost	<u>62,563</u>	<u>38,031</u>
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	<u>1,543</u>	493
Total interest expense	<u>1,543</u>	<u>493</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	1,377	493
Interest on other borrowed funds	<u>166</u>	<u>-</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>1,543</u>	<u>493</u>
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing financial assets	<u><u>61,020</u></u>	<u><u>37,538</u></u>

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
31 December 2007	22,494
Provisions	16,706
Write-off of assets	<u>(1,589)</u>
31 December 2008	37,611
Recovery of provisions	<u>(1,799)</u>
31 December 2009	<u>35,812</u>

The movements in other allowances were as follows:

	Other assets
31 December 2007	14,840
Recovery of provisions	<u>(4,944)</u>
31 December 2008	9,896
Recovery of provisions	<u>(7,529)</u>
31 December 2009	<u>2,367</u>

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	25,703	20,451
Translation differences, net	<u>(829)</u>	<u>217</u>
Total net gain on foreign exchange operations	<u>24,874</u>	<u>20,668</u>

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:		
Settlements	10,013	5,879
Foreign currency control	5,830	4,672
Opening and maintaining current accounts	3,705	3,446
Cash operations	3,095	2,643
Foreign exchange operations	2,011	2,322
Payment for activation and usage of system "Internet-Bank"	1,584	-
Other	692	509
	<hr/>	<hr/>
Total fee and commission income	26,930	19,471
	<hr/> <hr/>	<hr/> <hr/>
Fee and commission expense:		
Settlements	2,161	1,827
Foreign exchange operations	318	237
Cash collection	212	122
Other	29	35
	<hr/>	<hr/>
Total fee and commission expense	2,720	2,221
	<hr/> <hr/>	<hr/> <hr/>

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Penalties on overdue loans	855	22,738
Other	446	1,546
	<hr/>	<hr/>
Total other income	1,301	24,284
	<hr/> <hr/>	<hr/> <hr/>

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Staff costs and bonuses	23,950	18,668
Operating rent	11,189	10,625
Unified social tax	5,657	4,535
Security	3,489	2,477
Telecommunications	3,037	2,736
Stationery	2,981	1,530
Taxes, other than income tax	2,761	2,011
Professional services	2,690	2,375
Software expenses	2,091	2,390
Fixed assets maintenance	1,828	1,072
Depreciation of fixed assets	1,759	965
Advertising and marketing expenses	630	231
Payments to the Deposit Insurance Fund	313	171
Provision for unused vacations	209	413
Training	197	205
Penalties, late payment interest and duties	33	250
Loss on fixed assets disposal	-	304
Other expenses	925	675
	<hr/>	<hr/>
Total operating expenses	63,739	51,633

10. INCOME TAXES

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of RF where the Bank and its subsidiaries operate, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the 2008 reconciliations above is the corporate tax rate of 24% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

In November 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 24% to 20% effective from 1 January 2009. Current year Russian income tax is measured at 20% in 2009 of the estimated assessable profit for the year. Starting from 31 December 2008 deferred taxes are measured at 20%.

Temporary differences as at 31 December 2009 and 2008 comprise:

	31 December 2009	31 December 2008
Deductible temporary differences:		
Loans to customers	3,349	10,397
Fixed assets	791	406
Other assets	3,744	10,418
Other liabilities	3,148	3,886
Total deductible temporary differences	11,032	25,107
Taxable temporary differences:		
Due from banks	200	-
Other borrowed funds	1,317	-
Total taxable temporary differences	1,517	-
Net deductible temporary differences	9,515	25,107
Deferred tax asset (at the statutory tax rate (20%))	2,036	5,021
Deferred tax liabilities (at the statutory tax rate (20%))	(133)	-
Deferred tax asset not recognized	-	(5,021)
Net deferred tax asset	2,036	-
Net deferred tax liability	(133)	-

Relationships between tax expenses and accounting profit for the years ended 31 December 2009 and 2008 are explained as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income tax	56,994	36,345
Tax at the statutory tax rate (20%)	11,399	8,723
Change in deferred tax asset not recognized	(5,021)	(476)
Tax effect of permanent differences	363	(167)
Tax effect of change in income tax rates	-	1,005
Income tax expense	6,741	9,085
Current income tax expense	8,941	9,085
Changes in deferred income tax balances	(2,200)	-
Income tax expense	6,741	9,085
Deferred income tax assets/(liabilities)		
As at 1 January – deferred tax liabilities	-	-
As at 1 January – deferred tax assets	-	-
Change in deferred income tax balances recognized in Bank's equity	(297)	-
Change in deferred income tax balances recognized in consolidated profit or loss	2,200	-
As at 31 December – deferred tax liabilities	(133)	-
As at 31 December – deferred tax assets	2,036	-

11. CASH AND BALANCES WITH THE CENTRAL BANK OF RUSSIAN FEDERATION

	31 December 2009	31 December 2008
Cash	37,225	29,795
Balances with the CBR	<u>168,771</u>	<u>163,428</u>
Total cash and balances with the CBR	<u>205,996</u>	<u>193,223</u>

The balances with the Central Bank of the Russian Federation as at 31 December 2009 and 2008 include RUR 4,233 thousand and RUR 694 thousand, respectively, which represent the minimum reserve deposits required by the CBR. The Bank is required to maintain minimum reserve deposits with the CBR at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2009	31 December 2008
Cash and balances with the CBR	205,996	193,223
Due from banks	<u>62,313</u>	<u>61,364</u>
	268,309	254,587
Less minimum reserve deposits with the CBR	(4,233)	(694)
Less guarantee deposits for plastic cards	<u>(302)</u>	<u>-</u>
Total cash and cash equivalents	<u>263,774</u>	<u>253,893</u>

12. DUE FROM BANKS

Due from banks comprise:

	31 December 2009	31 December 2008
Time deposits with banks	40,000	-
Correspondent accounts with banks	20,415	10,588
Correspondent accounts with financial organizations	<u>1,898</u>	<u>50,776</u>
Total due from banks	<u>62,313</u>	<u>61,364</u>

As at 31 December 2009 the Bank had due from one bank in amount RUR 20,000 thousand, which individually exceeded 10% of the Bank's equity.

As at 31 December 2008 the Bank had due from NKO LLC "Settlement centre of Finance House" in amount RUR 49,990 thousand, which exceeded 20% of the Bank's equity.

As at 31 December 2009 included in balances due from banks are guarantee deposits placed by the Bank with JSC "Uralsib" for its operations with plastic cards totaling RUR 302 thousand.

13. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Loans to customers	374,488	326,007
Receivables under factoring transactions	2,546	1,510
	<u>377,034</u>	<u>327,517</u>
Less allowance for impairment losses	(35,812)	(37,611)
	<u>(35,812)</u>	<u>(37,611)</u>
Total loans to customers	<u>341,222</u>	<u>289,906</u>

Movements in the allowance for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	31 December 2009	31 December 2008
Loans collateralized by pledge of real estate and rights thereto	131,896	160,076
Loans collateralized by pledge of equipment	97,291	44,884
Loans collateralized by pledge of inventories	92,042	76,214
Loans collateralized by pledge of individuals guarantees	17,000	-
Loans collateralized by pledge of corporate guarantees	16,275	39,076
Loans collateralized by pledge of receivables	2,546	1,510
Unsecured loans	19,984	5,757
	<u>377,034</u>	<u>327,517</u>
Less allowance for impairment losses	(35,812)	(37,611)
	<u>(35,812)</u>	<u>(37,611)</u>
Total loans to customers	<u>341,222</u>	<u>289,906</u>

	31 December 2009	31 December 2008
Analysis by sector:		
Trade	123,977	153,245
Individuals	91,560	104,062
Manufacturing	70,637	26,510
Catering	46,700	15,000
Logistics	29,525	20,000
Construction	11,000	8,700
Agriculture	3,635	-
	<u>377,034</u>	<u>327,517</u>
Less allowance for impairment losses	(35,812)	(37,611)
	<u>(35,812)</u>	<u>(37,611)</u>
Total loans to customers	<u>341,222</u>	<u>289,906</u>

Loans to individuals comprise the following products:

	31 December 2009	31 December 2008
Mortgage loans	64,228	55,226
Consumer loans	25,375	44,552
Other	1,957	4,284
	<u>91,560</u>	<u>104,062</u>
Less allowance for impairment losses	<u>(20,268)</u>	<u>(23,181)</u>
Total loans to individuals	<u>71,292</u>	<u>80,881</u>

As at 31 December 2009 and 2008 the Bank granted loans to 6 and 14 borrowers, totalling RUR 144,601 thousand and RUR 176,500 thousand (less allowance for impairment losses), respectively, that individually exceeded 10% of the Bank's equity.

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2009			31 December 2008		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	248,228	(31,358)	216,870	204,430	(32,373)	172,057
Loans to customers collectively determined to be impaired	75,746	(4,454)	71,292	86,119	(5,238)	80,881
Unimpaired loans	<u>53,060</u>	<u>-</u>	<u>53,060</u>	<u>36,968</u>	<u>-</u>	<u>36,968</u>
Total	<u>377,034</u>	<u>(35,812)</u>	<u>341,222</u>	<u>327,517</u>	<u>(37,611)</u>	<u>289,906</u>

As at 31 December 2009 and 2008 loans totaling RUR 216,870 thousand and RUR 172,057 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of real estate, equipment, inventories and secured by guarantees with fair value totaling RUR 325,925 thousand and RUR 200,893 thousand, respectively.

14. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Computer and office equipment	Total
At initial/indexed cost			
31 December 2007	-	9,217	9,217
Additions	-	432	432
Disposals	-	(1,015)	(1,015)
31 December 2008	-	8,634	8,634
Additions	4,589	722	5,311
Disposals	-	(1,076)	(1,076)
31 December 2009	4,589	8,280	12,869
Accumulated depreciation			
31 December 2007	-	6,368	6,368
Charge for the year	-	965	965
Disposals	-	(711)	(711)
31 December 2008	-	6,622	6,622
Charge for the year	978	781	1,759
Disposals	-	(1,076)	(1,076)
31 December 2009	978	6,327	7,305
Net book value as at 31 December 2008	-	2,012	2,012
Net book value as at 31 December 2009	3,611	1,953	5,564

As at 31 December 2009 and 2008, included in fixed assets was fully depreciated equipment of RUR 4,133 thousand and RUR 3,818 thousand, respectively.

15. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Penalties on overdue loans	10,538	9,896
Investment in subsidiary	-	300
	10,538	10,196
Less allowance for impairment losses	(2,367)	(9,896)
Total other financial assets	8,171	300
Other non-financial assets:		
Tax settlements, other than income tax	971	223
Prepaid expenses	730	316
Intangible assets	388	433
Advances to suppliers	98	243
Other	291	87
Total other non-financial assets	2,478	1,302
Total other assets	10,649	1,602

Other assets include penalties on overdue loan accrued according to court decisions consummated in 2008 and 2007 totaling RUR 9,896 thousand and RUR 662 thousand in 2009. For accrued penalties 100% provision was created as at 31 December 2008. In February 2010 year during the executorial procedures the Bank received RUR 8,171 thousand and this event was taken into accounts in respect of allowance for impairment losses as of 31 December 2009.

Movements in the allowance for impairment losses of other assets for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

16. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2009	31 December 2008
Current/settlement accounts and demand deposits	434,402	430,789
Time deposits	<u>30,391</u>	<u>11,673</u>
Total customer accounts	<u>464,793</u>	<u>442,462</u>

As at 31 December 2009 and 2008 customer accounts totaling RUR 227,913 thousand (49%) and RUR 207,381 thousand (47%), respectively, were due to 8 and 7 customers, that individually exceeded 10% of the Bank's equity, which represents significant concentration.

	31 December 2009	31 December 2008
Analysis by sector:		
Trade	193,667	214,781
Real estate and construction	123,603	94,133
Individuals	43,245	68,138
Manufacturing and consumer goods	34,663	7,117
Services	25,523	26,329
Transportation and freight forwarding	15,668	5,882
Information technologies and telecommunications	10,712	6,308
Medicine	6,486	10,386
Machinery manufacturing	3,176	411
Other	8,043	7,639
Nuclear waste processing	<u>7</u>	<u>1,338</u>
Total customer accounts	<u>464,793</u>	<u>442,462</u>

17. OTHER BORROWED FUNDS

Other borrowed funds include interest-free loans, received by subsidiary from the Bank's shareholder, totaling RUR 1,983 thousand with maturity date in April 2014. Effect of initial recognition of the loans received was recorded in the Bank's capital and in the amount of RUR 1,483 thousand.

18. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Accrued operating expenses	2,722	2,880
Payables under factoring transactions	255	151
Accrued bonuses	246	-
	<u>3,223</u>	<u>3,031</u>
Other non-financial liabilities:		
Provision for unused vacations	1,522	1,313
Taxes payable, other than income tax	384	366
Other	443	91
	<u>4,801</u>	<u>4,801</u>
Total other liabilities	<u>5,572</u>	<u>4,801</u>

19. SHARE CAPITAL

As at 31 December 2009 and 2008 the Bank's share capital comprised the following number of shares with a par value of RUR 1,000 each:

	Authorized share capital	Unpaid share capital	Total share capital
31 December 2008	117,500	(59,304)	58,196
31 December 2009	117,500	(59,304)	58,196

In 2007 the Bank's shareholders approved an increase in share capital of RUR 37,500 thousand. Report of share issue was registered by the Central Bank of the Russian Federation on 24 December 2008.

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's charter that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

20. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2009 and 2008 contingent liabilities comprise:

	31 December 2009	31 December 2008
Contingent liabilities and credit commitments		
Guarantees issued	3,867	-
Commitments on loans and unused credit lines	34,569	11,218
	<u>38,436</u>	<u>11,218</u>
Total contingent liabilities and credit commitments	<u>38,436</u>	<u>11,218</u>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2009 and 2008 such unused credit lines come to RUR 34,569 thousand and RUR 11,218 thousand, respectively.

Operating lease commitments – Where the Bank is the lessee, the future minimum rental payments under operating leases in effect as at 31 December 2009 and 2008 are as follows::

	31 December 2009	31 December 2008
Less than 1 year	8,197	7,044
Later than 1 year and not later than 5 years	2,180	2,644
Later than 5 years	454	441
Total operating lease commitments	10,831	10,129

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the RF and countries where the Bank operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Operating environment – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within RF is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in RF. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing Global Liquidity Crisis – The financial markets, both globally and in the Russian Federation, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected the Russian Federation's economy. It has resulted in a decrease of the Russian Federation GDP, significant declines in debt and equity prices and a substantial outflow of capital. The Russian Federation is also facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2009 and 2008 was 8.8% and 13.3%, respectively). Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2008 and 2009. The Russian Federation government initiated the adoption of a package of federal laws and regulations to restore investor confidence, provide liquidity and support medium-term growth of its economy, however at this stage there is no clarity with respect to efficiency of these measures.

While many countries, including the Russian Federation, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the country's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

While the Russian Federation government has introduced a range of stabilization measures aimed at providing liquidity to its banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Factors including increased unemployment in the Russian Federation, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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

Recoverability of financial assets - As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2009, the Bank has financial assets amounting to RUR 617,702 thousand (as at 31 December 2008: RUR 544,793 thousand). The recoverability of these financial assets depends on a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Bank's control, undertaken within various countries to achieve economic stability and recovery.

The recoverability of the Bank's financial assets is determined based on conditions prevailing and information available at the balance sheet date. It is management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

21. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a) or (e);
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Bank and other related parties are disclosed below:

	31 December 2009		31 December 2008	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loans to customers	383	377,034	2,150	327,517
- <i>key management personnel of the Bank</i>	-		43	
- <i>other related parties</i>	383		2,107	
Allowance for impairment losses on loans to customers	(19)	(35,812)	(43)	(37,611)
- <i>provision for loans to key management personnel of the Bank</i>	-		(1)	
- <i>provision for loans to other related parties</i>	(19)		(42)	
Customer accounts	42,074	464,793	51,578	442,462
- <i>shareholders of the Bank</i>	30,479		49,285	
- <i>subsidiary</i>	-		1,540	
- <i>key management personnel of the Bank</i>	41		23	
- <i>others</i>	11,554		730	
Other borrowed funds	1,983	1,983	-	-
- <i>shareholders of the Bank</i>	1,983		-	

Included in the consolidated income statement for the years ended 31 December 2009 and 2008 are the following amounts which were recognized in transactions with related parties:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Operating expenses (key management personnel compensation)				
- Short-term employee benefits	1,332	23,950	1,295	18,668
Interest income	58	62,563	10	38,031
- <i>key management personnel of the Bank</i>	-		10	
- <i>other related parties</i>	58		-	
Interest expense	1,117	1,543	47	493
- <i>shareholders of the Bank</i>	1,117		-	
- <i>key management personnel of the Bank</i>	-		15	
- <i>other related parties</i>	-		32	
Operating expenses (rent)	458	11,189	458	10,625
- <i>shareholders of the Bank</i>	458		458	

Bank leases premises to locate additional office in Saint-Petersburg, Akademika Lebedeva str., 15/1 lit.A at a below market lease rate.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Bank is presented below:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the CBR	205,996	205,996	193,223	193,223
Due from banks	62,313	62,313	61,364	61,364
Other financial assets	8,171	8,171	300	300
Customer accounts	464,793	464,793	442,462	442,462
Other borrowed funds	1,983	1,983	-	-
Other financial liabilities	3,223	3,223	3,031	3,031

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

23. CAPITAL RISK MANAGEMENT

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During the reporting year, the Bank had complied in full with all its externally imposed capital requirements.

The Bank's capital consists of shareholders' equity, which includes share capital and retained profit, as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Bank's overall capital risk management policy remains unchanged from 2008.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee of year 1988 with changes of year 2005:

	31 December 2009	31 December 2008
Movement in tier 1 capital:		
At 1 January	102,985	38,225
Profit for the year attributable to owners of the parent	50,878	27,260
Share capital increase	-	37,500
Discounting of interest-free loan received from Bank's shareholder	712	-
Minority interest increase	1,049	-
At December 31	<u>155,624</u>	<u>102,985</u>
	31 December 2009	31 December 2008
Composition of regulatory capital:		
Tier 1 capital:	<u>155,624</u>	<u>102,985</u>
Total regulatory capital	<u>155,624</u>	<u>102,985</u>
Capital Ratios:		
Tier 1 capital	40.58%	32.71%
Total capital	40.58%	32.71%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

24. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk, which is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committee and the Bank's Management Board.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Credit risk limits for specific borrowers are approved by the Supervisory Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Bank's Management Board. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to monthly or more frequent reviews.

Off-balance sheet commitments to extend credit represent unused credit lines, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on procedures for approving loans, limits to mitigate the risk, and on-going monitoring. The Bank monitors the term to maturity of loans, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure of credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

As at 31 December 2009:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Due from banks	62,313	-	62,313	-	62,313
Loans to customers	341,222	-	341,222	(288,388)	52,834
Guarantees issued	3,867	-	3,867	-	3,867
Unused loan commitments	34,569	-	34,569	-	34,569

As at 31 December 2008:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Due from banks	61,364	-	61,364	-	61,364
Loans to customers	289,906	-	289,906	(284,504)	5,402
Unused loan commitments	11,218	-	11,218	-	11,218

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As of 31 December 2009 and 2008 the balances with the CBR amounted to RUR 168,771 thousand and RUR 163,428 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2009 corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Bank as at 31 December 2009 and 2008:

	AA	A	BBB	<BBB	Not rated	Total at 31 December 2009
Due from banks	-	1,064	-	12,195	49,054	62,313
Loans to customers	-	-	-	-	341,222	341,222

As at 31 December 2008:

	AA	A	BBB	<BBB	Not rated	Total at 31 December 2008
Due from banks	8,125	-	-	564	52,675	61,364
Loans to customers	-	-	-	-	289,906	289,906

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The following table details the ageing of financial assets that are past due but not impaired:

As at 31 December 2009:

	Financial assets past due but not impaired			
	0-3 months	3-6 months	6 months to 1 year	Greater than one year
Loans to customers	-	-	-	2,129
Other financial assets	-	-	-	8,171

As at 31 December 2008 all overdue financial assets were impaired.

Geographical concentration

The Management Board and the Financial Reporting Department monitor the risk related to legislative changes and assesses its impact on the Bank's operations. This approach allows the Bank to minimize potential losses from changes in Russia's investment climate.

The geographical concentration of assets and liabilities is set out below:

	RF	Other non-OECD countries	31 December 2009 Total
FINANCIAL ASSETS:			
Cash and balances with the CBR	205,996	-	205,996
Due from banks	61,249	1,064	62,313
Loans to customers	341,222	-	341,222
Other financial assets	8,171	-	8,171
TOTAL FINANCIAL ASSETS	616,638	1,064	617,702
FINANCIAL LIABILITIES:			
Customer accounts	464,469	324	464,793
Other borrowed funds	1,983	-	1,983
Other financial liabilities	3,223	-	3,223
TOTAL FINANCIAL LIABILITIES	469,675	324	469,999
NET POSITION	146,963	740	
	RF	Other non-OECD countries	31 December 2008 Total
FINANCIAL ASSETS:			
Cash and balances with the CBR	193,223	-	193,223
Due from banks	53,239	8,125	61,364
Loans to customers	289,906	-	289,906
Other financial assets	300	-	300
TOTAL FINANCIAL ASSETS	536,668	8,125	544,793
FINANCIAL LIABILITIES:			
Customer accounts	440,428	2,034	442,462
Other financial liabilities	3,031	-	3,031
TOTAL FINANCIAL LIABILITIES	443,459	2,034	445,493
NET POSITION	93,209	6,091	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. During 2009 Bank in time performed all client's payments and met commitments with counterparties.

The Bank's Management Board and the Financial Reporting Department monitor liquidity risk through maturity analysis, thus defining the Bank's strategy for the following financial period. Current liquidity is managed by the Financial Reporting Department, which carries out money market transactions to maintain current liquidity and optimize cash flows.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum level of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

As of 31 December 2009 Bank has liquidity gap for maturity from 1 month to 1 year after reporting date. The Bank's liquidity is dependent upon its ongoing access to customer deposits which the management has assessed as being improved and likely to continue to be available based on historic trends and current observations. Significant part of customer accounts is current accounts of legal entities and individuals which are considered by the Bank's management and clients as non-reducing balances and equivalent of medium-term deposits.

Further is analysis of liquidity and interest rate risks:

- (a) Term to maturity of financial liabilities, that are not derivatives, calculated for discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability,
- (b) Estimated term till maturity of financial assets, that are not derivatives, calculated for discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
FINANCIAL ASSETS							
Due from banks	58,618	-	-	-	-	-	58,618
Loans to customers	9,981	92,324	121,397	110,530	6,990	-	341,222
Total interest bearing financial assets	68,599	92,324	121,397	110,530	6,990	-	399,840
Cash and balances with the CBR	201,763	-	-	-	-	4,233	205,996
Due from banks	3,393	-	-	-	-	302	3,695
Other financial assets	-	8,171	-	-	-	-	8,171
Total financial assets	273,755	100,495	121,397	110,530	6,990	4,535	617,702
FINANCIAL LIABILITIES							
Customer accounts	228	30,391	-	-	-	-	30,619
Total interest bearing financial liabilities	228	30,391	-	-	-	-	30,619
Customer accounts	434,174	-	-	-	-	-	434,174
Other borrowed funds	-	-	91	1,892	-	-	1,983
Other financial liabilities	1,522	401	1,300	-	-	-	3,223
Total financial liabilities	435,924	30,792	1,391	1,892	-	-	469,999
Liquidity gap	(162,169)	69,703	120,006	108,638	6,990		
Cumulative liquidity gap	(162,169)	(92,466)	27,540	136,178	143,168		
Interest sensitivity gap	68,371	61,933	121,397	110,530	6,990		
Cumulative interest sensitivity gap	68,371	130,304	251,701	362,231	369,221		
Cumulative interest sensitivity gap as a percentage of total assets	11.07%	21.09%	40.75%	58.64%	59.77%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS							
Loans to customers	25,167	41,699	157,455	60,057	5,528	-	289,906
Total interest bearing financial assets	25,167	41,699	157,455	60,057	5,528	-	289,906
Cash and balances with the CBR	192,529	-	-	-	-	694	193,223
Due from banks	61,364	-	-	-	-	-	61,364
Other financial assets	-	-	-	-	-	300	300
Total financial assets	279,060	41,699	157,455	60,057	5,528	994	544,793
FINANCIAL LIABILITIES							
Customer accounts	6,538	5,135	-	-	-	-	11,673
Total interest bearing financial liabilities	6,538	5,135	-	-	-	-	11,673
Customer accounts	430,789	-	-	-	-	-	430,789
Other financial liabilities	500	-	2,531	-	-	-	3,031
Total financial liabilities	437,827	5,135	2,531	-	-	-	445,493
Liquidity gap	(158,767)	36,564	154,924	60,057	5,528		
Cumulative liquidity gap	(158,767)	(122,203)	32,721	92,778	98,306		
Interest sensitivity gap	18,629	36,564	157,455	60,057	5,528		
Cumulative interest sensitivity gap	18,629	55,193	212,648	272,705	278,233		
Cumulative interest sensitivity gap as a percentage of total assets	3.42%	10.13%	39.03%	50.06%	51.07%		

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments).

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
FINANCIAL LIABILITIES								
Customer accounts	5.46%	-	30,659	-	-	-	-	30,659
Total interest bearing financial liabilities		-	30,659	-	-	-	-	30,659
Customer accounts		434,174	-	-	-	-	-	434,174
Other borrowed funds		-	-	100	3,200	-	-	3,300
Other financial liabilities		1,522	401	1,300	-	-	-	3,223
Liabilities on financial guarantees		3,350	-	517	-	-	-	3,867
Liabilities on unused credit lines		-	-	27,204	7,365	-	-	34,569
Total financial liabilities		439,046	31,060	29,121	10,565	-	-	509,792
	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES								
Customer accounts	8.42%	6,541	5,207	-	-	-	-	11,748
Total interest bearing financial liabilities		6,541	5,207	-	-	-	-	11,748
Customer accounts		430,789	-	-	-	-	-	430,789
Other financial liabilities		500	-	2,531	-	-	-	3,031
Liabilities on unused credit lines		218	-	1,000	10,000	-	-	11,218
Total financial liabilities		438,048	5,207	3,531	10,000	-	-	456,786

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

The Financial Reporting Department manages interest rate and markets risks by managing the Bank's interest rate positions to ensure that the Bank has a positive interest rate margin.

The Financial Reporting Department monitors the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The Bank's management monitors its interest rate margin and does not consider the Bank exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Financial Reporting Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at 31 December 2009 and 2008:

	31 December 2009		31 December 2008	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Due from banks	586	(586)	-	-
Loans to customers	3,412	(3,412)	2,899	(2,899)
Financial liabilities:				
Customer accounts	(306)	306	(117)	117
Net impact on profit before tax	<u>3,692</u>	<u>(3,692)</u>	<u>2,782</u>	<u>(2,782)</u>
Net impact on equity	<u>2,953</u>	<u>(2,953)</u>	<u>2,226</u>	<u>(2,226)</u>

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Currency Risk Controlling Department monitors currency risk by analyzing the Bank's net foreign currency position based on the estimated devaluation of the Russian Rouble and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant fluctuations in the rates of the national and foreign currencies. The Currency Operations Department monitors the Bank's net foreign currency position on a daily basis to ensure that it is in line with the Central Bank requirements.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD USD 1 =30.2442 RUR	EUR EUR 1 =43.3883 RUR	Other currency	31 December 2009 Total
Financial assets					
Cash and balances with the CBR	201,705	2,405	1,843	43	205,996
Due from banks	55,361	4,225	2,727	-	62,313
Loans to customers	302,378	10,731	28,113	-	341,222
Other financial assets	8,171	-	-	-	8,171
Total financial assets	567,615	17,361	32,683	43	617,702
Financial liabilities					
Customer accounts	423,422	16,202	25,169	-	464,793
Other borrowed funds	1,983	-	-	-	1,983
Other financial liabilities	3,223	-	-	-	3,223
Total financial liabilities	428,628	16,202	25,169	-	469,999
OPEN BALANCE SHEET POSITION	138,987	1,159	7,514	43	

	RUR	USD USD 1 =29.3804 RUR	EUR EUR 1 =41.4411 RUR	31 December 2008 Total
Financial assets				
Cash and balances with the CBR	188,491	2,619	2,113	193,223
Due from banks	1,158	22,262	37,944	61,364
Loans to customers	289,906	-	-	289,906
Other financial assets	300	-	-	300
Total financial assets	479,855	24,881	40,057	544,793
Financial liabilities				
Customer accounts	379,378	23,517	39,567	442,462
Other financial liabilities	3,031	-	-	3,031
Total financial liabilities	382,409	23,517	39,567	445,493
OPEN BALANCE SHEET POSITION	97,446	1,364	490	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the USD against the RUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at 31 December 2009 and 2008:

	31 December 2009		31 December 2008	
	RUR/USD +10%	RUR/USD -10%	RUR/USD +10%	RUR/USD -10%
Impact on profit or loss	116	(116)	136	(136)
Impact on equity	116	(116)	136	(136)

	31 December 2009		31 December 2008	
	RUR/EUR +10%	RUR/EUR -10%	RUR/EUR +10%	RUR/EUR -10%
Impact on profit or loss	751	(751)	49	(49)
Impact on equity	751	(751)	49	(49)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Legal risks

Some of the legal risks to which the Bank's operations are exposed include:

- Changes in foreign currency regulations;
- Changes in the tax legislation;
- Changes in requirements whereby a credit institution offering securities must hold licenses to engage in its operations, or licensing requirements for the use of limited resources (inter alia natural resources);
- Changes in court rulings on issues related to the operating activities of a credit institution offering securities (including licensing issues) that could affect its operating results;
- Missing or conflicting legal provisions governing individual issues arising in the course of the business done by a credit institution offering securities;

- Failure by its counterparties to comply with Russian laws and regulations or applicable contractual provisions.

The Bank seeks to avoid potential non-compliance with Russian laws, including failure to submit all required information to regulators, and it makes effort to ensure that it submits reliable information and to improve its quality. To this end, the Bank monitors changes in Russian legislation and modifies its internal controls accordingly. Responsible for monitoring legal risks are the Bank's Internal Control Department and its Legal Department.

Reputational risks

Reputational risk is a banking risk that involves the risk that the Bank will be subject to legal action or sanctions by regulatory/supervisory authorities, will incur material financial losses or lose its reputation due to failure to comply with federal laws or Bank of Russia regulations on money laundering and terror financing.

With its reputation being one of its most valuable assets, the Bank takes all necessary effort to protect its business reputation and its bona fide clients. The Bank's anti-money laundering and terror financing policies aim to reduce the probability of potential reputational risks by achieving the following objectives:

- Preventing the Bank's products and services from being used for criminal offences, such as money laundering, terror financing, fraud and corruption;
- Protecting the Bank's business reputation and that of its clients.

Pursuant to Russian legislative requirements and its internal procedures, the Bank has developed a set of measures to monitor reputational risks and implement an anti-money laundering and terror financing programme:

- The Bank has approved its Internal Control Rules to Prevent Money Laundering and Terror Financing, and they are now being implemented;
- The Bank ensures that all of its staff take part in measures to prevent money laundering and terror financing;
- The Bank is improving its software to timely detect transactions that are subject to mandatory monitoring and suspicious transactions;
- The Bank regularly holds special trainings for its staff.

The Bank is implementing all required procedures and the know-your-client principle in strict compliance with Russian and foreign standards for the confidentiality of bank information, as well as regulatory requirements.

25. SUBSEQUENT EVENTS

There were no subsequent events which have a significant effect on presented consolidated financial statements occurred between reporting date and date of issue.