Joint Stock Company
“The Ural Bank for Reconstruction and Development”

Consolidated Financial Statements in accordance with International Financial Reporting Standards and Independent Auditors’ Report

31 December 2009

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Independent Auditors' Report

To the Board of Directors of Joint Stock Company "The Ural Bank for Reconstruction and Development"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As at 31 December 2009 the Group revalued its land and premises included in property and equipment at 4 287 084 thousands roubles. Had the Group revalued its land and premises at fair value in accordance with International Accounting Standard 16 *Property, Plant and Equipment* the carrying amount of property and equipment would have decreased by 633 589 thousand roubles, deferred tax liability would have decreased by 126 718 thousand roubles, revaluation reserve for land and premises would have decreased by 420 454 thousand roubles and profit for the year would have decreased by 86 417 thousand roubles as at and for the year ended 31 December 2009.

Qualified Opinion

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

ZAO KPMG

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30 June 2010

In thousands of Russian Roubles	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	6	7 057 943	6 444 501
Mandatory cash balances with the Central Bank of Russian Federation		376 720	46 343
Trading securities	7	6 694	76 437
Other securities at fair value through profit or loss	8	13 383 591	-
Securities available-for-sale	9	6 326 578	-
Investment securities held-to-maturity	10	-	8 705 246
Receivables under reverse repo agreements	11	1 073 779	-
Due from other banks	12	29 992	28 142
Loans and advances to customers	13	23 541 045	25 605 930
Finance lease receivables	14	514 340	719 131
Goodwill	15	162 122	162 122
Property and equipment	16	4 927 080	5 695 242
Intangible assets	17	95 502	13 893
Advances to real estate developers	18	3 328 369	2 825 583
Current income tax asset		16 724	50 806
Deferred tax asset	31	221 849	-
Other assets	19	1 331 457	1 197 893
Assets held for sale	20	183 855	-
TOTAL ASSETS		**62 577 640**	**51 571 269**
LIABILITIES			
Due to other banks	21	13 063 759	14 596 951
Customer accounts	22	43 080 475	28 808 773
Debt securities in issue	23	375 585	1 830 081
Current income tax liability		1 087	11 752
Deferred tax liability	31	360 799	380 874
Other liabilities	24	136 549	168 849
Subordinated debt	25	1 545 296	1 521 631
TOTAL LIABILITIES		**58 563 550**	**47 318 911**
EQUITY			
Share capital	26	1 880 526	1 880 526
Revaluation reserve for property and equipment		1 549 102	2 048 672
Revaluation reserve for securities available-for-sale		(2 670)	(48 394)
Retained earnings		587 132	371 554
TOTAL EQUITY		**4 014 090**	**4 252 358**
TOTAL LIABILITIES AND EQUITY		**62 577 640**	**51 571 269**

These consolidated financial statements were approved for issue and signed on behalf of the Board of Directors on 30 June 2010.

Solovjev A.U.
Acting President

Sirazov M.R.
Chief Accountant

In thousands of Russian Roubles	Notes	2009	2008
Interest income	28	7 524 216	6 431 950
Interest expense	28	(5 641 164)	(3 720 867)
Net interest income		**1 883 052**	**2 711 083**
Provision for loan impairment	13	(1 532 563)	(740 905)
(Provision for)/recovery of finance lease receivables impairment	14	(30 781)	3 442
Net interest income after provision for loan and finance lease receivables impairment		**319 708**	**1 973 620**
Fee and commission income	29	494 278	514 875
Fee and commission expense	29	(98 731)	(91 836)
Income/(loss) from trading securities		42 324	(63 666)
Income from other securities at fair value through profit or loss		1 304 402	-
Loss from securities available-for-sale		(17 175)	(33 066)
Income/(loss) from trading in foreign currencies		89 499	(50 715)
Income from trading in precious metals		22 592	22 176
Foreign exchange translation (loss)/income		(62 374)	104 048
Rental income		57 818	61 130
Impairment of property and equipment	16	(63 861)	(13 999)
Other operating income		45 712	28 032
Loss from modification of the terms of the lease agreements		(8 284)	-
Administrative and other operating expenses	30	(1 981 619)	(2 502 804)
Profit/(loss) before tax		**144 289**	**(52 205)**
Income tax benefit	31	10 278	42 202
Profit/(loss)		**154 567**	**(10 003)**

In thousands of Russian Roubles	Notes	2009	2008
Profit/(loss)		**154 567**	**(10 003)**
Other comprehensive expense for the year			
Revaluation of securities available-for-sale		18 942	(69 875)
Realised revaluation reserve for securities available-for-sale		38 213	18 608
Revaluation of property and equipment		(548 198)	(171 130)
Deferred income tax recorded in other comprehensive income		98 208	158 718
Other comprehensive loss		**(392 835)**	**(63 679)**
Comprehensive loss		**(238 268)**	**(73 682)**

In thousands of Russian Roubles	Notes	Share capital	Revaluation reserve for property and equipment	Revaluation reserve for securities available-for-sale	Retained earnings	Total equity
Balance as at 1 January 2008		**1 880 526**	**2 160 500**	**(2 725)**	**287 739**	**4 326 040**
Securities available-for-sale:						
- revaluation		-	-	(75 514)	5 639	(69 875)
- realised revaluation reserve		-	-	18 608	-	18 608
Property and equipment:						
- revaluation	16	-	(171 130)	-	-	(171 130)
- realised revaluation reserve		-	(110 640)	-	110 640	-
Deferred income tax recorded in other comprehensive income	31	-	169 942	11 237	(22 461)	158 718
Other comprehensive income/ (loss)		**-**	**(111 828)**	**(45 669)**	**93 818**	**(63 679)**
Loss		-	-	-	(10 003)	(10 003)
Comprehensive income/(loss)		**-**	**(111 828)**	**(45 669)**	**83 815**	**(73 682)**
Balance as at 31 December 2008		**1 880 526**	**2 048 672**	**(48 394)**	**371 554**	**4 252 358**
Securities available-for-sale:						
- revaluation		-	-	18 942	-	18 942
- realised revaluation reserve		-	-	38 213	-	38 213
Property and equipment:						
- revaluation	16	-	(548 198)	-	-	(548 198)
- realised revaluation reserve		-	(76 264)	-	76 264	-
Deferred income tax recorded in other comprehensive income	31	-	124 892	(11 431)	(15 253)	98 208
Other comprehensive income/(loss)		**-**	**(499 570)**	**45 724**	**61 011**	**(392 835)**
Profit		-	-	-	154 567	154 567
Comprehensive income/(loss)		**-**	**(499 570)**	**45 724**	**215 578**	**(238 268)**
Balance as at 31 December 2009		**1 880 526**	**1 549 102**	**(2 670)**	**587 132**	**4 014 090**

In thousands of Russian Roubles	Notes	2009	2008
Cash flows from operating activities			
Interest received		7 433 206	6 336 870
Interest paid		(5 553 268)	(3 761 650)
Fees and commissions received		471 732	512 383
Fees and commissions paid		(92 821)	(79 292)
Receipts/(payments) from trading securities		31 135	(67 633)
Receipts from other securities at fair value through profit or loss		800 448	-
Payments from securities available-for-sale		-	(20 574)
Receipts/(payments) from foreign currencies		38 597	(32 745)
Receipts from precious metals		37 789	45 413
Administrative and other operating expenses paid		(1 787 646)	(2 190 131)
Income tax paid		(110 021)	(212 757)
Other operating income received		107 305	95 860
Cash flows from operating activities before changes in operating assets and liabilities		**1 376 456**	**625 744**
Changes in operating assets and liabilities			
Decrease/(increase) in mandatory cash balances with the Central Bank of Russian Federation		(330 377)	366 147
Decrease/(increase) in trading securities		79 514	(1 143 780)
Increase in other securities at fair value through profit or loss		(12 606 892)	-
Decrease/(increase) in securities available-for-sale		2 254 621	(165 069)
Increase in receivables under reverse repo agreements		(1 072 999)	-
Decrease in due from other banks		36 923	237 004
Decrease/(increase) in loans and advances to customers		410 599	(3 466 869)
Decrease/(increase) in finance lease receivables		174 009	(50 408)
Increase in advances to real estate developers		(502 786)	(1 113 398)
Decrease/(increase) in other assets		(70 758)	92 950
Increase in assets held for sale		(183 855)	-
(Decrease)/increase in due to other banks		(1 528 621)	11 896 708
(Decrease)/increase in subordinated debt		(54 191)	40 769
(Decrease)/increase in customer accounts		13 934 786	(924 919)
Decrease in promissory notes in issue (included in debt securities in issue)		(972 563)	(12 773)
(Decrease)/increase in other liabilities		24 856	(147 596)
Net cash from operating activities		**968 722**	**6 234 510**
Cash flows from investing activities			
Acquisition of investment securities held-to-maturity		-	(3 698 152)
Proceeds from investment securities held-to-maturity		231 370	-
Acquisition of property and equipment	16	(151 902)	(556 394)
Proceeds from disposal of property and equipment		9 907	18 200
Acquisition of intangible assets	17	(84 715)	-
Net cash from/(used in) investing activities		**4 660**	**(4 236 346)**
Cash flows from financing activities			
Proceeds from bonds issued on domestic market (included in debt securities in issue)		420 991	323 076
Repayment/acquisition of bonds issued on domestic market (included in debt securities in issue)		(902 504)	(618 663)
Net cash used in financing activities		**(481 513)**	**(295 587)**
Effect of exchange rate changes on cash and cash equivalents		**121 573**	**104 578**
Net increase in cash and cash equivalents		**613 442**	**1 807 155**
Cash and cash equivalents at the beginning of the year		6 444 501	4 637 346
Cash and cash equivalents at the end of the year	**6**	**7 057 943**	**6 444 501**

The notes on pages 6-71 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements of Joint Stock Company "The Ural Bank for Reconstruction and Development" (the "Bank") and its subsidiaries, special purpose entities and a mutual investment fund (together referred to as the "Group") are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company set up in accordance with regulations of the Russian Federation.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the "CBRF") on 28 September 1990. The Bank is a member of the state deposit insurance system, which was introduced by the Federal Law #174-FZ "Deposits of individuals insurance in Russian Federation" dated 13 October 2008. The State Deposit Insurance System guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or the CBRF imposed moratorium on payments.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

As at 31 December 2009 the Group has the following consolidated subsidiaries, special purpose entities and a mutual investment fund:

Name of the enterprise	Nature of business	%of ownership 31 December 2009	Country of incorporation
Subsidiaries			
OOO "UBRiR-Finance"	issue of bonds on domestic market	100	Russian Federation
OOO "UBRiR-Leasing"	leasing company	100	Russian Federation
OOO "Fininvest K"	ownership of Group premises	100	Russian Federation
OOO "Investleasing"	leasing company	100	Russian Federation
Special purpose entities			
Sebright Finance Limited	ownership of Group premises	-	United Kingdom
OOO "Invest Techno"	ownership of Group premises	-	Russian Federation
OOO "Uralstroyinvestservice"	ownership of Group premises	-	Russian Federation
OOO "Fintrust"	financial intermediation	-	Russian Federation
Mutual investment fund			
Closed unit investment fund "UBRR - Nedvizhimost"	ownership of Group premises	100	Russian Federation

In 2009 the Group formed Closed unit investment fund "UBRR-Nedvizhimost" totaling RR 500 000 thousand managed by OOO Management Company "AVS Finance". The Group paid for the investment units by means of transfer of premises with the fair value of RUR 499 600 thousand and cash in the amount of RR 400 thousand.

1 Introduction (continued)

As at 31 December 2008 the Group had the following fully consolidated subsidiaries and special purpose entities:

Name of the enterprise	Nature of business	%of ownership 31 December 2008	Country of incorporation
Subsidiaries			
OOO "UBRiR-Finance"	issue of bonds on domestic market	100	Russian Federation
OOO "UBRiR-Leasing"	leasing company	100	Russian Federation
OOO "Fininvest K"	ownership of Group premises	100	Russian Federation
OOO "Investleasing"	leasing company	100	Russian Federation
Special purpose entities			
Sebright Finance Limited	ownership of Group premises	-	United Kingdom
OOO "Invest Techno"	ownership of Group premises	-	Russian Federation
OOO "Uralstroyinvestservice"	ownership of Group premises	-	Russian Federation

As at 31 December 2009 and 2008 two individuals (the President of the Bank, Mr. S.V. Dymshakov, and Mr. I.A. Altushkin, affiliated with ZAO "Russian Copper Company") ultimately control 91.1% of the share capital of the Bank.

As at 31 December 2009 total loans issued to one group of related borrowers (including related to ZAO "Russian Copper Company"), which are also considered as related parties of the Group comprise 26% of loan portfolio and 10% of total assets (31 December 2008: 27% loan portfolio and 14% of total assets), (refer to notes 13 и 38).

The Bank has 10 (2008: 11) branches and 64 (2008: 76) additional offices within the Russian Federation.

The average number of employees during 2009 is 2 745 (2008: 3 254).

Registered address and place of business. The Bank's registered address and place of business is 620014, 67, Sakko and Vancetti st., Yekaterinburg, Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands").

2 Operating environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

2 Operating environment of the Group (continued)

Recent volatility in global financial markets. The economy of the Russian Federation is very susceptible to negative tendencies on the financial markets and to the decrease in economic growth rates in other countries. The global financial crisis of 2008 and 2009 has resulted in volatility in capital markets, significant decrease in liquidity levels across the banking sector and tightening of lending requirements in respect of borrowers. The Government and the CBRF reacted promptly to the crisis by maintaining liquidity and providing capital to the banking system as well as by encouraging aggregate demand.

Unemployment growth, a decrease in general liquidity and profitability, and a decrease in creditworthiness of legal entities and individuals affected the borrowers' ability to repay the amounts owed to the Group. In addition, changes in economic conditions resulted in a decrease in the value of collateral for loans and other obligations. Based on information available, the Group reflected changes in estimates in determining the expected cash flows for the purposes of testing of its assets for impairment. It is still uncertain whether the Group and its counterparties are able to attract new borrowings on acceptable price terms, which is in turn can affect the Group's financial position, results of operations and perspectives of development.

Management believes it is taking all the necessary measures to support the sustainability and growth of business in the current circumstances.

3 Summary of significant accounting policies

Basis of preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except that premises, financial instruments at fair value through profit or loss and securities available-for-sale are stated at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated (refer to note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Summary of significant accounting policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents. Cash and cash equivalents comprise cash, correspondent accounts with CBRF and other banks as well as short-term highly liquid investments, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value such as interbank placements with initial maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio used for short-term trading. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. Trading securities are carried at fair value.

3 Summary of significant accounting policies (continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Securities available-for-sale. This category comprises financial assets defined as available-for-sale and not classified as loans and receivables, investment securities held-to-maturity or other securities at fair value through profit or loss. Securities available for sale are carried at fair value.

Investment securities held-to-maturity. Investment securities held-to-maturity are quoted non-derivative financial assets with fixed or determinable payments and fixed maturity dates which in accordance with intention and ability of the Group will be held until maturity. Management classifies investment securities held-to-maturity upon initial recognition. Investment securities held-to-maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost. When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Summary of significant accounting policies (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not have influence on the current period.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset, partly or in full, have been completed and the amount of the loss has been determined.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”) which effectively provide a lender’s return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities acquired under repo agreements are classified as receivables under reverse repo agreements and due from other banks. The corresponding liabilities are presented within amounts due to other banks.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill from acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.

3 Summary of significant accounting policies (continued)

Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Property and equipment. Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Land and premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and premises being revalued. The revaluation reserve for land and premises included in other comprehensive income is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their carrying amounts at the following annual rates:

Premises	2.5%
Equipment	11.8 – 33.3%

Intangible assets. All intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over its expected useful life of 4 years.

3 Summary of significant accounting policies (continued)

Advances to real estate developers. Advances to real estate developers are prepayments advanced under construction contracts whereby the Group is entitled to receive real estate items upon completion of construction. Investments in the real estate property are carried at cost (being the amount of prepayments made under the terms of the contract) less provision for impairment where required. Upon completion the received real estate items are included in investment property or assets held for resale, depending on the Group’s intentions in respect of these items.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Finance income from leases is recorded within interest income in profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs.

Assets held for sale. Assets held for sale represent assets that are expected to be recovered primarily through sale within 12 months after the reporting date. These assets are measured at the lower of their residual value and fair value less cost to sell as at the reclassification date. Assets held for sale are not depreciated.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is carried on the statement of financial position at amortised cost. Obligations to repay interest are recorded through profit or loss. Subordinated debts rank after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

3 Summary of significant accounting policies (continued)

Term deals with precious metals. Term deals with precious metals include forward contracts for purchase/sale of precious metals settled in cash. Term deals with precious metals at the reporting date are disclosed in the notes to these consolidated financial statements. Balances on these operations are measured at fair value through profit or loss and the result is recorded in the gain less losses/(losses less gains) arising from precious metals.

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

Income taxes are provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation enacted or substantively enacted by the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within administrative and other operating expenses.

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

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Other reserves. Other reserves of the Group comprise revaluation reserve for property and equipment and revaluation reserve for securities available-for-sale. Revaluation reserve for property and equipment is transferred directly to retained earnings through depreciation, sale or other disposal. Revaluation reserve for securities available-for-sale is transferred to profit or loss in case it is disposed through sale or repayment of securities.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

3 Summary of significant accounting policies (continued)

Income and expense recognition. Interest income and expense are recorded in profit or loss for all financial instruments on an accrual basis. This method includes, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of each consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

At 31 December 2009 the principal rate of exchange used for translating monetary foreign currency balances is USD 1 = RR 30.2442 (31 December 2008: USD 1 = RR 29.3804).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown as fee and commission income in profit or loss.

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

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

3 Summary of significant accounting policies (continued)

Comparative information. Comparative information is reclassified to conform to changes in presentation in the current year.

4 Critical accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions that affect significantly the amounts recognised in the consolidated financial statements include:

Revaluation of land and premises. Over 39% (2008: 48%) of equity is represented by revaluation reserve for land and premises. Management revalued land and premises using an independent valuer as at 31 December 2009 (refer to note 15).

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The significant credit risk concentration of loans issued to related borrowers disclosed in note 13 relates to the copper industry.

Special purpose entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the SPE is controlled by the Group.

The Group uses the following criteria: ability to control financial and operating policies of SPE, whether the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation, whether the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers and extent of exposure to risks and rewards related to activities of the SPE.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to note 35.

Initial recognition of the operations with related parties. In the course of the business the Group conducts operations with related parties. In accordance with IAS 39, financial instruments should be initially recognized at their fair values. If the market for such instruments is not active, judgement is required to determine if operation was at arm's length conditions or not. The basis used for judgement are pricing of the similar instruments with third parties and analysis of the effective interest rate.

5 Adoption of new or revised standards and interpretations and new accounting policies

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

Starting from 1 January 2009 the Group adopted amendments to IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2009) which introduce additional requirements in respect of disclosures concerning the fair value of financial instruments and liquidity risk.

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

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

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

IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.

IFRS 3 *Business Combinations* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure minority interest using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise at the acquisition date a liability for any contingent purchase consideration.

Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

5 Adoption of new or revised standards and interpretations and new accounting policies (continued)

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (effective for annual periods beginning on or after 1 July 2009) clarifies the classification of assets and liabilities on disposal of a subsidiary.

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

6 Cash and cash equivalents

In thousands of Russian Roubles	**2009**	**2008**
Placements with other banks with original maturities of less than three months	2 292 024	1 622 948
Cash on hand	1 829 569	1 976 423
Cash and balances with the CBRF (other than mandatory cash balances)	1 574 855	2 396 756
Correspondent accounts and overnight placements with banks:		
- Russian Federation	53 512	48 679
- other countries	1 122 564	364 082
Settlement accounts with trading systems	185 419	35 613
Total	**7 057 943**	**6 444 501**

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months are placed with large Russian and OECD banks.

Geographical, currency, interest rate and maturity analyses of cash and cash equivalents are disclosed in note 33.

7 Trading securities

In thousands of Russian Roubles	**2009**	**2008**
Corporate bonds	-	64 169
Municipal bonds	-	9 221
Russian government bonds	-	1 259
Total debt trading securities	**-**	**74 649**
Corporate shares	6 694	1 788
Total	**6 694**	**76 437**

As at 31 December 2008 Russian government bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds had coupon rate ranging from 5.8% to 7.4% p.a. and yields to maturity as at 31 December 2008 ranging from 6.39% to 13.97% p.a. depending on the type of bond issue.

7 Trading securities (continued)

As at 31 December 2008 municipal bonds are Russian Rouble denominated securities issued by the governments of Bashkortostan Republic and Sakha Republic, the regional administration of Irkutsk, Samara, Moscow and Volgograd regions and the administration of Moscow. These bonds had coupon rate ranging from 7.6% to 11.0% p.a. and yields to maturity as at 31 December 2008 ranging from 5.54% to 30.93% p.a. depending on the type of bond issue.

As at 31 December 2008 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, industrial companies, retail trade companies and others. These bonds had coupon rates ranging from 7.6% to 15.0% p.a. and yields to maturity as at 31 December 2008 ranging from 15.37% to 28.9 % p.a. depending on the type of bond issue.

As at 31 December 2009 and 31 December 2008 corporate shares of Russian companies are represented by shares of an industrial Russian company traded in the domestic market of the Russian Federation. These shares are not rated by any international rating agency.

Analysis by credit quality of trading securities outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Russian government bonds**	**Municipal bonds**	**Corporate bonds**	**Corporate shares**	**Total**
- Rated BBB	1 259	926	33 920	-	36 105
- Rated BB- to BB+	-	6 423	21 541	-	27 964
- Rated B- to B+	-	1 712	1 564	-	3 276
- Not rated	-	160	7 144	1 788	9 092
Total	**1 259**	**9 221**	**64 169**	**1 788**	**76 437**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in note 33.

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

As at 1 July 2008 the Group reclassified certain quoted securities into assets held-to-maturity following amendments to IAS 39 and IFRS 7.

The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For quoted securities identified for reclassification, the Group determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category starting from 1 July 2008.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The table below sets out the quoted securities reclassified and their carrying and fair values.

	1 July 2008		**31 December 2008**		**31 December 2009**	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Quoted securities reclassified to assets held-to-maturity/ available for sale	1 757 035	1 757 035	1 719 277	1 602 048	1 433 536	1 433 536

As at 14 December 2009 the Group reclassified these quoted securities out of held-to-maturity category to assets available-for-sale following the requirements of IAS 39 (further information concerning this reclassification is disclosed in note 10).

7 Trading securities (continued)

The table below sets out the amounts actually recognised in profit or loss and other comprehensive income during 2009 and 2008 in respect of quoted securities reclassified out of financial assets at fair value through profit or loss.

In thousands of Russian Roubles	**2009**	**2008**
Period before reclassification		
Quoted securities reclassified to assets held-to-maturity		
Net loss		(2 577)
Period after reclassification		
Quoted securities reclassified to assets held-to-maturity		
Net impairment loss on financial assets/ available for sale	-	(475)
Net income/(loss) recognised in:		
- profit or loss	(57)	-
- other compresensive income	9 733	-
	9 676	**(3 052)**

The table below sets out the amounts that would have been recognised in profit or loss the period following reclassification during 2009 and 2008 if the reclassifications had not been made.

In thousands of Russian Roubles	**Profit for 2009**	**Loss for 2008**
Quoted securities reclassified to assets held-to-maturity		
Revaluation of financial assets	109 647	(117 704)
	109 647	**(117 704)**

8 Other securities at fair value through profit or loss

In thousands of Russian Roubles	**2009**	**2008**
Corporate bonds	6 470 303	-
Municipal bonds	4 868 449	-
Russian government bonds	2 044 839	-
Total	**13 383 591**	**-**

The Group irrevocably classified the above mentioned securities, which are not a part of the trading portfolio as securities, at fair value through profit or loss. These securities meet the requirements for classification as carried at fair value through profit or loss due to the fact that the management evaluates results from these of investments based on their fair value in accordance with the documented strategy.

As at 31 December 2009 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, industrial companies, and others. These bonds have maturity dates ranging from February 2010 to September 2020, coupon rates ranging from 7.3% to 19.0% p.a. and yields to maturity as at 31 December 2009 ranging from 5.28% to 12.16 % p.a. depending on the type of bond issue.

As at 31 December 2009 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of Sakha Republic, the regional administration of Khanty-Mansiysk, the regional administration of Irkutsk, Moscow, Samara, Krasnoyarsk, Udmurtia and Volgograd regions and the administration of Moscow. These bonds mature from March 2010 to April 2014 with coupon rates ranging from 7.25% to 15.0% p.a. and yields to maturity as at 31 December 2009 ranging from 6.49% to 12.9% p.a. depending on the type of bond issue.

8 Other securities at fair value through profit or loss (continued)

As at 31 December 2009 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature from May 2010 to January 2012 with coupon rates ranging from 5.8% to 11.9% p.a. and yields to maturity as at 31 December 2009 ranging from 6.05% to 7.15% p.a. depending on the type of bond issue.

Analysis by credit quality of other securities at fair value through profit or loss outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Russian government bonds**	**Total**
- Rated BBB	4 297 037	4 775 956	2 044 839	11 117 832
- Rated from BB- to BB+	2 095 349	91 486	-	2 186 835
- Rated from B- to B+	77 880	1 007	-	78 888
- Not rated	37	-	-	37
Total	**6 470 303**	**4 868 449**	**2 044 839**	**13 383 591**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

Geographical, currency, interest rate and maturity analyses of other securities at fair value through profit and loss are disclosed in note 33.

9 Securities available-for-sale

In thousands of Russian Roubles	**2009**	**2008**
Corporate bonds	3 215 195	-
Municipal bonds	1 756 462	-
Russian government bonds	1 354 921	-
Total	**6 326 578**	**-**

As at 31 December 2009 corporate bonds are represented by Russian Rouble denominated securities issued by Russian banks, industrial companies, retail trade companies and others. These bonds have maturity dates ranging from February 2010 to September 2020, coupon rates ranging from 7.1% to 13.25% p.a. and yields to maturity as at 31 December 2009 ranging from 5.31% to 9.33 % p.a. depending on the type of bond issue.

As at 31 December 2009 municipal bonds are represented by Russian Rouble denominated securities issued by the governments of Bashkortostan Republic and Sakha Republic, the regional administration of Irkutsk, Moscow, Samara, Nizhniy Nivgorod and Lipetsk regions. These bonds mature from May 2010 to December 2013 with coupon rates ranging from 6.75% to 10.0% p.a. and yields to maturity as at 31 December 2009 ranging from 4.91% to 13.13% p.a. depending on the type of bond issue.

As at 31 December 2009 Russian government bonds are represented by Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds mature from May 2010 to January 2011 with coupon rates ranging from 5.8% to 6.1% p.a. and yields to maturity as at 31 December 2009 ranging from 6.05% to 6.57% p.a. depending on the type of bond issue.

9 Securities available-for-sale (continued)

Analysis by credit quality of securities available-for-sale outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	Russian government bonds	Municipal bonds	Corporate bonds	Total
- Rated BBB	1 354 921	-	3 199 185	4 554 106
- Rated from BB- to BB+	-	1 205 639	16 010	1 221 649
- Rated from B- to B+	-	550 823	-	550 823
Total	**1 354 921**	**1 756 462**	**3 215 195**	**6 326 578**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

In 2008 in accordance with IAS 39 the Group reclassified certain securities out of available-for-sale category to investments held-to-maturity. The Group identified securities, for which it had changed its intent such that it no longer held these securities for the trading purpose. In accordance with IAS 39 the Group reclassified securities available-for-sale at fair value at the reclassification date (16 July 2008).

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

	16 July 2008		31 December 2008	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Quoted securities reclassified to assets held-to-maturity	3 210 253	3 210 253	3 272 650	2 939 917

Geographical, currency, interest rate and maturity analyses of securities available for sale are disclosed in note 33.

10 Investment securities held-to-maturity

In thousands of Russian Roubles	2009	2008
Municipal bonds	-	3 176 827
Russian Government Bonds	-	3 004 876
Corporate bonds	-	2 523 543
Total	**-**	**8 705 246**

As at 31 December 2008 corporate bonds are represented by Russian Rouble denominated investments in bonds issued by OJSC "AHML" and other Russian companies and banks. These bonds had coupon rates ranging from 7.1% to 11% p.a. and yields to maturity as at 31 December 2008 ranging from 12.71% to 33.6 % p.a. depending on the type of bond issue.

As at 31 December 2008 municipal bonds are Russian Rouble denominated securities issued by the governments of Bashkortostan Republic and Sakha Republic, the regional administration of Moscow, Irkutsk, Lipetsk, Samara and Nizhny Novgorod regions and the administration of Moscow. These bonds had coupon rate ranging from 6.98% to 11.0% p.a. and yield to maturity as at 31 December 2008 ranging from 7.1% to 30.93% p.a. depending on the type of bond issue.

As at 31 December 2008 Russian government bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. These bonds had coupon rate ranging from 5.8% to 7.4% p.a. and yields to maturity as at 31 December 2008 ranging from 6.39% to 13.97% p.a. depending on the type of bond issue.

10 Investment securities held-to-maturity (continued)

Analysis by credit quality of investment securities held-to-maturity outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Russian Government Bonds	Municipal bonds	Corporate bonds	Total
- Rated BBB	3 004 876	976 349	2 259 242	6 240 467
- Rated from BB- до BB+	-	1 328 816	235 163	1 563 979
- Rated from B- до B+	-	871 662	-	871 662
- Not rated	-	-	29 138	29 138
Total	**3 004 876**	**3 176 827**	**2 523 543**	**8 705 246**

Ratings presented in the tables above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

Geographical, currency, interest rate and maturity analyses of investment securities held to maturity are disclosed in note 33.

Reclassifications out of assets held-to-maturity

During 2009 the Group sold a significant portion of its portfolio of investment securities held-to-maturity. In accordance with IAS 39 the Group reclassified all the remaining investment securities held-to-maturity to financial assets available-for-sale. Due to the sales of investment securities held to maturity the Group is not allowed to classify any financial assets as held-to-maturity before 1 January 2012.

The reclassifications of investment securities held-to-maturity were made as at 14 December 2009 at carrying value at that date. The table below sets out the quoted securities reclassified and their carrying value.

In thousands of Russian Roubles	Carrying value as at 14 December 2009
Quoted securities reclassified to assets available-for-sale	6 276 309

11 Receivables under reverse repo agreements

The table below sets out receivables under reverse repo agreements showing individual types of securities received as a collateral under repo agreements outstanding at 31 December:

In thousands of Russian Roubles	2009	2008
Municipal bonds	581 648	-
Corporate bonds	492 131	-
Total	**1 073 779**	**-**

An analysis by credit quality of securities received as a collateral under reverse repo agreements outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	Municipal bonds	Corporate bonds	Total
- Rated BBB	670 361	420 893	1 091 254
- Rated from BB- до BB+	-	108 336	108 336
Total	**670 361**	**529 229**	**1 199 590**

Ratings presented in the table above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

Geographical, currency, interest rate and maturity analyses of receivables under reverse repo agreements are disclosed in note 33. Information on related party transactions is disclosed in note 38.

12 Due from other banks

In thousands of Russian Roubles	**2009**	**2008**
Short-term placements with other banks with original maturities of more than three months	29 992	28 142
Total	**29 992**	**28 142**

At 31 December 2009 and 2008 due from other banks are represented by Russian Rouble denominated after sight promissory notes of other banks placed in the Russian Federation and current term deposits.

An analysis by credit quality of due from other banks as at 31 December 2009 and 2008 is as follows:

In thousands of Russian Roubles	**2009**	**2008**
- Rated from A- до A+	1 636	-
- Rated BBB	20 725	23 698
- Rated from BB- to BB+	4 646	4 444
- Rated CCC	4	-
- Not rated	2 981	-
Total	**29 992**	**28 142**

Ratings presented in the table above are defined in accordance with the accepted definitions of the international rating agency Standard & Poor's.

Due from other banks are not collateralized.

Geographical, currency, interest rate and maturity analyses of due from other banks are disclosed in note 33.

13 Loans and advances to customers

In thousands of Russian Roubles	**2009**	**2008**
Loans to legal entities		
- Related parties	6 234 910	7 067 580
- Corporate loans	7 335 286	5 720 995
- Small and medium size businesses	572 019	1 027 365
Total loans to legal entities	**14 142 215**	**13 815 940**
Loans to individuals		
- Express loans	5 127 416	4 192 886
- Loans to employees participating in payroll projects	2 426 358	2 516 658
- Unsecured consumer loans	3 928 094	5 194 774
- Collateralised consumer loans	916 205	1 354 443
Total loans to individuals	**12 398 073**	**13 258 761**
Total loans and advances to customers before provision for impairment	**26 540 288**	**27 074 701**
Allowance for loan impairment	(2 999 243)	(1 468 771)
Total	**23 541 045**	**25 605 930**

13 Loans and advances to customers (continued)

Movements in the allowance for impairment for loans to legal entities during the year 2009 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2009	**77 887**	**117 241**	**84 036**	**279 164**
(Recovery)/charge of provision	(54 582)	247 392	67 594	260 404
Write offs	-	(1 859)	-	(1 859)
Allowance for impairment as at 31 December 2009	**23 305**	**362 774**	**151 630**	**537 709**

Movements in the allowance for impairment for loans to individuals during the year 2009 are as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2009	**766 308**	**105 528**	**279 485**	**38 286**	**1 189 607**
Charge of provision	799 902	118 660	319 039	34 558	1 272 159
Write offs	-	-	(232)	-	(232)
Allowance for impairment as at 31 December 2009	**1 566 210**	**224 188**	**598 292**	**72 844**	**2 461 534**

Movements in the allowance for impairment for loans to legal entities during the year 2008 are as follows:

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total
Allowance for impairment as at 1 January 2008	**37 243**	**153 697**	**35 593**	**226 533**
(Recovery)/charge of provision	40 644	(36 456)	48 443	52 631
Allowance for impairment as at 31 December 2008	**77 887**	**117 241**	**84 036**	**279 164**

Movements in the allowance for allowance impairment for loans to individuals during the year 2008 are as follows.

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total
Allowance for impairment as at 1 January 2008	**475 479**	**3 560**	**22 111**	**215**	**501 365**
Charge of provision	290 829	102 000	257 374	38 071	688 274
Write offs	-	(32)	-	-	(32)
Allowance for impairment as at 31 December 2008	**766 308**	**105 528**	**279 485**	**38 286**	**1 189 607**

13 Loans and advances to customers (continued)

The Group has estimated loan impairment for loans to customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience of portfolio delinquencies and collection rates and current economic conditions for portfolios of loans for which no indications of impairment has been identified.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on loans to customers as at 31 December 2009 would be RR 235 410 thousand lower/higher (31 December 2008: RR 256 059 thousand).

The loan portfolio structure as at 31 December by economic sectors is as follows:

	2009		2008	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	12 398 073	47	13 258 761	49
Metallurgy and metals trade	6 986 029	26	7 386 057	27
Trade	3 373 297	13	2 817 049	10
Manufacturing	1 126 061	4	787 667	3
Services	559 934	2	580 875	3
Construction	464 347	2	825 846	3
Other	1 632 547	6	1 418 446	5
Total loans and advances to customers before provision for impairment	**26 540 288**	**100**	**27 074 701**	**100**

As at 31 December 2009 the Group had a significant credit risk concentration in respect of one group of related borrowers, which are also considered as related parties. The aggregate amount of these loans is RR 6 211 605 thousand, or 26% of the gross loan portfolio (31 December 2008: RR 6 989 693 thousand or 27% of the gross loan portfolio).

At 31 December 2009 the Group has 16 borrowers (31 December 2008: 17 borrowers) with aggregated loan amounts above RR 250 000 thousand. The total aggregate amount of these loans is RR 10 087 891 thousand, or 38% of the gross loan portfolio (31 December 2008: RR 8 524 125 thousand or 31% of the gross loan portfolio).

13 Loans and advances to customers (continued)

Information in respect of collateral for loans and advances to customers as at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Unsecured loans**	**Real estate**	**Motor vehicles**	**Guarantees**	**Goods in turnover**	**Other collateral**	**Total loans and advances to customers before provision for impairment**
Loans to individuals							
Express loans	5 090 054	-	-	37 362	-	-	5 127 416
Loans to employees participating in payroll projects	2 153 521	338	-	272 499	-	-	2 426 358
Unsecured consumer loans	3 928 094	-	-	-	-	-	3 928 094
Collateralised consumer loans	-	217 362	73 001	625 842	-	-	916 205
Total loans to individuals	**11 171 669**	**217 700**	**73 001**	**935 703**	**-**	**-**	**12 398 073**
Loans to legal entities							
Related parties	245 763	-	-	-	4 903 423	1 085 724	6 234 910
Corporate loans	807 031	2 898 551	15 922	1 834 802	1 625 114	153 866	7 335 286
Small and medium size businesses	85 383	242 271	76 116	127 179	33 237	7 833	572 019
Total loans to legal entities	**1 138 177**	**3 140 822**	**92 038**	**1 961 981**	**6 561 774**	**1 247 423**	**14 142 215**
Total	**12 309 846**	**3 358 522**	**165 039**	**2 897 684**	**6 561 774**	**1 247 423**	**26 540 288**

13 Loans and advances to customers (continued)

Information in respect of collateral for loans and advances to customers as at 31 December 2008 is as follows:

In thousands of Russian Roubles	Unsecured loans	Real estate	Motor vehicles	Guarantees	Goods in turnover	Other collateral	Total loans and advances to customers before provision for impairment
Loans to individuals							
Express loans	4 190 078	-	-	2 808	-	-	4 192 886
Loans to employees participating in payroll projects	2 205 110	1 934	-	309 614	-	-	2 516 658
Unsecured consumer loans	5 194 774	-	-	-	-	-	5 194 774
Collateralised consumer loans	-	284 692	4 167	803 830	-	261 754	1 354 443
Total loans to individuals	**11 589 962**	**286 626**	**4 167**	**1 116 252**	**-**	**261 754**	**13 258 761**
Loans to legal entities							
Related parties	1 561 687	-	-	334 472	4 283 172	888 249	7 067 580
Corporate loans	852 555	2 128 672	131 392	1 478 156	625 679	504 541	5 720 995
Small and medium size businesses	163 501	370 603	154 197	325 621	3 570	9 873	1 027 365
Total loans to legal entities	**2 577 743**	**2 499 275**	**285 589**	**2 138 249**	**4 912 421**	**1 402 663**	**13 815 940**
Total	**14 167 705**	**2 785 901**	**289 756**	**3 254 501**	**4 912 421**	**1 664 417**	**27 074 701**

Other collateral is represented by pledge of deposits, securities and other property.

Amounts in the tables above represent the carrying amount of the loans and not the fair value of the underlying collateral.

13 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
Loans to individuals					
Current and not past due:	2 621 679	2 026 729	2 866 935	754 511	8 269 854
- with credit history of less than 90 days	1 037 964	740 719	247 128	232 292	2 258 103
- with credit history of more than 90 days	1 583 715	1 286 010	2 619 807	522 219	6 011 751
Past due:	2 505 737	399 629	1 061 159	161 694	4 128 219
- loans past due less than 30 days	221 560	70 875	143 021	52 282	487 738
- loans past due 31 to 90 days	221 456	32 965	92 018	24 639	371 078
- loans past due 91 to 210 days	266 022	37 368	99 521	8 248	411 159
- loans past due 211 to 360 days	400 360	68 142	190 269	35 813	694 584
- loans past due over 360 days	1 396 339	190 279	536 330	40 712	2 163 660
Total loans to individuals before allowance for impairment	**5 127 416**	**2 426 358**	**3 928 094**	**916 205**	**12 398 073**
Allowance for impairment	(1 566 210)	(224 188)	(598 292)	(72 844)	(2 461 534)
Total	**3 561 206**	**2 202 170**	**3 329 802**	**843 361**	**9 936 539**
Allowance for impairment to gross loans, %	30.55%	9.24%	15.23%	7.95%	19.85%

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	6 234 910	6 136 748	314 376	12 686 034
Past due:	-	1 198 538	257 643	1 456 181
- loans past due less than 30 days	-	141 712	30 592	172 304
- loans past due 31 to 90 days	-	45 050	13 557	58 607
- loans past due 91 to 180 days	-	178 999	24 532	203 531
- loans past due 181 to 360 days	-	619 844	62 383	682 227
- loans past due over 360 days	-	212 933	126 579	339 512
Total loans to legal entities before allowance for impairment	**6 234 910**	**7 335 286**	**572 019**	**14 142 215**
Allowance for impairment	(23 305)	(362 774)	(151 630)	(537 709)
Total	**6 211 605**	**6 972 512**	**420 389**	**13 604 506**
Allowance for impairment to gross loans, %	0.37%	4.95%	26.51%	3.80%

13 Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Express loans	Loans to employees participating in payroll projects	Unsecured consumer loans	Collateralised consumer loans	Total loans to individuals
Loans to individuals					
Current and not past due:	2 398 404	2 146 058	4 215 404	1 190 150	9 950 016
- with credit history of less than 90 days	41 599	6 639	6 165	614 018	668 421
- with credit history of more than 90 days	2 356 805	2 139 419	4 209 239	576 132	9 281 595
Past due:	1 794 482	370 600	979 370	164 293	3 308 745
- loans past due less than 30 days	324 577	140 507	340 513	58 390	863 987
- loans past due 31 to 90 days	316 471	91 008	273 747	77 541	758 767
- loans past due 91 to 210 days	243 048	53 131	156 957	13 974	467 110
- loans past due 211 to 360 days	204 264	41 546	88 449	3 011	337 270
- loans past due over 360 days	706 122	44 408	119 704	11 377	881 611
Total loans to individuals before allowance for impairment	**4 192 886**	**2 516 658**	**5 194 774**	**1 354 443**	**13 258 761**
Allowance for impairment	(766 308)	(105 528)	(279 485)	(38 286)	(1 189 607)
Total	**3 426 578**	**2 411 130**	**4 915 289**	**1 316 157**	**12 069 154**
Allowance for impairment to gross loans, %	18.28%	4.19%	5.38%	2.83%	8.97%

In thousands of Russian Roubles	Related parties	Corporate loans	Small and medium size businesses	Total loans to legal entities
Loans to legal entities				
Current and individually not impaired	7 067 580	5 527 157	966 944	13 561 681
Past due:	-	193 838	60 421	254 259
- loans past due less than 30 days	-	83 202	1 482	84 684
- loans past due 31 to 90 days	-	34 944	7 338	42 282
- loans past due 91 to 180 days	-	40 197	4 867	45 064
- loans past due 181 to 360 days	-	4 668	22 124	26 792
- loans past due over 360 days	-	30 827	24 610	55 437
Total loans to legal entities before allowance for impairment	**7 067 580**	**5 720 995**	**1 027 365**	**13 815 940**
Allowance for impairment	(77 887)	(117 241)	(84 036)	(279 164)
Total	**6 989 693**	**5 603 754**	**943 329**	**13 536 776**
Allowance for impairment to gross loans, %	1.10%	2.05%	8.18%	2.02%

13 Loans and advances to customers (continued)

As at 31 December 2009, interest and commission accrued on impaired loans amount to RR 153 739 thousand (31 December 2008: RR 125 285 thousand).

The gross balance of restructured loans and advances to customers at 31 December 2009 is as follows:

- legal entities – RR 275 408 thousand (31 December 2008: none)
- individuals – RR 1 442 298 thousand (31 December 2008: RR 155 100 thousand).

Restructured loans are shown as current and not individually impaired unless the borrower is not able to meet the restructured terms.

The loans to individuals are mostly represented by express loans and unsecured consumer loans. Express loans are loans issued to individuals at points-of-sale with minimum credit requirements. Unsecured consumer loans are issued to individuals in banking offices after a scoring review. Management structures the credit analysis procedures with the aim to minimise the credit risk on unsecured consumer loans. Differences in credit quality of these products are reflected in higher interest rates on express loans.

The Group assesses the credit quality of current and not impaired loans to individuals by analyzing the following factors:

- income level
- stability of employment
- availability of reliable financial information on the borrowers and their employers.

Current and not impaired corporate loans are mostly represented by loans issued to large corporate entities which have a long credit history with the Group. The Group assesses the credit quality of current and not impaired corporate loans by analyzing the financial position of borrowers and the following factors:

- volume of the business of the borrowers
- sources of the loan repayment
- purpose of the loan
- sufficiency and liquidity of the pledge with secures the loan.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

The factors that the Group considers in determining whether corporate loans are current and not impaired are the following:

- solvency of the borrower
- there are no delays in repayment of principal and interest due to the financial insolvency of the borrower
- financial statements and other financial information of the borrowers are submitted to the Group timely and in accordance with the terms of the loan agreements, and that information is transparent and allows analysis of the financial position of the borrower
- the borrower is not sued for improper servicing of loans granted by other credit institutions
- the loan is secured by liquid collateral, the fair value of which covers the outstanding loan amount.

The Group distinguishes individually impaired loans as loans with the objective signs of impairment resulting from one or several events occurring after initial recognition of the loan, and if those events influence the reliably of estimated expected future cash inflows from the loan and interest repayment.

Past due impaired loans represent loans where the fair value of collateral does not cover the overdue interest and principal repayments. The impairment allowance for these loans is assessed individually.

13 Loans and advances to customers (continued)

Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments.

The amount reported as past due under loan agreements of legal entities and individuals is the outstanding balance of such loans, not only the individual instalments that are past due.

The Group analyses the financial condition of the borrower and uses professional judgment to qualify loans as individually impaired.

The analysis of fair value of collateral in respect of loans and advances to customers past due at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Collateralised consumer loans**	**Total**
Loans to individuals		
- real estate	29 846	29 846
- motor vehicles	1 190	1 190
Total	**31 036**	**31 036**

In thousands of Russian Roubles	**Corporate loans**	**Small and medium size businesses**	**Total**
Loans to legal entities			
- real estate	1 087 556	93 501	1 181 057
- motor vehicles	-	16 090	16 090
- goods in turnover	58 670	1 449	60 119
- other	143 921	2 080	146 001
Total	**1 290 147**	**113 120**	**1 403 267**

The analysis of fair value of collateral in respect of loans and advances to customers past due at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Collateralised consumer loans**	**Total**
Loans to individuals		
- real estate	62 689	62 689
- other	2 634	2 634
Total	**65 323**	**65 323**

In thousands of Russian Roubles	**Corporate loans**	**Small and medium size businesses**	**Total**
Loans to legal entities			
- real estate	89 707	30 967	120 674
- motor vehicles	4 338	-	4 338
Total	**94 045**	**30 967**	**125 012**

13 Loans and advances to customers (continued)

The actual net realizable value of the collateral on loans to legal entities and individuals can significantly differ from the shown above value due to possible unforeseeable difficulties in obtaining by the ownership rights over the borrower's property.

The fair value of residential real estate and other assets at the reporting date was estimated by the Bank's risk department using internal guidelines.

Geographical, currency, interest rate and maturity analyses of loans and advances to customers are disclosed in note 33. Information on related party transactions is disclosed in note 38.

14 Finance lease receivables

Finance lease receivables as at 31 December 2009 of RR 424 862 thousand (2008: RR 473 437 thousand), RR 254 137 thousand (31 December 2008: RR 395 907 thousand) and RR 47 308 thousand (31 December 2008: RR 83 683 thousand) are represented by leases of equipment, motor vehicles and premises, respectively.

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2009 and 2008 are as follows:

In thousands of Russian Roubles	Less than 1 year	From 2 to 5 years	More than 5 years	Total
Finance lease payments receivable at 31 December 2009	**390 322**	**335 985**	**-**	**726 307**
Unearned finance income	(41 297)	(129 311)	-	(170 608)
Allowance for impairment	(29 879)	(11 480)	-	(41 359)
Present value as at 31 December 2009	**319 146**	**195 194**	**-**	**514 340**
Finance lease payments receivable at 31 December 2008	**448 575**	**498 219**	**6 233**	**953 027**
Unearned finance income	(23 915)	(195 437)	(3 966)	(223 318)
Allowance for impairment	(6 173)	(4 370)	(35)	(10 578)
Present value as at 31 December 2008	**418 487**	**298 412**	**2 232**	**719 131**

Finance lease receivables as at 31 December 2009 and 2008 are mostly current and not impaired. Fair value of leased property pledged as collateral exceeds amount of receivables under agreements.

Analysis of changes in the allowance for impairment of finance lease receivables is as follows:

In thousands of Russian Roubles	2009	2008
Allowance for impairment as at 1 January	**10 578**	**14 020**
Charge/(recovery) of provision	30 781	(3 442)
Allowance for impairment as at 31 December	**41 359**	**10 578**

Information about the fair value of collateral as at 31 December is as follows:

In thousands of Russian Roubles	31 December 2009	31 December 2008
Equipment	332 947	598 319
Motor vehicles	198 844	434 437
Premises	59 638	96 962
Total	**591 429**	**1 129 718**

14 Finance lease receivables (continued)

Fair value of collateral as at 31 December 2009 and 2008 is estimated by the Bank’s Risk department based on current market prices.

Geographical, currency, interest rate and maturity analyses of finance lease receivables are disclosed in note 33. The information on related party transactions is disclosed in note 38.

15 Goodwill

At 31 December 2009 goodwill of RR 162 122 thousand (2008: RR 162 122 thousand) is allocated to the business of acquired “Sverdlsotsbank” (“SSB”), currently a branch representing a cash-generating unit (“CGU”) being the basic data within the Group at which goodwill is monitored.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Management determines budgeted gross margin based on past performance and its market expectations. The growth rates do not exceed the long-term average growth rates for the banking sector in Ekaterinburg in which the CGU operates. The weighted average growth rates used are in compliance with the forecasts included in industry reports and equals 3.5% (2008: 3.5%).

The discount rates used are pre-tax and reflect specific risks relating to SSB. As at 31 December 2009 discount rate is 13.0% (31 December 2008: 15.0%). An increase of 1% in the discount rate used would have reduced the recoverable amount by RR 89 747 thousand but would not have resulted in an impairment. The recoverable amount of SSB exceeds its carrying amount by RR 531 713 thousand (31 December 2008: RR 345 410 thousand). The CGU’s carrying amount would equal value in use at a discount rate of 22.0% (31 December 2008: 17.0%) p.a.

Based on calculations performed management did not identify any impairment of goodwill as at 31 December 2009 or 2008.

16 Property and equipment

In thousands of Russian Roubles	Notes	Land and premises	Office and computer equipment	Construction in progress	Total
Cost or valuation as at 1 January 2008		5 437 820	764 587	147 919	6 350 326
Accumulated depreciation		(400 188)	(287 025)	-	(687 213)
Carrying amount as at 1 January 2008		**5 037 632**	**477 562**	**147 919**	**5 663 113**
Additions		224 057	291 972	40 365	556 394
Transfers		105 186	-	(105 186)	-
Disposals - cost		(26 403)	(75 949)	(14 024)	(116 376)
Disposals - accumulated depreciation		3 088	59 166	-	62 254
Depreciation charge	30	(144 907)	(140 107)	-	(285 014)
Impairment through profit or loss		(13 999)	-	-	(13 999)
Revaluation recognised in other comprehensive loss		(171 130)	-	-	(171 130)
Carrying amount as at 31 December 2008		**5 013 524**	**612 644**	**69 074**	**5 695 242**
Cost or valuation as at 31 December 2008		5 524 974	980 610	69 074	6 574 658
Accumulated depreciation		(511 450)	(367 966)	-	(879 416)
Carrying amount as at 31 December 2008		**5 013 524**	**612 644**	**69 074**	**5 695 242**
Additions		30 134	91 199	30 569	151 902
Transfers		45 180	322	(45 502)	-
Disposals - cost		(556)	(28 323)	(4 854)	(33 733)
Disposals - accumulated depreciation		309	17 771	-	18 080
Depreciation charge	30	(131 472)	(160 880)	-	(292 352)
Impairment through profit or loss		(63 861)	-	-	(63 861)
Revaluation recognised in other comprehensive loss		(548 198)	-	-	(548 198)
Carrying amount as at 31 December 2009		**4 345 060**	**532 733**	**49 287**	**4 927 080**
Cost or valuation as at 31 December 2009		4 903 788	1 043 808	49 287	5 996 883
Accumulated depreciation		(558 728)	(511 075)	-	(1 069 803)
Carrying amount as at 31 December 2009		**4 345 060**	**532 733**	**49 287**	**4 927 080**

16 Property and equipment (continued)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and office and computer equipment.

Land and premises are valued at 31 December 2009. The valuation was carried out by an independent valuer, who holds a recognised and relevant professional qualification and who has recent experience in valuation of assets of similar location and category. The basis used for the appraisal is the market value. Fair values were estimated based on valuation techniques used for an active market.

Based on valuation results carrying amount of property and equipment is decreased by RR 548 198 thousand (31 December 2008: RR 171 130 thousand) recognized in revaluation reserve for property and equipment. As at 31 December 2009 a decrease of deferred tax liability of RR 109 639 thousand (31 December 2008: RR 147 481 thousand) is recognised in other comprehensive income in respect of the revaluation. At 31 December 2009, the carrying amount of land and premises would have been RR 3 135 133 thousand (31 December 2008: RR 3 115 274 thousand) had the assets been carried at cost less depreciation and impairment losses.

17 Intangible assets

In thousands of Russian Roubles	**Notes**	**Software licenses**
Cost as at 1 January 2008		43 591
Accumulated amortisation		(29 006)
Carrying amount as at 1 January 2008		**14 585**
Additions		-
Amortisation charge	30	(692)
Carrying amount as at 31 December 2008		**13 893**
Cost as at 31 December 2008		43 591
Accumulated amortisation		(29 698)
Carrying amount as at 31 December 2008		**13 893**
Additions		84 715
Disposals - cost		(3 236)
Disposals - accumulated amortisation		3 236
Amortisation charge	30	(3 106)
Carrying amount as at 31 December 2009		**95 502**
Cost or valuation as at 31 December 2009		125 070
Accumulated amortisation		(29 568)
Carrying amount as at 31 December 2009		**95 502**

Additions to intangible assets represent capitalised software and license costs related to a new centralised operational banking system which is used as a basis for decision making and control of financial and operating activities at all management levels of the Group.

18 Advances to real estate developers

Advances to real estate developers represent investments under investment contracts for construction of apartment buildings, business centres, hotels and other properties in Ekaterinburg and Sochi. Upon completion of construction the Group is contractually entitled to receive the real estate property. The Group intends to sell the majority of these investments close to completion stage. The Group receives income from the amounts advanced to developers at imputed rates of interest. The income is received in the legal form of penalties payable by the developers for breaches of various terms of the contracts and recognised as interest income. The consolidated income statement for the year ended 31 December 2009 includes interest income of RR 396 845 thousand (31 December 2008: RR 320 241 thousand) relative to the above mentioned investments.

Geographical, currency, interest rate and maturity analyses of advances to real estate developers are disclosed in note 33.

19 Other assets

In thousands of Russian Roubles	Notes	2009	2008
Settlements on transactions with securities and precious metals		236 754	133 329
Precious metals forward contracts	36	91 899	35 690
Settlements on cash and other operations		54 583	10 859
Foreign exchange forward contracts	36	17 738	2 512
Credit and debit cards receivables		15 521	17 266
Other		8 491	3 721
Total other financial assets		**424 986**	**203 377**
Trade receivables		615 410	634 650
Other non-financial receivables		115 775	80 490
Prepayments for construction in progress		113 026	155 866
Prepaid taxes other than income tax		47 220	33 485
Precious metals		8 341	52 029
Deferred expenses		6 699	10 562
Settlements on operations with banking cards		-	27 434
Total other non-financial assets		**906 471**	**994 516**
Total		**1 331 457**	**1 197 893**

An analysis by credit quality of other financial receivables outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Outstanding for less than 1 year**	**Outstanding from 1 to 2 years**	**Outstanding for more than 2 years**	**Total**
Settlements on transactions with securities and precious metals	236 754	-	-	236 754
Precious metals forward contracts	91 899	-	-	91 899
Settlements on cash and other operations	54 583	-	-	54 583
Foreign exchange forward contracts	17 738	-	-	17 738
Credit and debit cards receivables	15 521	-	-	15 521
Other	-	-	8 491	8 491
Total	**416 495**	**-**	**8 491**	**424 986**

19 Other assets (continued)

An analysis by credit quality of other financial receivables outstanding at 31 December 2008 is as follows:

In thousands of Russian Roubles	Outstanding for less than 1 year	Outstanding from 1 to 2 years	Outstanding for more than 2 years	Total
Settlements on transactions with securities and precious metals	133 329	-	-	133 329
Precious metals forward contracts	35 690	-	-	35 690
Credit and debit cards receivables	17 266	-	-	17 266
Settlements on cash and other operations	10 859			10 859
Foreign exchange forward contracts	2 512	-	-	2 512
Other	-	-	3 721	3 721
Total	**199 656**	**-**	**3 721**	**203 377**

Geographical, currency and maturity analyses of other assets are disclosed in note 33. The information on related party transactions is disclosed in note 38.

20 Assets held for sale

In thousands of Russian Roubles	2009	2008
Premises	165 177	-
Motor vehicles	14 831	-
Other property	3 847	-
Total	**183 855**	**-**

Included in assets held for sale is property obtained from borrowers as settlement for loans.

The valuation of assets held for sale was carried out as at 31 December 2009 by an independent valuer, who holds a recognised and relevant qualification and who has professional experience in valuation of property. Fair values are estimated based on observable market prices in an active market. The fair value of assets held for sale as at 31 December 2009 exceeds their carrying value.

In accordance with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* these assets are accounted in these consolidated financial statements at the lower of their carrying amount and fair value less costs to sale as at 31 December 2009. These assets are expected to be sold within 1 year.

21 Due to other banks

In thousands of Russian Roubles	2009	2008
Sale and repurchase agreements on securities	12 163 023	5 089 184
Short-term deposits	555 201	9 468 413
Correspondent accounts and overnight placements	345 535	39 354
Total	**13 063 759**	**14 596 951**

As at 31 December 2009 included in due to other banks are obligations under direct repurchase agreements with the CBRF of RR 5 079 749 thousand.

21 Due to other banks (continued)

As at 31 December 2008 included in due to other banks are obligations for financing from the CBRF of RR 12 015 128 thousand. These include loans granted under repurchase agreements of RR 3 574 515 thousand, lombard loans on securities of RR 2 066 420 thousand, unsecured loans of RR 4 907 533 thousand and other obligations of RR 1 466 660 thousand. These obligations were repaid in full and on time.

Geographical, currency, interest rate and maturity analyses of due to other banks are disclosed in note 33.

22 Customer accounts

In thousands of Russian Roubles	**2009**	**2008**
State and public organisations		
- Current/settlement accounts	20 499	39 897
Other legal entities		
- Current/settlement accounts	4 166 107	3 156 578
- Term deposits	5 724 143	4 935 245
Individuals		
- Current/demand accounts	2 541 041	2 051 515
- Term deposits	30 628 685	18 625 538
Total	**43 080 475**	**28 808 773**

State and public organisations exclude government owned profit oriented businesses.

The economic sector concentrations as at 31 December within customer accounts are as follows:

	2009		**2008**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	33 169 727	77	20 677 053	72
Services	3 560 985	8	2 303 978	8
Trade	2 253 952	5	1 099 743	4
Manufacturing	2 173 013	5	1 872 934	7
Construction	663 440	2	422 470	1
Metallurgy and trade	602 444	1	598 185	2
Other	656 914	2	1 834 410	6
Total	**43 080 475**	**100**	**28 808 773**	**100**

At 31 December 2009 the Group has 9 customers (31 December 2008: 9 customers) with balances above RR 150 000 thousand. The aggregate balances from these customers are RR 3 089 309 thousand (31 December 2008: RR 3 543 288 thousand), or 7% (31 December 2008: 12%) of total customer accounts.

At 31 December 2009 included in customer accounts are deposits of RR 5 603 thousand (31 December 2008: RR 31 805 thousand) held as collateral for irrevocable commitments under import letters of credit.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in note 33. The information on related party transactions is disclosed in note 38.

23 Debt securities in issue

In thousands of Russian Roubles	**2009**	**2008**
Promissory notes	375 585	1 323 601
Bonds issued in domestic market	-	506 480
Total	**375 585**	**1 830 081**

At 31 December 2008 debt securities in issue comprised bonds of RR 506 480 thousand denominated in Russian Roubles. These bonds were placed in July 2006 with a maturity date in July 2009, an issue volume of RR 1 billion and a nominal value of each bond of RR 1 thousand. The quarterly coupon was 12.5% p.a.

The bond issue was duly repaid on 2 July 2009, all the obligations in respect of the holders were discharged in full.

Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in note 33. The information on debt securities in issue held by related parties is disclosed in note 38.

The fair value of debt securities in issue at 31 December 2009 and 2008 is as follows:

	2009		**2008**	
In thousands of Russian Roubles	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Promissory notes	375 585	375 585	1 323 601	1 323 601
Bonds issued in domestic market	-	-	445 982	506 480
Total	**375 585**	**375 585**	**1 769 583**	**1 830 081**

24 Other liabilities

In thousands of Russian Roubles	**Notes**	**2009**	**2008**
Payables		63 084	20 423
Financial leasing liabilities		15 858	35 161
Precious metals forward contracts	36	9 093	22 431
Settlements on plastic cards		8 132	6 963
Foreign currency forward contracts	36	2 596	5
Settlements on operations with precious metals and foreign currencies		-	22 354
Other		6 893	3 428
Total other financial liabilities		**105 656**	**110 765**
Taxes other than income tax payable		27 411	53 694
Provision for financial guaranties contracts		978	1 511
Other		2 504	2 879
Total other non-financial liabilities		**30 893**	**58 084**
Total		**136 549**	**168 849**

25 Subordinated debt

On 27 December 2007 the Group attracted a non-secured subordinated debt of USD 50 million for 10 years. The loan was granted by The Royal Bank of Scotland (previous name - ABN AMRO BANK N.V.) at a contractual interest rate of Libor plus 8.0% p.a. As at 31 December 2009 this subordinated debt was accounted for at amortised cost of RR 1 545 296 thousand (31 December 2008: RR 1 521 631 thousand).

In the event of the Bank's liquidation the creditors under this subordinated debt would be the last ones entitled to receive repayment.

Geographical, currency, interest rate and maturity analyses of subordinated debt are disclosed in note 33.

26 Share capital

In thousands of Russian Roubles	**Number of outstanding shares (in thousands)**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2008	668 121	1 298 570	581 956	1 880 526
At 31 December 2008	668 121	1 298 570	581 956	1 880 526
At 31 December 2009	668 121	1 298 570	581 956	1 880 526

As at 31 December 2009 and 2008, all outstanding shares were authorised, issued and fully paid in.

As at 31 December 2009 all ordinary shares have a nominal value of RR 1 per share (231 December 2009: RR 1 per share). Each share carries one vote.

Share premium represents the amount exceeding the nominal value of the shares issued by the Bank.

Share capital contributions made before 1 January 2003, are adjusted by RR 630 449 thousand according to changes in general purchasing power of the Russian Rouble as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies*.

On 20 January 2010 the Department for the Licensing of the Activities and the Financial Rehabilitation of Credit Organizations of the CBRF registered the Bank's issue of shares in the amount of RR 2 004 363 thousand. The issue comprises placements of 668 121 thousand ordinary uncertificated registered shares with the nominal value of RR 3 by means of conversion of earlier placed 668 121 thousand ordinary uncertificated registered shares with the nominal value of RR 1 and capitalization of statutory retained earnings and other reserves in the amount of RR1 336 242 thousand. The share capital after the issue amounts to RR 2 004 363 thousand.

27 Dividends

In accordance with the legislation of the Russian Federation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of the statutory accounting reports. The reserves under Russian Accounting Rules at 31 December 2009 are RR 2 812 152 thousand (31 December 2008: RR 1 277 946 thousand).

28 Interest income and expense

In thousands of Russian Roubles	2009	2008
Interest income		
Loans and advances to customers	5 128 771	5 260 731
Other securities at fair value through profit or loss	1 079 597	-
Investment securities held-to-maturity	657 198	551 634
Income from advances to real estate developers	396 845	320 241
Finance lease receivables	151 507	180 466
Due from other banks	49 465	67 110
Receivables under reverse repo agreements	34 222	-
Securities available-for-sale	24 785	25 597
Correspondent accounts with other banks	1 826	8 940
Debt trading securities	-	17 231
Total	**7 524 216**	**6 431 950**
Interest expense		
Term deposits of individuals	3 272 901	2 266 812
Sale and repurchase agreements	940 143	303 755
Term placements of other banks	501 740	321 757
Term placements of legal entities	575 486	414 725
Subordinated debt	155 892	159 029
Debt securities in issue	113 745	199 561
Current/settlement accounts	74 236	44 535
Finance lease payables	5 575	8 371
Correspondent accounts of other banks	1 446	2 322
Total	**5 641 164**	**3 720 867**
Net interest income	**1 883 052**	**2 711 083**

29 Fee and commission income and expense

In thousands of Russian Roubles	2009	2008
Fee and commission income		
Settlement transactions	207 079	204 929
Transactions with plastic cards and cheques	143 603	180 049
Cash transactions	81 430	76 777
Transactions with securities	11 520	6 623
Cash collection	9 145	7 719
Guarantees issued	3 297	7 827
Fiduciary activities	2 542	5 209
Other	35 662	25 742
Total	**494 278**	**514 875**
Fee and commission expense		
Transactions with plastic cards and cheques	24 995	29 541
Settlement transactions	21 988	19 803
Cash collection	18 235	13 792
Foreign exchange transactions	6 391	5 923
Transactions with precious metals	5 106	3 803
Transactions with securities	3 033	5 619
Trade finance transaction	2 997	4 977
Other	15 986	8 378
Total	**98 731**	**91 836**
Net fee and commission income	**395 547**	**423 039**

30 Administrative and other operating expenses

In thousands of Russian Roubles	Notes	2009	2008
Staff costs		1 013 451	1 390 448
Depreciation of property and equipment	16	292 352	285 014
Advertising and marketing services		125 377	81 107
Contributions to State deposit insurance system		121 142	112 227
Taxes other than income tax		118 426	94 473
Operating lease expense for property and equipment		61 827	113 375
Professional services		51 762	39 857
Computer software maintenance		49 571	30 004
Other costs of property and equipment		43 362	91 159
Acquisition of fittings and materials		31 075	88 426
Security services		17 924	39 268
Information and communication services		10 385	38 710
Insurance of employees and business property		8 739	20 117
Amortisation of intangible assets	17	3 106	692
Other		33 120	77 927
Total		**1 981 619**	**2 502 804**

Included in staff costs are statutory social security and pension contributions of RR 157 905 thousand (2008: RR 205 316 thousand).

31 Income tax benefit

Income tax expense comprises the following:

In thousands of Russian Roubles	**2009**	**2008**
Current tax	133 438	147 440
Deferred tax	(143 716)	(189 642)
Income tax benefit for the year	**(10 278)**	**(42 202)**

The income tax rate applicable to the majority of the Group's income is 20% (2008: 24%). A reconciliation between the expected and the actual tax benefit is provided below.

In thousands of Russian Roubles	**2009**	**2008**
Profit/(loss) before tax	**144 289**	**(52 205)**
Theoretical tax at applicable rate	28 858	(12 529)
Effect of changes in the applicable tax rate	-	(7 662)
Non-deductible costs	4 717	20 528
Income on state sequrities taxed at lower tax rates	(43 630)	(42 539)
Other non-temporary differences	(223)	-
Income tax benefit	**(10 278)**	**(42 202)**

As at 31 December 2009 a decrease in deferred tax liability of RR 98 208 thousand (31 December 2008: RR 158 718 thousand) is recorded directly in other comprehensive income in respect of the revaluation of land and premises and securities available-for-sale. Refer to notes 9 and 16.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2008: 20%), except for income on state securities that is taxed at 15% (2008: 15%).

31 Income tax expense (continued)

In thousands of Russian Roubles	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2009
Tax effect of temporary differences				
Receivables on financial operations	-	152 923	-	152 923
Property and equipment: inflation, revaluation and depreciation	-	(69 245)	11 335	(57 910)
Provision for impairment of loan portfolio	-	120 776	-	120 776
Tax losses carried forward		5 081	-	5 081
Other	-	979	-	979
Recognised deferred tax asset	**-**	**210 514**	**11 335**	**221 849**
Receivables on financial operations	168 048	217 613	-	385 661
Fair value revaluation of trading securities and other securities at fair value through profit or loss	9 781	(140 061)	-	(130 280)
Fair value revaluation of securities available-for-sale	15 820	7 643	(11 431)	12 032
Property and equipment: inflation, revaluation and depreciation	(671 257)	231 592	98 304	(341 361)
Provision for impairment of loan portfolio	(7 088)	(230 351)	-	(237 439)
Tax losses carried forward	-	9 116	-	9 116
Other	103 822	(162 350)	-	(58 528)
Recognised deferred tax liability	**(380 874)**	**(66 798)**	**86 873**	**(360 799)**

In thousands of Russian Roubles	1 January 2008	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2008
Tax effect of temporary differences				
Receivables on financial operations	51 812	116 236	-	168 048
Fair value revaluation of trading securities	3 300	6 481	-	9 781
Fair value revaluation of securities available-for-sale	860	3 723	11 237	15 820
Other	12 944	90 878	-	103 822
Property and equipment: inflation, revaluation and depreciation	(786 131)	(32 607)	147 481	(671 257)
Provision for impairment of loan portfolio	(12 019)	4 931	-	(7 088)
Recognised deferred tax liability	**(729 234)**	**189 642**	**158 718**	**(380 874)**

In the context of the Group’s current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

32 Segment analysis

The Group has three reportable segments, which are represented by separate business units. The business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Assets and Liabilities Management Committee reviews internal management reports on each business unit on at least a twice a month basis, analyses and monitors the efficiency and quality of performance, insures coordination of business units in liquidity and profit management. The following summary describes the operations in each of the reportable segments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Financial markets – representing financial instruments trading, loans and deposits in the interbank market, dealing in foreign exchange, precious metals and derivative financial instruments.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax as included in the internal management reports based on the accounting data received in accordance with the Russian Accounting Rules (with adjustment of certain entries by economic substance) reviewed by the Assets and Liabilities Management Committee.

Segment profit is used to measure its performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry. Inter-segment pricing is determined on an arm's length basis. Segment assets and liabilitites are determined based on average balances on the accounting data received in accordance with the Russian Accounting Rules for the period with adjustment of certain entries by economic substance.

Segment information for the reportable segments as at and for the year ended 31 December 2009 is set out below.

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	2 375 975	3 182 960	1 852 879	7 411 814
Interest expense	(3 274 434)	(752 933)	(1 637 498)	(5 664 865)
Gains/(losses) from operations with other segments	1 648 537	(840 950)	407 726	1 215 313
Fee and commission income	181 932	298 750	16 063	496 745
Net gain from operations with securities	-	-	478 211	478 211
Net loss from operations with foreign currencies and precious metals	-	-	(80 031)	(80 031)
Other operating income	178 471	39 414	4 119	222 004
Administrative and other operating expenses	(836 851)	(345 590)	(31 938)	(1 214 379)
Profit before tax	**273 630**	**1 581 651**	**1 009 531**	**2 864 812**
Income tax expense				(125 017)
Profit after tax				**2 739 795**
Segment assets	**11 491 485**	**21 575 652**	**23 031 046**	**56 098 183**
Segment liabilities	**29 784 748**	**10 124 240**	**19 084 196**	**58 993 184**

32 Segment analysis (continued)

Segment information for the main reportable segments as at and for the year ended 31 December 2008 is set out below:

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets**	**Total**
Interest income from external operations	2 793 078	2 960 048	624 973	6 378 099
Interest expenses	(2 263 824)	(587 566)	(909 592)	(3 760 982)
Gains/(losses) from operations with other segments	1 278 256	(849 186)	462 074	891 144
Fee and commission income	215 092	210 661	14 177	439 930
Net loss from operations with securities	-	-	(43 837)	(43 837)
Net loss from operations with foreign currencies and precious metals	-	-	(141)	(141)
Other operating income	124 359	57 466	1 800	183 625
Administrative and other operating expenses	(1 015 646)	(418 948)	(38 718)	(1 473 312)
Profit before tax	**1 131 315**	**1 372 475**	**110 736**	**2 614 526**
Income tax expense				(140 899)
Profit after tax				**2 473 627**
Segment assets	**13 785 955**	**20 217 879**	**9 664 783**	**43 668 617**
Segment liabilities	**21 409 095**	**9 333 076**	**14 940 533**	**45 682 704**

Administrative and other operating expenses are allocated on the basis of the percentage of staff employed by each segment. Poperty and equipment is not allocated to segments in managemment accounts. Gains/(losses) from operations with other segments represent income and expense from lending and borrowing between segments and are determined by using a transfer rate defined by management.

32 Segment analysis (continued)

Reconciliations of reportable segment profit or loss, assets and liabilities are as follows:

In thousands of Russian Roubles	2009	2008
Segment profit before taxation	**2 864 812**	**2 614 526**
Elimination of revenues on operations with other segments	(1 215 313)	(891 144)
Other revenues	55 679	57 911
Provision for impairment of loans and advances to customers	(1 440 361)	(634 217)
Unallocated administrative and other operating expenses	(907 682)	(1 080 430)
Accounting policy adjustments:		
- net interest income in accordance with IFRS	28 134	18 739
- allowance for impairment of loans and advances to customers and finance lease receivables in accordance with IFRS	(122 983)	(103 213)
- securities at fair value in accordance with IFRS	854 750	(46 270)
- operations with foreign currencies and precious metals in accordance with IFRS	6 563	(43 799)
- other operating income in accordance with IFRS	49 878	20 955
- fee and commission income in accordance with IFRS	(43 211)	41 886
- operating expenses based on accrual basis	14 023	(7 149)
Consolidated profit/(loss) before tax	**144 289**	**(52 205)**
Segment assets	**56 098 183**	**43 668 617**
Unallocated assets	9 038 325	6 474 618
Assets of subsidiaries and SPE	112 319	45 377
Provision for impairment of loans	(3 054 844)	(1 437 554)
Accounting policy adjustments:		
- allowance for impairment of loans and advances to customers and finance lease receivables in accordance with IFRS	14 240	(41 795)
- securities at fair value in accordance with IFRS	504 613	(69 074)
- depreciation and amortisation of property and equipment and intangible assets in accordance with IFRS	(440 923)	(298 776)
- deferred income tax asset in accordance with IFRS	221 849	-
- deferral of fee and commission income on loans and advances to customers in accordance with IFRS	(196 803)	(247 822)
- recognition of goodwill in accordance with IFRS	162 122	162 122
- capitalisation of intangible assets in accordance with IFRS	91 063	26 573
- revaluation of property and equipment in accordance with IFRS	(114 340)	2 309 820
- other adjustments	141 836	979 163
Consolidated assets	**62 577 640**	**51 571 269**
Segment liabilities	**58 993 184**	**45 682 704**
Liabilities of subsidiaries and SPE	83 011	197 985
Accounting policy adjustments:		
- accounting for deferred tax liability in accordance with IFRS	(360 798)	(380 875)
- accounting for subordinated debt at amortised cost	33 087	52 610
- other adjustments	(184 934)	1 766 487
Consolidated liabilities	**58 563 550**	**47 318 911**

Other adjustments are caused by the fact that average balances for the 4th quarter are analysed in the management accounts as at 31 December.

Geographical segments. The Group operates in the Russian Federation and foreign countires. Segment information for the main geographical segments is set out below for the years ended 31 December 2009 and 2008.

32 Segment analysis (continued)

In thousands of Russian Roubles	Russia	Other countries	Total
2009			
Segment assets	50 127 465	5 970 718	56 098 183
External revenues	7 682 528	448 037	8 130 565
Credit related commitments	832 301	151 221	983 522
2008			
Segment assets	39 499 854	4 168 763	43 668 617
External revenues	6 629 309	372 345	7 001 654
Credit related commitments	1 563 708	134 122	1 697 830

In presenting geographical information the allocation of external revenues and assets, other than as detailed below, and credit related commitments is based on the geographical location of counterparties. Cash on hand, precious metals, property and equipment and capital expenditure are allocated based on the country in which they are physically held.

33 Financial risk management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objective of the financial risk management is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to note 35.

The Group controls credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and type of customer are approved regularly by management as part of current and strategic planning. Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The financial model is annually approved by the Budget Committee and has a target structure of the corporate customer portfolio (by type of customers) and the individual customer portfolio (by type of products).

Thereby, the Group sets limits that are monitored by the Credit Committee (as part of credit risk management) and the Assets and Liabilities Management Committee (as part of loan yield management).

Issuing loans to corporate customers

Credit limits for borrowers are approved at the following two decision-making levels:

- Board of Directors approves credit limits for customers related to the Russian Copper Company group; and
- Credit Committee considers and approves credit limits for all other customers.

33 Financial risk management (continued)

Loan applications from client relationship managers are considered by the Legal Department and Security Service, and subsequently evaluated by the Risk Department and transferred to the Credit Committee for setting credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the Risk Department based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Work-out of problem corporate loans

The Group ensures the maximum possible repayment of corporate loans. The Group classifies loans as problem on the basis of the following criteria:

- the borrower has one delay in principal payment (under the loan agreement) exceeding 15 calendar days
- the borrower has one delay in interest payment exceeding 15 calendar days
- the payment is more than 15 calendar days overdue upon maturity of the loan agreement
- availability of reliable information that the pledge has been withdrawn or disposed of without the Group's consent
- a failure to fulfil, within 15 calendar days, the requirement to make accelerated repayment of the loan and interest in cases provided for by the loan agreement
- two consecutive delays in contractual lease payments
- violation of contractual requirements on the use of leased property
- facts confirming that the outstanding amount will not be duly repaid upon maturity (through a direct refusal to repay, or impossibility to contact the borrower, or otherwise).

The Group applies two methods for collecting problem corporate loans: voluntary and compulsory.

Voluntary repayment of loan by problem borrowers stipulates the following actions on the part of the responsible staff in case of possibility to contact the borrower during a certain period of time.

33 Financial risk management (continued)

If the loan is classified as problem, the Group performs the following actions in respect of the borrower:

- contacting the problem borrower, negotiating
- reviewing the reasons for overdue balances (default)
- discussing payment options (methods, terms), check and taking photo of different types of collateral, property of the problem borrower (third parties) that may be provided to the Group for repayment of the loan, issuing an act on review of collateral
- collecting and reviewing information on third parties (in respect of which information was previously unavailable), including through inquiries to Security Service units
- in case of deteriorating repayment probability, the problem borrower is requested to voluntarily hand over collateral or other property to the Group for repayment of the overdue loan
- organising transportation and removal of the problem borrower's property (including unpledged property) to the Group; and
- reviewing and evaluating the likelihood of voluntary repayment, searching for interested parties (problem borrower's creditors and collateral providers) for selling the debt.

In case of absence of any contact with the problem borrower (guarantor), the Group initiates litigation against the problem borrower.

Issuing loans to individuals

One of the main principles of managing consumer lending risks is management of the risk/reward ratio in respect of each credit product. The Group evaluates its credit products using the following two methods:

- on the basis of a review of the relationship of net operating income (interest, commission), received from gross loan placements, and forecasted losses (overdue amount without consideration of the recovery coefficient after the completion of all claims procedures) caused by overdue amount; and
- on the basis of a review of the relationship of net operating income, received from gross loan placements, and actual losses (past due amounts with consideration of the recovery coefficient).

The process of issuing loans to individuals is carried out via a system of consumer loan support.

The system includes the following three basic elements (software modules/automated work stations (AWS)): "Point of sales" (AWS "PS"), "Risk Manager" (AWS "RM") and "Claims Group" (AWS "CG").

- AWS "PS" is the place of input and storage of personal client data. Personal client data is entered by employees at points of sales on the basis of information provided by the client.
- AWS "RM" is a module of evaluation of individual loan applications on the basis of programme codes. The module comprises all information received as a result of application of client evaluation methods, evaluation results and limits.
- AWS "CG" is a working module of the services in charge of security and problem loan management. The module reflects the flow of loan applications considered by the Security Service staff who provides an opinion on these applications.

33 Financial risk management (continued)

In case of a positive decision from the Security Service and a non-zero limit in AWS “RM” on the basis of evaluation of the loan application, loan issue is automatically confirmed in AWS “PS”. Then the employee of the point of sale can generate all necessary documents for issuance of the loan from AWS “PS”.

Individual clients are evaluated on the basis of scoring models developed with the help of special software on the basis of accumulated statistical data. These methods include procedures for calculation of scoring rates on the basis of personal data as a separate borrower evaluation factor.

The application is rejected or approved on the basis of automatic comparison of the borrower’s scores and the established cut-off level.

The Group applies the system of monitoring of the individual loan portfolio. The Risk Department evaluates problem loan trends for the portfolio in general and for each product, evaluates the efficiency of various scoring models and changes in borrower profile by product, etc. The Credit Committee makes decisions relating to monitoring, modification of methodologies and terms of individual credit products on a monthly basis.

Problem loans recovery is based on two strategies depending on the type of the lending product: 1) the express loan strategy; and 2) the consumer loan strategy (above RR 100 thousand).

Work with problem express loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal), the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 30 calendar days).

2. If the payment is overdue by more than 30 days, all procedures are passed to the Department for Problem Individual Loans:

- during 60 calendar days from the date of receipt of the problem loan agreement, the issue is handled by the operative Response Unit of the Department. Responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work

- during subsequent 120 days, problem loans are handled by the Department of Long-term Past Due Loans with participation of the Legal Department. Work with problem borrowers comprises the entire set of measures from telephone calls to visits and court proceedings.

3. Write-off of uncollectible loans.

Problem consumer loans recovery comprises the following three stages.

1. In case of overdue mandatory payments (commission, interest, principal), the borrower is contacted by phone in an automatic regime (auto dial) until he/she pays the overdue amount (the delay should not exceed 7 calendar days).

2. If the payment is overdue by more than 7 days, all procedures are passed to the Group for Overdue Consumer Loans of the Department for Problem Individual Loans.

- during 60 calendar days from the date of transfer of the problem loan, responsible staff identifies problem borrowers, clarifies contact details and groups the borrowers for subsequent work on the basis of individual scenarios for each group, tries to settle the problem with the borrowers by means of primary negotiations. Management is provided monthly reports based on the results of this work

33 Financial risk management (continued)

- if the Group for Overdue Consumer Loans concludes that the loan cannot be collected on the basis of out-the-court procedures, all materials on the borrower are passed to the Legal department for collecting the debt by judicial means.

3. Write-off of uncollectible loans.

The Group's Risk Department performs an ageing analysis of outstanding loans and follows up past due balances. Management is provided with information on ageing analysis and other information relating to credit risk. The information on credit risk for loans is provided in note 13.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assessment impairment as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets capital drawdown limits and allocates funds for forming a portfolio of operations exposed to market risk. The Treasury chooses an optimal portfolio structure and develops portfolio management regulations on the basis of the set limits. The Investment Committee together with representatives of the Risk Department and the Treasury approve the structure of the portfolio by instrument and position entry/exit rules. The Risk Department and the Treasury monitor limits set by the committees and financial results on a daily basis. If the decrease in capital, allocated for operations exposed to market risks, is 50% of the threshold level, limits on positions are automatically decreased by three times and the Investment Committee convenes in order to change the current portfolio management procedures.

33 Financial risk management (continued)

Currency risk. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises exposure to foreign currency exchange rate risk at 31 December 2009:

In thousands of Russian Roubles	RR	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	3 523 114	1 984 739	1 537 155	4 971	7 964	7 057 943
Mandatory cash balances with the CBRF	376 720	-	-	-	-	376 720
Trading securities	6 694	-	-	-	-	6 694
Other securities at fair value through profit or loss	13 383 591	-	-	-	-	13 383 591
Securities available-for-sale	6 326 578	-	-	-	-	6 326 578
Receivables under reverse repo agreements	1 073 779	-	-	-	-	1 073 779
Due from other banks	9 267	20 725	-	-	-	29 992
Loans and advances to customers	21 089 467	2 449 758	1 820	-	-	23 541 045
Finance lease receivables	514 340	-	-	-	-	514 340
Advances to real estate developers	2 407 107	921 262	-	-	-	3 328 369
Other financial assets	315 349	-	-	-	-	315 349
Total monetary assets	**49 026 006**	**5 376 484**	**1 538 975**	**4 971**	**7 964**	**55 954 400**
LIABILITIES						
Due to other banks	12 718 253	320 215	25 291	-	-	13 063 759
Customer accounts	36 384 139	2 725 096	3 795 821	71 145	104 274	43 080 475
Debt securities in issue	335 214	28 579	11 792	-	-	375 585
Subordinated debt	-	1 545 296	-	-	-	1 545 296
Other financial liabilities	93 967	-	-	-	-	93 967
Total monetary liabilities	**49 531 573**	**4 619 186**	**3 832 904**	**71 145**	**104 274**	**58 159 082**
Net balance sheet position	**(505 567)**	**757 298**	**(2 293 929)**	**(66 174)**	**(96 310)**	**(2 204 682)**
Derivative financial instruments	**(949 568)**	**(1 461 991)**	**2 316 285**	**101 845**	**91 377**	**97 948**
Net balance sheet position including derivative instruments	**(1 455 135)**	**(704 693)**	**22 356**	**35 671**	**(4 933)**	**(2 106 734)**

33 Financial risk management (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2008:

In thousands of Russian Roubles	RR	USD	Euro	Precious metals	Other	Total
ASSETS						
Cash and cash equivalents	3 229 073	1 855 331	1 358 440	-	1 657	6 444 501
Mandatory cash balances with the CBRF	46 343	-	-	-	-	46 343
Trading securities	76 437	-	-	-	-	76 437
Investment securities held-to-maturity	8 705 246	-	-	-	-	8 705 246
Due from other banks	28 142	-	-	-	-	28 142
Loans and advances to customers	22 979 094	2 625 003	1 833	-	-	25 605 930
Finance lease receivables	719 131	-	-	-	-	719 131
Advances to real estate developers	2 184 540	641 043	-	-	-	2 825 583
Other financial assets	165 175	-	-	-	-	165 175
Total monetary assets	**38 133 181**	**5 121 377**	**1 360 273**	**-**	**1 657**	**44 616 488**
LIABILITIES						
Due to other banks	14 141 825	221 654	1 546	231 926	-	14 596 951
Customer accounts	23 687 383	3 069 454	1 943 560	74 759	33 617	28 808 773
Debt securities in issue	1 725 512	104 473	96	-	-	1 830 081
Subordinated debt	-	1 521 631	-	-	-	1 521 631
Other financial liabilities	88 329	-	-	-	-	88 329
Total monetary liabilities	**39 643 049**	**4 917 212**	**1 945 202**	**306 685**	**33 617**	**46 845 765**
Net balance sheet position	**(1 509 868)**	**204 165**	**(584 929)**	**(306 685)**	**(31 960)**	**(2 229 277)**
Derivative financial instruments	**5 232**	**(674 967)**	**538 734**	**121 923**	**24 843**	**15 765**
Net balance sheet position including currency derivative instruments	**(1 504 636)**	**(470 802)**	**(46 195)**	**(184 762)**	**(7 117)**	**(2 213 512)**

Derivatives in each column represent the fair value at the reporting date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

	2009		2008	
In thousands of Russian Roubles	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
10% appreciation of USD against RUR	(56 375)	(56 375)	(37 638)	(37 638)
10% appreciation of USD against RUR	56 375	56 375	37 638	37 638

33 Financial risk management (continued)

Other price risk. The Group has limited exposure to equity price risk. Price risk inherent in trading operations with shares is managed through setting of a capital reduction threshold and also a threshold for possible deviations in the portfolio's value (30-day VaR with a 95% probability, given that the maximum period of holding the position does not exceed 30 days). In terms of set by the Assets and Liabilities Management Committee capital reduction thresholds the Treasury develops and Investment Committee approves equity portfolio management rules. The Risk Department monitors the financial result from trading in shares on a daily basis and, if capital decreases by more than 50% of a maximum set level, reduces limits by three times, after which the Investment Committee holds a meeting for the purpose of changing the equity portfolio management rules.

The below table represents model limits and actual exposure for the year ended 31 December for the equity trading portfolio and potential exposure on earnings:

In thousands of Russian Roubles	**Exposure during 2009**	**Exposure during 2008**
Capital drawdown – limit	101 500	150 000
Capital drawdown – fact	74 061	129 850
30-day 95% VaR on portfolio (limits)	242 208	-

Interest rate risk. The Group is exposed to interest risk in case of change in the bond portfolio's value.

The Group manages interest rate risk associated with changes in the bond portfolio's value as a result of changes in market rates (bond yield) by limiting the bond portfolio's duration. The Assets and Liabilities Management Committee sets portfolio duration limits at least annually on the basis of the overall possible change in the portfolio's value. The Investment Committee approves the portfolio structure by instrument and the portfolio management strategy. The Treasury is in charge of direct portfolio management, supports its target structure and ensures compliance with the strategy for operations with instruments in the portfolio. The Risk Department is in charge of regular monitoring of the level of possible losses of the portfolio in case of a negative change (increase) of market rates (yields).

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2009 to changes in market rates:

In thousands of Russian Roubles	**Exposure during 2009**	
	Profit or loss	**Equity**
Changes in portfolio's value in case of a 100 b.p. increase in rates at the year end	(148 724)	(252 717)

The table below reflects the bond portfolio's sensitivity for the year ended 31 December 2008 to changes in market rates:

In thousands of Russian Roubles	**Exposure during 2008**	
	Profit or loss	**Equity**
Changes in portfolio's value in case of a 100 b.p. increase in rates at the year end	(194 032)	(194 032)

The sensitivity of financial assets and liabilities to changes in interest rates for financial instruments outstanding as at 31 December is as follows:

	2009	**2008**
In thousands of Russian Roubles	**Profit or loss**	**Profit or loss**
100 bp parallel rise	(22 280)	(26 673)
100 bp parallel fall	22 280	26 673

33 Financial risk management (continued)

The Group manages interest rate risk associated with changes in the margin through medium and long term planning. The main source of this risk is the excess of the rate of change in the value of liabilities over the rate of change in the asset yield. The Group does not have any assets and liabilities with floating rates, which limits the function of interest rate risk management to managing and maximising the level of margin subject to complying with adequate liquidity requirements. Rates on short-term funds are considered in interest rate calculations as the cost of coverage of liquidity gaps. For the purpose of margin management develops scenario-based models for a term of up to one year by month. Reviewing the planned figures on a monthly basis enables the Group to promptly respond to external and internal changes and implement additional scenario-based modelling in case of serious deviations.

The table below displays analysis of effective interest rates for major financial instruments. The analysis is performed based on effective interest rates as at the year end used for amortisation of the relevant assets and liabilities.

	2009				**2008**			
% p.a.	**RR**	**US Dollars**	**Euros**	**Other currencies**	**RR**	**US Dollars**	**Euros**	**Other currencies**
ASSETS								
Cash and cash equivalents	0.03	1.61	0.65	-	-	0.10	-	-
Debt trading securities	-	-	-	-	6.32	-	-	-
Other securities at fair value through profit or loss	12.50	-	-	-	-	-	-	-
Debt securities available-for-sale	12.50	-	-	-	-	-	-	-
Investment securities held-to-maturity	-	-	-	-	9.17	-	-	-
Receivables under reverse repo agreements	8.40	-	-	-	-	-	-	-
Due from other banks	7.83	-	-	-	4.85	-	-	-
Loans and advances to customers	20.70	13.04	15.87	-	20.00	12.90	-	-
Finance lease receivables	31.23	-	-	-	29.58	-	-	-
Advances to real estate developers	17.00	-	-	-	16.00	-	-	-
LIABILITIES								
Due to other banks	6.02	1.99	1.61	-	11.50	9.40	-	8.50
Customer accounts								
- current and settlement accounts	1.20	0.10	0.10	-	2.20	-	-	-
- term deposits	15.32	9.93	9.06	8.17	13.60	11.60	10.10	-
Debt securities in issue	11.82	7.40	5.95	-	9.60	13.20	7.00	-
Subordinated debt	-	8.80	-	-	-	12.60	-	-

33 Financial risk management (continued)

Geographical risk concentrations. The geographical concentration of financial assets and liabilities at 31 December 2009 is set out below.

In thousands of Russian Roubles	Russia	Other countries	Total
ASSETS			
Cash and cash equivalents	4 114 414	2 943 529	7 057 943
Mandatory cash balances with the CBRF	376 720	-	376 720
Trading securities	6 694	-	6 694
Other securities at fair value through profit or loss	13 383 591	-	13 383 591
Securities available-for-sale	6 326 578	-	6 326 578
Receivables under reverse repo agreements	-	1 073 779	1 073 779
Due from other banks	9 267	20 725	29 992
Loans and advances to customers	21 623 921	1 917 124	23 541 045
Finance lease receivables	514 340	-	514 340
Advances to real estate developers	3 328 369	-	3 328 369
Other financial assets	409 425	15 561	424 986
Total financial assets	**50 093 319**	**5 970 718**	**56 064 037**
Total non-financial assets	**6 513 603**	**-**	**6 513 603**
TOTAL	**56 606 922**	**5 970 718**	**62 577 640**
LIABILITIES			
Due to other banks	13 063 759	-	13 063 759
Customer accounts	42 612 492	467 983	43 080 475
Debt securities in issue	365 805	9 780	375 585
Subordinated debt	-	1 545 296	1 545 296
Other financial liabilities	104 717	939	105 656
Total financial liabilities	**56 146 773**	**2 023 998**	**58 170 771**
Total non-financial liabilities	**392 779**	**-**	**392 779**
TOTAL	**56 539 552**	**2 023 998**	**58 563 550**
Net balance sheet position	**67 370**	**3 946 720**	**4 014 090**
Credit related commitments	**832 301**	**151 221**	**983 522**

Assets, liabilities and credit related commitments are based mainly on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand, precious metals and property and equipment are allocated based on the country in which they are physically held.

33 Financial risk management (continued)

The geographical concentration of financial assets and liabilities at 31 December 2008 is set out below.

In thousands of Russian Roubles	Russia	Other countries	Total
ASSETS			
Cash and cash equivalents	4 457 470	1 987 031	6 444 501
Mandatory cash balances with the CBRF	46 343	-	46 343
Trading securities	76 437	-	76 437
Investment securities held-to-maturity	8 705 246	-	8 705 246
Due from other banks	28 142	-	28 142
Loans and advances to customers	23 426 231	2 179 699	25 605 930
Finance lease receivables	719 131	-	719 131
Advances to real estate developers	2 825 583	-	2 825 583
Other financial assets	201 344	2 033	203 377
Total financial assets	**40 485 927**	**4 168 763**	**44 654 690**
Total non-financial assets	**6 916 579**	**-**	**6 916 579**
TOTAL	**47 402 506**	**4 168 763**	**51 571 269**
LIABILITIES			
Due to other banks	14 365 025	231 926	14 596 951
Customer accounts	27 468 542	1 340 231	28 808 773
Debt securities in issue	1 830 081	-	1 830 081
Subordinated debt	-	1 521 631	1 521 631
Other financial liabilities	90 046	20 719	110 765
Total financial liabilities	**43 753 694**	**3 114 507**	**46 868 201**
Total non-financial liabilities	**450 710**	**-**	**450 710**
TOTAL	**44 204 404**	**3 114 507**	**47 318 911**
Net balance sheet position	**3 198 102**	**1 054 256**	**4 252 358**
Credit related commitments	**1 563 708**	**134 122**	**1 697 830**

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments.

The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group manages liquidity risk at two levels: the first level is the Assets and Liabilities Management Committee; the second level is the Treasury and the Asset and Liability Department.

33 Financial risk management (continued)

The Assets and Liabilities Management Committee determines the type of liquidity management strategy for up to one year with possible revision in response to certain events. The Treasury manages instant liquidity (up to three days) by forming liquid asset provisions in accordance with requirements of the Assets and Liabilities Management Committee. The Asset and Liability Department monitors 90-day transactions planned for execution, performs stress testing of liquidity and provides analytical support to the Assets and Liabilities Management Committee.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management process includes: performing daily calculations of liquid assets necessary for covering resource base risks; reviewing the level and structure of liquid assets and available liquidity forming instruments; providing access to different finance sources; maintaining liquidity contingency plans; monitoring compliance with legal requirements to balance liquidity ratios.

Information on the required level and structure of liquid assets by age is provided to the Treasury. The Treasury provides for an adequate portfolio of liquid assets, largely made up of bonds available for sale and for sale and repurchase transactions, liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Treasury Department is responsible for monitoring of the daily liquidity position. The Asset and Liability Department regularly carries out stress tests on the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The table below shows financial assets, liabilities and commitments at 31 December 2009 by their remaining contractual maturity. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows, including amounts of assets, finance lease (before future finance costs), amounts at prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments.

33 Financial risk management (continued)

The analysis of financial assets, liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2009 is as follows:

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
ASSETS					
Cash and cash equivalents	7 059 888	-	-	-	7 059 888
Trading securities	6 694	-	-	-	6 694
Other securities at fair value through profit or loss	13 431 784	-	-	-	13 431 784
Securities available-for-sale	6 343 045	-	-	-	6 343 045
Receivables under reverse repo agreements	1 077 588	-	-	-	1 077 588
Due from other banks	10 220	-	4	19 768	29 992
Loans and advances to customers	338 637	2 664 981	8 933 217	16 769 746	28 706 581
Finance lease receivables	73 780	155 465	161 077	335 985	726 307
Advances to real estate developers	-	-	-	3 328 369	3 328 369
Derivative financial instruments assets	7 616 873	-	-	-	7 616 873
Other financial assets	416 495	-	-	8 491	424 986
Total financial assets	**36 375 004**	**2 820 446**	**9 094 298**	**20 462 359**	**68 752 107**
LIABILITIES					
Due to other banks	13 084 137	-	-	-	13 084 137
Customer accounts	9 872 337	12 953 446	6 967 177	17 895 468	47 688 428
Debt securities in issue	127 898	244 009	9 032	-	380 939
Subordinated debt	-	68 122	67 011	2 504 053	2 639 186
Derivative financial instruments liabilities	7 518 925	-	-	-	7 518 925
Operating lease commitments	3 345	16 727	19 904	84 366	124 342
Guarantees issued	6 361	119 949	26 647	-	152 957
Import letters of credit issued	9 388	7 555	151 221	-	168 164
Unused commitments to extend credit	662 401	-	-	-	662 401
Other financial liabilities	89 799	9 304	6 553	-	105 656
Total financial liabilities	**31 374 591**	**13 419 112**	**7 247 545**	**20 483 887**	**72 525 135**
Net liquidity gap taking into account undiscounted cash flows	**5 000 413**	**(10 598 666)**	**1 846 753**	**(21 528)**	**(3 773 028)**
Cumulative liquidity gap taking into account undiscounted cash flows	**5 000 413**	**(5 598 253)**	**(3 751 500)**	**(3 773 028)**	

33 Financial risk management (continued)

The analysis of liabilities and commitments taking into account undiscounted cash flows by maturity as at 31 December 2008 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Due to other banks	6 518 673	7 798 840	372 893	-	14 690 406
Customer accounts	9 805 238	9 459 521	2 716 759	8 758 505	30 740 023
Debt securities in issue	1 242 104	80 274	513 382	-	1 835 760
Subordinated debt	-	83 596	82 233	2 851 985	3 017 814
Derivative financial instruments liabilities	2 478 695	-	-	-	2 478 695
Operating lease commitments	4 030	18 516	21 447	134 976	178 969
Guarantees issued	12 310	208 396	-	89 015	309 721
Import letters of credit	103 258	225 700	334 371	-	663 329
Unused commitments to extend credit	724 779	-	-	-	724 779
Other financial liabilities	62 422	48 343	-	-	110 765
Total	**20 951 509**	**17 923 186**	**4 041 085**	**11 834 481**	**54 750 261**

Payments under deliverable forward agreements (gross amount) will be accompanied by corresponding cash inflows. Current accounts and deposits from customers are recognised in the above analysis based on contractual maturities. However, in accordance with Civil Code of the Russian Federation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

33 Financial risk management (continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
ASSETS					
Cash and cash equivalents	7 057 943	-	-	-	7 057 943
Mandatory cash balances with the CBRF	86 194	108 912	55 219	126 395	376 720
Trading securities	6 694	-	-	-	6 694
Other securities at fair value through profit or loss	13 383 591	-	-	-	13 383 591
Securities available-for-sale	6 326 578	-	-	-	6 326 578
Receivables under reverse repo agreements	1 073 779	-	-	-	1 073 779
Due from other banks	10 220	-	4	19 768	29 992
Loans and advances to customers	337 218	2 560 137	8 351 277	12 292 413	23 541 045
Finance lease receivables	59 104	135 237	124 805	195 194	514 340
Advances to real estate developers	-	-	-	3 328 369	3 328 369
Other financial assets	416 495	-	-	8 491	424 986
Total financial assets	**28 757 816**	**2 804 286**	**8 531 305**	**15 970 630**	**56 064 037**
LIABILITIES					
Due to other banks	13 063 759	-	-	-	13 063 759
Customer accounts	9 856 769	12 454 853	6 314 696	14 454 157	43 080 475
Debt securities in issue	127 575	239 538	8 472	-	375 585
Subordinated debt	-	67 262	63 303	1 414 731	1 545 296
Other financial liabilities	89 799	9 304	6 553	-	105 656
Total financial liabilities	**23 137 902**	**12 770 957**	**6 393 024**	**15 868 888**	**58 170 771**
Net liquidity gap as at 31 December 2009	**5 619 914**	**(9 966 671)**	**2 138 281**	**101 742**	**(2 106 734)**
Cumulative liquidity gap as at 31 December 2009	**5 619 914**	**(4 346 757)**	**(2 208 476)**	**(2 106 734)**	

In its liquidity management policy the Group uses the bond portfolio as an instrument of cash gap management. The structure of the portfolio consisting of securities of high credit quality enables these securities to be converted to cash within 1 month. Based on this other securities at fair value through profit or loss and securities available-for-sale as at 31 December 2009 are classified as "Demand and less than 1 month". The fair value of securities classified in this category with maturity more than 12 months is RR 17 835 488 thousand.

33 Financial risk management (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2008.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
ASSETS					
Cash and cash equivalents	6 444 501	-	-	-	6 444 501
Mandatory cash balances with the CBRF	15 720	14 749	4 023	11 851	46 343
Trading securities	76 437	-	-	-	76 437
Investment securities held-to-maturity	6 658 175	179 981	-	1 867 090	8 705 246
Due from other banks	-	-	-	28 142	28 142
Loans and advances to customers	1 739 528	3 807 963	6 790 666	13 267 773	25 605 930
Finance lease receivables	69 085	181 325	168 077	300 644	719 131
Advances to real estate developers	-	-	-	2 825 583	2 825 583
Other financial assets	179 134	-	20 522	3 721	203 377
Total financial assets	**15 182 580**	**4 184 018**	**6 983 288**	**18 304 804**	**44 654 690**
LIABILITIES					
Due to other banks	6 497 592	7 745 037	354 322	-	14 596 951
Customer accounts	9 771 759	9 168 908	2 500 749	7 367 357	28 808 773
Debt securities in issue	1 241 767	76 330	511 984	-	1 830 081
Subordinated debt	-	-	-	1 521 631	1 521 631
Other financial liabilities	62 422	48 343	-	-	110 765
Total financial liabilities	**17 573 540**	**17 038 618**	**3 367 055**	**8 888 988**	**46 868 201**
Net liquidity gap as at 31 December 2008	**(2 390 960)**	**(12 854 600)**	**3 616 233**	**9 415 816**	**(2 213 511)**
Cumulative liquidity gap as at 31 December 2008	**(2 390 960)**	**(15 245 560)**	**(11 629 327)**	**(2 213 511)**	

As at 31 December 2008 investment securities held-to-maturity pledged under "repo" agreements are classified as "Demand and less than 1 month" in accordance with the maturities of the respective sale and repurchase agreements. The remaining portfolio of investment securities held-to-maturity is classified in accordance with contractual maturity dates. Due to other banks are classified in accordance with the actual maturities of liabilities.

Management considers the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding.

33 Financial risk management (continued)

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

34 Capital management

The Group’s objectives when managing capital are (i) to comply with capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern, and (iii) to obtain return on capital on a long term basis. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the President and Chief Accountant. Other objectives of capital management are evaluated quarterly.

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

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

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

	31 December 2009	31 December 2008
Tier 1 capital		
Share capital	1 880 526	1 880 526
Retained earnings	587 132	371 554
Less		
Goodwill	(162 122)	(162 122)
Total Tier 1 capital	**2 305 536**	**2 089 958**
Tier 2 capital		
Revaluation reserve for property and equipment and securities available-for-sale	1 546 432	2 000 278
Qualifying subordinated debt	759 104	89 680
Total Tier 2 capital	**2 305 536**	**2 089 958**
Total capital	**4 611 072**	**4 179 916**
Capital adequacy ratio		
Risk weighted average of assets	46 028 765	39 304 249
Total capital	4 611 072	4 179 916
Tier 1 capital ratio	5.0%	5.3%
Tier 2 capital ratio	10.0%	10.6%

34 Capital management (continued)

Revaluation reserve for property and equipment and long-term subordinated debt are included in calculation of capital adequacy ratios within limits set to tier 2 capital.

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

35 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2009 management has not created any provision for potential tax liabilities (31 December 2008: no provision).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under operating leases are as follows.

In thousands of Russian Roubles	**2009**	**2008**
Less than 1 year	40 217	17 925
From 1 to 5 years	72 883	34 529
More than 5 years	11 244	126 515
Total	**124 344**	**178 969**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

35 Contingencies and commitments (continued)

Outstanding credit related commitments as at 31 December are as follows:

In thousands of Russian Roubles	2009	2008
Unused limits on overdraft loans	520 545	645 315
Import letters of credit	168 164	663 329
Guarantees issued	152 957	309 722
Commitments to extend credit	141 856	79 464
Total	**983 522**	**1 697 830**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments as at 31 December are denominated in the following currencies:

In thousands of Russian Roubles	2009	2008
Russian Roubles	708 618	793 003
USD	169 162	463 888
Euro	105 742	440 939
Total	**983 522**	**1 697 830**

Funds management and trust activities. The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

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

36 Derivative financial instruments and operations with precious metals

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group as at 31 December 2009 and 2008. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

36 Derivative financial instruments and operations with precious metals (continued)

In thousands of Russian Roubles	2009 Contracts with positive fair value	2009 Contracts with negative fair value	2008 Contracts with positive fair value	2008 Contracts with negative fair value
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	1 019 316	571 118	-	-
- USD payable on settlement (-)	(1 704 076)	(1 329 310)	(552 843)	(8 227)
- Euro receivable on settlement (+)	2 860 591	794 006	538 734	-
- Euro payable on settlement (-)	(774 264)	(564 048)	-	-
- RR receivable on settlement (+)	-	480 986	-	-
- RR payable on settlement (-)	(1 383 829)	(46 725)	-	-
- Other currencies receivable on settlement (+)	-	91 377	16 621	8 222
Net fair value of foreign exchange forwards	**17 738**	**(2 596)**	**2 512**	**(5)**
Forwards with precious metals: fair values, at the reporting date, of				
- USD receivable on settlement (+)	756 125	100 401	149 226	7 747
- USD payable on settlement (-)	(623 405)	(252 160)	-	(270 870)
- Precious metals receivable on settlement (+)	699 859	243 094	33 657	250 228
- Precious metals payable on settlement (-)	(740 680)	(100 428)	(147 193)	(14 769)
- RR receivable on settlement (+)	-	-	-	5 232
Net fair value of forwards with precious metals	**91 899**	**(9 093)**	**35 690**	**(22 432)**

37 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

As at 31 December 2009 and 2008 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

Financial instruments carried at fair value. The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices (level 1) at the reporting date without any deduction for transaction costs.

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

37 Fair value of financial instruments (continued)

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.The estimated fair values of loans and receivables carried at amortised cost approximate their carrying values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices where available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The estimated fair values of liabilities carried at amortised cost approximate their carrying values.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to note 36.

38 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2009, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 10%-22%)	41 690	6 234 910	24 225
Allowance for impairment of loans and advances to customers	-	(23 305)	-
Receivables under reverse repo agreements	-	480 371	-
Finance lease receivables	-	18 365	-
Other assets	-	938	-
Customer accounts (contractual interest rates: 0%-13%)	22 134	17 928	10 698
Debt securities in issue (contractual interest rates: 0%-18%)	-	8 288	-
Foreign exchange forward contracts	-	35 318	-
Precious metals forward contracts	-	6 869	-

38 Related party transactions (continued)

The income and expense with related parties for the year ended 31 December 2009 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	2 524	672 065	3 291
Interest expense	(1 814)	(206 431)	(542)
Fee and commission income	20	-	4 903
Loss from trading in foreign currencies	-	(1 386)	-
Income from trading in precious metals	-	66 484	-
Other operating income	-	-	1 899

As at 31 December 2009 the Group has no commitments for other rights and obligations with related parties.

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rates: 6%-19%)	9 557	7 067 580	19 138
Allowance for impairment of loans and advances to customers	-	(77 887)	-
Other assets	10	91	-
Customer accounts (contractual interest rates: 0%-13%)	115	2 233	2
Debt securities in issue (contractual interest rates: 0%-18%)	-	77 000	-
Precious metals forward contracts	-	6 297	-

The income and expense items with related parties for 2008 year were as follows:

In thousands of Russian Roubles	**Shareholders**	**Companies under common control**	**Other related parties**
Interest income	741	910 483	2 296
Interest expense	(554)	(27 660)	(399)
Fee and commission income	26	3 600	-
Income from trading in foreign currencies	-	7 861	-
Income from trading in precious metals	-	5 916	-
Provision for credit related commitments	-	(441)	-
Other operating income	-	74	-

38 Related party transactions (continued)

At 31 December 2008, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Shareholders	Companies under common control	Other related parties
Guarantees issued by the Group	-	44 071	-
Import letters of credit	-	4 890	-

Other related parties represent three members of the Management Board and five members of the Board of Directors of the Bank. In 2009 the remuneration of management comprises salaries, discretionary bonuses and other short-term benefits amounting to RR 51 702 thousand (2008: RR 80 365 thousand). Social security costs amount to RR 1 378 thousand (2008: RR 1 849 thousand) of the total remuneration of management. Short term bonuses were fully paid during the year ended 31 December 2009.