ORIENT EXPRESS BANK

Consolidated Financial Statements
31 December 2009
and Independent Auditor's Report

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Open Joint-Stock Bank "Orient Express Bank" ("the Bank") and its subsidiaries ("the Group"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by Management.

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

S.N. Vlasov, President	L. S. Proskurina, Chief Accountant

24 May 2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of OJSC "Orient Express Bank"

Report on the financial statements

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

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

Management's responsibility for preparation of financial statements

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

Auditor's responsibility

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

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

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

Auditor's opinion

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

OOO Moore Stephens

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 113093
24 May 2010

	Notes	2009	2008
Assets			
Cash and cash equivalents	5	5,142,069	3,279,254
Mandatory balances with the CBRF		334,824	31,738
Securities	6	5,332,908	34,517
Due from other banks	7	812,167	277,308
Loans and advances to customers	8	35,026,070	23,226,207
Accrued interest income and other assets	9	2,514,995	4,336,930
Service fee asset	23	426,650	1,086,562
Premises and equipment	10	2,833,412	1,836,286
Intangible assets	11	1,281	499
		52,424,376	**34,109,301**
Liabilities			
Due to other banks	12	185,432	5,581,000
Customer accounts	13	41,108,572	18,453,400
Debt securities issued	14	1,069,210	1,320,055
Bonds issued by OEFL	15	1,151,749	1,428,745
Warranty on loans sold	16	103,909	275,674
Accrued interest expense and other liabilities	17	651,304	730,623
Other Borrowings	18	284,357	316,500
Finance lease liability	19	1,557	7,584
Deferred tax liability	20	247,803	277,421
		44,803,893	**28,391,002**
Equity			
Share capital	21	676,428	567,837
Share premium		3,538,461	2,036,708
Accumulated profit	22	3,205,903	3,115,355
Revaluation reserve		(10,307)	(1,552)
Translation reserve		(438)	(49)
		7,410,047	**5,718,299**
Non-controlling interest		210,436	-
Total equity		**7,620,483**	**5,718,299**
Total liabilities and equity		**52,424,376**	**34,109,301**
Credit related commitments	31	**1,377,065**	**338,181**

Approved on behalf of the Management Board on 24 May 2010

S.N. Vlasov, President

L. S. Proskurina, Chief Accountant

(in thousands of Russian Roubles)

	Notes	2009	2008
Interest income	24	7,723,912	6,577,362
Interest income on loans sold	24	161,324	137,428
		7,885,236	6,714,790
Interest expense	24	(3,872,537)	(2,808,386)
Interest expense on loans sold	24	(113,281)	(119,485)
		(3,985,818)	(2,927,871)
Net interest income		**3,899,418**	**3,786,919**
Net allowance for impairment losses on loans and advances	25	(2,414,103)	(1,759,687)
Net interest income after allowance for impairment loss		**1,485,315**	**2,027,232**
Net fee and commission income	26	2,061,663	2,217,368
Result on sale of loans to other Banks	23	(103,325)	393,368
Gains less losses arising from securities		99,350	119,900
(Losses)/ gains arising from dealing in foreign currencies		(271,559)	221,905
Net foreign exchange translation gain/(loss)		195,306	(149,937)
Release of warranty	16	171,765	114,059
Other operating income		597,193	308,901
Allowance for impairment losses against loans resold to other Banks		(272,785)	(68,135)
Operating income		**3,962,923**	**5,184,661**
Operating expenses	27	(4,044,283)	(3,990,213)
Negative Goodwill	28	404,727	-
Impairment of Goodwill	28	(281,671)	-
Profit before taxation		**41,696**	**1,194,448**
Taxation	29	47,664	(345,251)
Net Profit after tax and before other comprehensive income		**89,360**	**849,197**
Other comprehensive income			
Revaluation of available for sale financial assets		(8,755)	(1,552)
Translation reserve		(389)	(49)
Other comprehensive income for the period		**(9,144)**	**(1,601)**
Total comprehensive income for the period		**80,216**	**847,596**
Profit attributable to:			
The Group's owners		90,548	-
Non-controlling interests		(1,188)	-
		89,360	-
Total comprehensive income attributable to:			
The Group's owners		81,404	-
Non-controlling interests		(1,188)	-
		80,216	-

(in thousands of Russian Roubles)

	Notes	2009	2008
Cash flows from operating activities			
Interest received on loans		7,044,628	6,330,977
Interest paid		(3,689,913)	(2,604,033)
Interest received under finance lease		9,086	-
Interest paid under finance lease		(838)	(4,147)
Net gains arising from dealing in securities		527,449	123,654
Income received from dealing in foreign currencies		233,919	178,847
Net fees and commissions received		2,710,256	3,255,294
Other operating income received		206,802	308,656
Operating expenses paid		(3,364,391)	(3,523,729)
Income tax paid		(37,540)	(541,196)
Cash flows from operating activities before changes in operating assets and liabilities		**3,639,458**	**3,524,323**
Net cash increase / (decrease) from changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the CBRF		(262,204)	249,396
Net decrease/(increase) in due from other banks		(295,839)	1,518,541
Net decrease in loans and factoring		(8,293,335)	(6,807,978)
Sale of loans to First Collection Bureau		616,317	106,614
Net (decrease)/increase in due to other banks		(11,876,044)	4,174,485
Net increase in customer accounts		18,111,902	6,625,091
Net decrease in promissory notes		(213,411)	(122,400)
Net change in other assets and liabilities		1,479,359	(3,032,214)
Net cash generated by operating activities		**2,906,203**	**6,235,858**
Cash flows from investing activities			
Purchase of premises and equipment		(150,409)	(893,488)
Purchase of intangible assets		(858)	-
Proceeds from sale of premises and equipment		15,996	12,227
(Purchase)/sale of securities		(4,266,031)	10,649
Investments (acquired)/sold		(52)	250
Cash and cash equivalents acquired in a business combination		3,914,109	-
Net cash used in investing activities		**(487,245)**	**(870,362)**
Cash flows from financing activities			
Finance lease capital repayments		(6,027)	(37,040)
Repayment of borrowings		(32,145)	96,000
Bonds repurchase		(118,348)	(319,428)
Interest paid on bonds issued		(161,254)	(209,127)
Bonds (repurchased)/issued by OEFL		(312,739)	(5,178,865)
Interest paid on bonds issued by OEFL		(156,213)	(160,858)
Share issue for cash		-	2,200,011
Net cash used in financing activities		**(786,726)**	**(3,609,307)**
Effect of changes in exchange rate		**230,583**	**(96,637)**
Net change in cash and cash equivalents		1,862,815	1,659,552
Cash and cash equivalents, beginning of the year		**3,279,254**	**1,619,702**
Cash and cash equivalents at the end of the year	**5**	**5,142,069**	**3,279,254**

Assets and Liabilities of Etalonbank and Dvizheniye bank acquired in a business combination were excluded from the Statement of Cash Flow.

(in thousands of Russian Roubles)

	Share Capital	Share premium	Accumulated profit	Revaluation reserve	Translation reserve	Total	Non-controlling interest	Total Equity
1 January 2008	**399,837**	**4,697**	**2,266,158**	**-**	**-**	**2,670,692**	**-**	**2,670,692**
Total comprehensive income for the period	-	-	849,197	(1,552)	(49)	847,596	-	847,596
Shares issued	168,000	2,032,011	-	-	-	2,200,011	-	2,200,011
31 December 2008	**567,837**	**2,036,708**	**3,115,355**	**(1,552)**	**(49)**	**5,718,299**	-	**5,718,299**
1 January 2009	**567,837**	**2,036,708**	**3,115,355**	**(1,552)**	**(49)**	**5,718,299**	-	**5,718,299**
Business combination	108,591	1,501,753	-	-	-	1,610,344	211,624	1,821,968
Total comprehensive income for the period	-	-	90,548	(8,755)	(389)	81,404	(1,188)	80,216
31 December 2009	**676,428**	**3,538,461**	**3,205,903**	**(10,307)**	**(438)**	**7,410,047**	**210,436**	**7,620,483**

The availability of the Group’s retained earnings for distribution to shareholders is determined by Russian regulations and by shareholders’ decisions and does not correspond to the figures presented above (Note 21).

A reconciliation of equity and net profit per Russian Accounting Standards (“RAS”) and IFRS is set out in Note 3 (c).

1. Principal Activities

The consolidated financial statements include financial statements of open joint stock bank "Orient express bank" (the "Bank") and two subsidiaries – Orient Express Finance Limited ("OEFL") and Kamabank.

The Bank is a commercial bank owned by shareholders whose liability is limited. It is constituted as a Russian open joint stock company ("OJSC"). The Bank was granted a license to conduct banking operations by the Central Bank of Russian Federation ("CBRF") on 12 May 1991. It holds a license to attract funds of individuals and a license to fulfil banking operations. These were last renewed on 22 June 2006 due to the renaming of the Bank. In May 2009 the Bank obtained three new licenses for Brokerage, Fiduciary and Dealer activities. In June 2009 all licences were replaced by one new General license.

At 31 December 2009 the Bank operated a registered head office in Blagoveschensk, 11 branches and over 358 offices located in the Russian Far East, Siberia and North-western Federal District, in Moscow and Saint-Petersburg.

The Bank's registered office is located at 1 Svyatitelya Innokentiya Pereulok, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 31 December 2009 the Bank had 5,319 employees (at 31 December 2008: 4,206).

A list of major shareholders is set out in Note 21.

The Bank does not have any immediate parent entity. The Bank is ultimately controlled by a consortium of investors headed by Mr Igor Kim.

2. Operating Environment of the Group

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

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

3. Basis of Presentation

a) General

These financial statements have been prepared on consolidated basis.

The consolidated financial statements of the Group are prepared in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank and Kama Bank maintain its accounting records in accordance with Russian Banking regulations, and OEFL in accordance with Irish accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The accompanying consolidated financial statement have been prepared using the thousands of Russian Rouble ("RUB") as the unit of measurement and adjusted for the impact of inflation during periods of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". Adjustments have been made for periods up to 31 December 2002.

b) Functional and Presentation Currency

Accounting records of the Bank and Kamabank are maintained in RUB and RUB is the functional currency. In year 2009 USD (2008: USD) is considered to be the OEFL's functional currency for the purpose of IFRS financial statements as Management believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Company. Management also believes RUB to be the most appropriate currency for presentation of the Bank's Group's financial statements.

Actual exchange rates applied in translation of transactions and balances denominated in currencies other than RUB are detailed in Note 4(r).

c) Consolidation

The Bank has subsidiaries and associates whose operations, singly and in aggregate are immaterial in the context of the Bank, with the exception of two subsidiaries: Orient Express Finance Limited, ("OEFL") which it exerts effective control over and Kamabank, acquired in 2009. There are also several related parties which are under common control with the Bank (see Note 33). Management has considered whether or not IFRS require the Bank to produce consolidated financial statements consolidating the balances and results of any of these entities and has concluded that consolidation is required only in respect of OEFL and Kamabank. A separate set of financial statements consolidating the results and balances of these entities has been prepared.

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

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

3.Basis of Presentation (continued)

d) Changes in Accounting Polices

In general the accounting policies applied in the Group in these financial statements are consistent with those applied by the Group in the year ended 31 December 2008, except for the changes resulting from the amendments to IFRS.

Changes to IAS 1 "Presentation of Financial Statements" are effective for annual periods beginning on or after 1 January 2009. The changes have been adopted by the Group as at 1 January 2009. In order to comply with IAS 1 requirements the Income Statement was replaced by the Statement of Comprehensive Income, which now also includes, all non-owner changes in equity, the Balance Sheet has been renamed to the Statement of Financial Position and the Cash Flow Statement to the Statement of Cash Flows.

In addition, amendments to IFRS 7 have resulted in enhanced disclosures regarding securities and changes to presentation of liquidity analysis.

e) Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans to customers

The Group reviews loans to customers on a monthly basis for evidence of potential impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairment is required to be recognised it is based for individually material loans on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on statistical data about repayment of loans specifying time-frames and reasons for overdue amounts.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Loans sold

The Group sells portfolios of loans under a variety of contractual arrangements and under these it retains varying degrees of risk and reward, in some cases none, in the loans sold. Management therefore carefully consider whether such loans should be retained on the Statement of Financial Position as loans or whether they more accurately meet the description of a warranty or guarantee. This is done on a case by case basis considering each sale agreement.

(in thousands of Russian Roubles)

3.Basis of Presentation (continued)

Impairment losses on receivables other than loans
The Group reviews all its receivables to assess potential impairment on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows.

Fair values
For assets and liabilities carried at fair value the Group applies market bid prices where these are available. Where they are not available it uses valuation techniques or, as a last resort, estimates.

Depreciation
The Group charges depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of its assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

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

f) Standards, Interpretations and Amendments that are not yet effective
During the reporting year the following standards were new, or were amended:

New International Financial Reporting Standard

IFRS 8	Operating Segments

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

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

Amendments to existing standards

IAS1	Presentation of Financial Statements
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements

(in thousands of Russian Roubles)

3.Basis of Presentation (continued)

IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 5	Non-Current Assets held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures

IFRS 7 - Financial Instruments: Disclosures

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

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

New International Financial Reporting Standard

IFRS 9	Financial Instruments	1 January 2013

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

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

(in thousands of Russian Roubles)

3.Basis of Presentation (continued)

Amendments to existing standards

IAS 1	Presentation of Financial Statements	1 July 2009
IAS 7	Statement of Cash Flows	1 July 2009
IAS 12	Income Taxes	1 July 2009
IAS 16	Property, Plant and Equipment	1 January 2010
IAS 17	Leases	1 January 2010
IAS 21	The Effects of Changes in Foreign Exchange Rates	1 July 2009
IAS 24	Related Party Disclosures	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 28	Investments in Associates	1 July 2009
IAS 31	Interests in Joint Ventures	1 July 2009
IAS 32	Financial Instruments: Presentation	1 July 2009
IAS 33	Earnings Per Share	1 July 2009
IAS 36	Impairment of Assets	
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 July 2009
IAS 38	Intangible Assets	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement	1 July 2009
IFRS 2	Share-Based Payment	1 July 2009
IFRS 3	Business Combinations	1 July 2009
IFRS 5	Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IFRS 7	Financial Instruments: Disclosures	1 July 2009

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

IAS 1 - Presentation of Financial Statements

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

IAS 24 - Related Party Disclosures

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

IFRS 9 - Financial Instruments

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

3.Basis of Presentation (continued)

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

Financial assets are measured at amortised cost if:

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

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

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

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

4. Significant Accounting Policies

a) Cash and Cash Equivalents

Cash and cash equivalents are items that can be converted into cash within a day. All short term interbank placements, beyond overnight deposits, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

b) Mandatory Balances with CBRF

Mandatory balances with CBRF represent mandatory reserve deposits which are not available to finance the Group’s day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

c) Securities Measured at Fair Value Through Profit or Loss (“FVPL”)

FVPL securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term holding exists.

FVPL securities are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices at the reporting date. All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Comprehensive Income as interest income on securities.

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

d) Securities held to maturity (‘HTM’)

This category includes investments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

4. Significant Accounting Policies (continued)

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Group also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the Statement of Financial Position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in profit or loss for the period.

e) Securities Available for Sale ("AFS")

AFS securities are securities that Management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this classification is regularly reviewed. Securities available for sale are initially recognised at cost (which includes transaction costs). Securities AFS are subsequently valued at market value with gains and losses taken through the statement of changes in equity except for losses arising from impairment.

When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in this way for equity instruments are not reversed through Statement of Comprehensive Income.

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

Investments in subsidiaries and associates are treated as securities available for sale in the financial statements.

f) Sale and repurchase agreements

Where the Group sells/purchase financial assets and simultaneous enters into an agreement to repurchase/resell the assets at a fixed price on a future date, the arrangement is accounted for as a secured financial transaction.

Assets sold subject to sale and repurchase ("repo") agreements are continued to be recognised in the financial statements. They are reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks or to customers, as appropriate.

Assets purchased under agreements to resell ("reverse repo") are not recognised in the Group's financial statements, and corresponding amounts are recorded as due from banks or loans and advances to customers as appropriate.

The difference between the sale and repurchase prices are treated as interest and accrued over the life of the repo/reverse repo agreement using the effective interest method.

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

g) Loans and Advances and Allowance for Impairment

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

4. Significant Accounting Policies (continued)

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a ‘loss event’), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated.

Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan’s original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

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

h) Gains or losses on loans sold

The Group periodically sells portfolios of loans that it has written, to related and non related parties, and may simultaneously provide a guarantee or warranty on the credit risk of the loans sold. The gain or loss arising on sale is defined as the fair value of consideration received for the loans less the amortised cost of the loan portfolio less the fair value of the guarantee or warranty it has written (where applicable).

i) Discount on Loans at Below Commercial Rates

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

j) Other Credit Related Commitments

In the normal course of business, the Group enters into other credit related commitments comprising loan commitments, letters of credit and guarantees. These operations are initially recognised at fair value and are subsequently re-measured at the higher of the amount that would be recognised should a call be made against the guarantee and the amount initially recognised less, when appropriate, cumulative amortisation recognised.

k) Premises and Equipment

Equipment and other fixed assets are stated at cost less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the Statement of Comprehensive Income. The estimated recoverable amount is the higher of an asset’s potential net sales proceeds and its value in use.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining Statement of Comprehensive Income. Repairs and maintenance are charged to the Statement of Comprehensive Income when the expenditure is incurred.

4. Significant Accounting Policies (continued)

l) Depreciation

Depreciation is applied on the straight line basis over the estimated useful lives of the assets as follows, in years:

Buildings	50
Leasehold improvements	10
Vehicles and other assets	3–5
Intangible asset	9

m) Debt Securities Issued

Debt securities issued represent bonds and promissory notes issued by the Group. These are initially stated at fair value, which represent amounts received on issue (fair value) less expenses incurred in respect of the transaction. Subsequently debt securities issued are stated at amortised cost and the difference between initial value and the value at the date of repayment is reflected in the Statement of Comprehensive Income over the period using the method of effective interest rate. Interest accrued on debt securities issued is accounted for as other liabilities.

n) Share Premium

Share premium represents the excess of shareholders' contributions to share capital over the nominal value of the issued shares.

o) Dividends

Dividends payable are not accounted for until they have been ratified at the Bank's Annual Shareholders' Meeting. They are accounted for in the year they are ratified. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. No dividends were declared in 2009.

p) Taxation

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the Statement of Financial Position date.

Deferred income tax is provided, using the Statement of Financial Position liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the Statement of Financial Position date. Taxes, other than on income, are recorded within operating expenses.

q) Income and Expense Recognition

Interest income and expense are recognised in the Statement of Comprehensive Income on the accrual basis. Overdue interest or accrued interest which the Management considers doubtful is included in interest income and an impairment allowance is recognized when required. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. Fees, commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Certain fees and commissions may be charged in place of applying a higher interest rate to the relevant loan. Where it is possible to identify fees and commissions as being similar in nature to interest they are recognised in equal instalments over the life of the loan and are shown as interest income. Where this is not possible they are treated in a manner similar to other fees and commissions.

4. Significant Accounting Policies (continued)

r) Foreign Currency Translation

Transactions denominated in currencies other than RUB ("foreign currencies") are recorded in RUB at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the Statement of Comprehensive Income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into RUB at the official exchange rate of the CBRF at the Statement of Financial Position date.

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the Statement of Comprehensive Income as foreign exchange translation gains less losses. As at 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.2442 (not thousands) (2008: USD 1 = RUB 29.3804 (not thousands)). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a fully convertible currency outside the Russian Federation.

s) Offsetting

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

t) Pension Costs

The Group contributes to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions amount to 20% of employees' gross salaries, and are expensed as incurred. The contributions are included in staff costs. The Group has no liability or obligation other than for the annual contribution.

u) Leases

(i) Finance leases where the Group is lessor

Where the Group is lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lease, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments.

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

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payment ("net investment in leases") is recorded as part of loans and advances to customers. The difference between the gross received and the present value of the receivable is unearned finance income. Finance income is recognised over the term of the lease using the effective interest method, which reflects a constant periodic rate of return. Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease. Finance income from leases is recognised as part of interest income on loans and advances to customers.

4. Significant Accounting Policies (continued)

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 net investment in leases. 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 disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

(ii) Operating leases
Where the Group is the lessee in a lease agreement and the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the assets, the arrangement is a accounted for as an operating lease. The leased assets is not recognised in the Group’s Statement of Financial Position, and lease expenses are recognised in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

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

Where the Group is the lessor in a lease agreement and does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is recognised in the Group’s Statement of Financial Position, and depreciation and lease income are recognised in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

v) Operating Segments
On 1 January 2008, the Group adopted IFRS 8 “Operating Segments’’. IFRS 8 specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing financial performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 “Operating Segments” replaces IAS 14 “Segment Reporting”.

The Group is operating in two segments which are issuing loans to individuals and to legal entities (Note 30).

During 2008 the Group did not report separate segmental information as the segment of loans to legal entities comprised less than 10% of profit and assets.

w) Goodwill
On acquisitions the assets, liabilities and contingent liabilities of a cash generating unit are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the Statement of Comprehensive Income in the period of acquisition. The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating units to which goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount an impairment loss is recognised. Such losses cannot be reversed in future periods.

(in thousands of Russian Roubles)

5. Cash and Cash Equivalents

	2009	2008
Cash on hand	2,111,562	1,032,555
Cash balances with the CBRF (other than mandatory reserves)	1,778,841	838,750
Correspondent accounts in other banks:		
Russian Federation	613,829	1,148,659
Other countries	637,837	259,290
	5,142,069	**3,279,254**

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 31.

6. Securities

	2009	2008
FVPL securities		
OFZ	476,377	-
Bonds of credit and finance organisations	1,259,968	-
Corporate bonds	860,395	-
Local government bonds	565,035	-
	3,161,774	-
AFS securities		
OFZ	-	8,379
Bonds of credit and finance organisations	778,012	-
Corporate bonds	150,190	-
Shares of companies	6,478	-
Investments in subsidiaries and associates	26,210	26,138
Eurobonds of credit organisations	21,390	-
Promissory notes	314	-
	982,594	34,517
Total securities carried at fair value	4,144,368	34,517
HTM securities		
OFZ	194,486	-
Local government bonds	458,729	-
Bonds of credit organisations	541,735	-
Corporate bonds	21,609	-
	1,216,559	-
	5,360,928	**34,517**
Less: Allowance for impairment	(28,019)	-
	5,332,908	**34,517**

At the period end securities pledged with the CBRF in order to obtain overdraft loans if necessary were RUB 863,969 (2008: RUB 8,284).
At 31 December 2009 fair value of held to maturity securities was RUB 1,203,383.

Movements in the allowance for impairment loss were as follows:

	2009	2008
Movements in the allowance for impairment:		
1 January	-	-
Business combination	42,824	-
Charge during the period	(14,805)	-
31 December 2009	**28,019**	**-**

(in thousands of Russian Roubles)

6. Securities (continued)

The following table provides information on the Group’s securities as at 31 December 2009:

	Value	Coupon rate per annum Minimum	Coupon rate per annum Maximum
OFZ	670,863	5.8%	12.0%
Municipal bonds issued by Russian municipalities included in Lombard List of CBRF	1,023,764	9.0%	12.0%
Corporate bonds included in Lombard List of CBRF	403,954	9.0%	12.5%
Bonds of credit organizations included in Lombard List of CBRF	1,957,292	8.0%	16.0%
Other credit organizations	616,108	11.0%	11.0%
Other corporate bonds	628,239	8.5%	19.0%
Investments in subsidiaries and associates and shares of companies	32,688		
	5,332,908		

The following table provides information on the credit quality of the Group’s securities as at 31 December 2009 and 31 December 2008:

	2009	2008
Moody’s rating		
Between B1 and B3	808,448	-
Fitch / Standards and Poor’s rating		
AA and AAA	230,233	-
Between B+ and BBB++	993,808	8,379
Between B and BB	2,494,908	-
	3,718,949	8,379
Not rated	805,511	26,138
	5,332,908	**34,517**

Investments in subsidiaries and associates:

Name	% Held	Activity	Country of incorporation	2009	2008
TPC Gamma Ltd.	100	Commerce	Russia	26,038	26,032
VEB-Finance Ltd.	100	Commerce	Russia	100	100
DV- CJSC Tomskoe Bureau of Credit Histories	19	Commerce	Russia	38	-
CJSC Sibirskoye Bureau of Credit Histories	60	Commerce	Russia	18	6
LLC Transport Leasing Company	19	Commerce	Russia	16	-
				26,210	**26,138**

The Group exercises control or exerts significant influence over the subsidiaries and associates mentioned above.

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

(in thousands of Russian Roubles)

6. Securities (continued)

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

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

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

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

31 December 2009	Level 1	Level 2	Level 3	Total
FVPL securities				
OFZ	476,376	-	-	476,376
Bonds of credit organisations	1,259,968	-	-	1,259,968
Corporate Bonds	419,577	440,818	-	860,395
Local government bonds	565,035	-	-	565,035
	2,720,956	**440,818**	**-**	**3,161,774**
AFS securities				
Bonds of credit organisations	778,013	-	-	778,013
Corporate Bonds	38,732	111,457	-	150,189
Share of companies	-	-	6,478	6,478
Eurobonds of credit organisations			21,390	21,390
Promissory notes			314	314
Investments in subsidiaries and associates	-	-	26,210	26,210
	816,745	**111,457**	**54,392**	**982,594**
	3,537,701	**552,275**	**54,392**	**4,144,368**

(in thousands of Russian Roubles)

6. Securities (continued)

Reconciliation of Level 3 items in 2009 is presented below:

	Promissory notes	Bonds of credit organisations	Shares of companies	Investments in subsidiaries and associates	Total
At 1 January 2009	**-**	**-**	**-**	**26,138**	**26,138**
Total losses					
Profit or losses for the year	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Purchases	-	-	-	6	6
Business combination	314	21,390	6,478	66	28,248
Settlements and disposals	-	-	-	-	-
Transfers into or out of Level 3	-	-	-	-	-
At 31 December 2009	**314**	**21,390**	**6,478**	**26,210**	**54,392**
Total losses for the year included in profit for assets held at 31 December 2009	**-**	**-**	**-**	**-**	**-**

Geographical, currency, interest rate and maturity analyses of securities are detailed in Note 31.

7. Due from Other Banks

	2009	2008
Interbank loans	670,000	-
Reverse sale and repurchase agreement	142,167	-
Promissory Notes	-	277,308
	812,167	**277,308**

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 31.

(in thousands of Russian Roubles)

8. Loans and Advances to Customers

	2009	2008
Current loans	32,264,553	21,345,043
Finance leasing	20,493	-
Reverse sale and repurchase agreement	240,664	-
Overdue loans:		
instalments overdue	1,040,128	540,021
portion not yet due on loans with overdue repayments	4,024,261	2,624,570
	5,064,389	3,164,591
	37,590,099	24,509,634
Less: Allowance for impairment	(2,564,029)	(1,283,427)
	35,026,070	**23,226,207**

The amount above best represents the maximum exposure of the Group to the credit risk at the reporting date without taking into account any collateral held or credit enhancements.

The estimated fair value of collateral taken (cars, mortgage, property and stock) to secure the Group's loan portfolio amounted to RUB 10,284,417 (at 31 December 2008: RUB 6,540,769). The Group also accepted other collateral with estimated value of RUB 16,991,234 (at 31 December 2008: RUB 5,333,851) to secure loans issued.

During the period there were no instances when the Group took possession of collateral held (at 31 December 2008: none) because the Group generally sells overdue loans to professional collection agencies.

During the period the Group has restructured a number of loans amounting to RUB 1,297,964 (2008: RUB 67,814) mainly in the form of change of repayment schedule and interest rate due to change in refinancing rate of CBR. All restructured loans were reviewed individually for impairment and total impairment charged on such loans is RUB 63,225 (2008: nil).

Movements in the allowance for impairment loss on loans and advances to customers were as follows:

	2009	2008
1 January	1,283,427	986,112
Business combination	351,598	-
Net movement in allowance for impairment (Note 25 and 23)	929,004	297,315
31 December	**2,564,029**	**1,283,427**

Allowance for loans to individuals is calculated on a portfolio basis only, except for one significant loan. Therefore loans to individuals which have a specific impairment allowance that are not overdue are RUB 68,715 (2008: RUB nil) and loans which are overdue but for which no specific allowance was made are RUB 3,774,292 (2008: RUB 3,164,015).

For legal entities there are no loans which have a specific impairment allowance that are not overdue (2008: nil) and loans which are overdue but for which no specific allowance was made are RUB 12,697 (2008: RUB nil).

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

Loans maturity analysis	**2009**	**2008**
Not overdue loans and not overdue instalments of loans overdue	36,549,971	23,969,613
Overdue up to 30 days	42,146	42,179
Overdue from 31-60 days	54,989	38,842
Overdue from 61-90 days	35,761	32,414
Overdue from 91 to 180 days	214,661	89,954
Overdue from 181 to 360 days	269,820	249,522
Overdue more than 360 days	422,751	87,110
	1,040,128	540,021
	37,590,099	**24,509,634**

Loan portfolio stratification at 31 December 2009 was as follows:

Loan outstanding balance range	**Amount**	**Number of loans**	**%**
Less than 500	306,585	12,141	1.8
From 500 to 5,000	911,147	53,795	8.1
From 5001 to 10,000	518,632	50,600	7.6
From 10,001 to 50,000	8,957,738	334,372	50.3
From 50,001 to 100,000	9,259,136	132,044	19.9
From 100,001 to 250,000	10,346,557	71,698	10.8
From 250,001 to 1,000,000	2,365,771	7,877	1.2
More than 1,000,000	4,924,533	1,776	0.3
	37,590,099	**664,303**	**100.0**

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

Loan portfolio stratification at 31 December 2008 was as follows:

Loan outstanding balance range	Amount	Number of loans	%
Less than 500	568	2,261	0.4
From 500 to 5,000	142,658	52,803	10.0
From 5001 to 10,000	394,952	52,351	9.9
From 10,001 to 50,000	7,269,482	274,076	51.8
From 50,001 to 100,000	6,053,465	85,851	16.2
From 100,001 to 250,000	6,473,652	52,024	9.8
From 250,001 to 1,000,000	3,351,562	9,149	1.7
More than 1,000,000	823,295	367	0.2
	24,509,634	**528,882**	**100.0**

As the credit portfolio comprises a large number of relatively low value loans Management believe there was no concentration to a single individual or groups of related individuals, although the portfolio represents exposure almost exclusively to individuals as a population.
The Group did not have any borrowers who accounted for more than 1% of the loan portfolio as at 31 December 2009 (at 31 December 2008: none).

The ten largest borrowers accounted for RUB 2,424,022 or 6.45% (at 31 December 2008: RUB 228,060 0.93%).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2009		2008	
	Amount	**%**	**Amount**	**%**
Consumer lending	33,369,999	88.8	24,383,737	99.5
Manufacturing	1,397,696	3.7	973	-
Financial mediation	558,952	1.5	-	-
Trade and catering	442,394	1.2	575	-
Other	1,821,058	4.8	124,349	0.5
	37,590,099	**100.0**	**24,509,634**	**100.0**

Geographic and currency analysis, interest rates and the maturity structure of the loan portfolio are detailed in Note 31. The Group has several loans to related parties. The relevant information on related party loans is disclosed in Note 33.

The Group quantifies loans by reference to a six ratings system of credit quality from I to VI in descending order of quality. Loans by reference to this system were as follows:

Category	Name of the Category	2009	2008
Category I	Non classified loans	3,118,481	1,299,054
Category II	Good loans	27,518,239	18,811,869
Category III	Loans with impairment signs	1,888,990	1,234,120
Category IV	Loans with delays up to 90 days	2,206,657	1,839,126
Category V	Loans with delays 91 - 360 days	1,980,718	1,131,585
Category VI	Fully impaired loans	877,014	193,880
		37,590,099	**24,509,634**

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

Category I contains very new loans which therefore have not received a classification as there is no observable repayment or other data.

Category V has eleven sub groups depending on the reasons of non-repayment of loan.

9. Accrued Interest Income and Other Assets

	2009	2008
Receivable from customers on loans previously sold and derecognised, now compensated under the terms of the warranty (Note 23)	1,401,529	1,035,691
Accrued interest income	1,378,808	644,659
Settlements with MICEX	653,765	3,187,229
Debtors and prepayments	163,753	96,043
Prepayment on Profit tax	233,274	176,049
Settlements with State Insurance Agency (ASV)	214,382	-
Other	354,831	327,789
	4,400,342	5,467,460
Less: Allowance for impairment loss	(1,885,347)	(1,130,530)
	2,514,995	**4,336,930**

Settlements with State Insurance Agency represent amounts compensated to customers of bankrupt Bank “SIR” and due to be received from State Insurance Agency under agency agreement between the Bank and State Insurance Agency.

	2009	2008
Movements in the allowance for impairment:		
1 January	1,130,530	687,167
Business combination	4,929	-
Charge during the period	749,888	443,363
31 December 2009	**1,885,347**	**1,130,530**

Interest income accrued on impaired loans amounted to RUB 484,570 (31 December 2008: RUB 243,340).

(in thousands of Russian Roubles)

10. Premises and Equipment

	Land	Buildings	Capital Investments	Equipment	Total
Cost					
1 January 2008	**2,000**	**632,325**	**191,518**	**350,626**	**1,176,469**
Additions	1,607	538,535	197,015	156,333	893,490
Disposals	-	(19,888)	-	(6,419)	(26,307)
Transferred	-	181,745	(181,745)	-	-
31 December 2008	**3,607**	**1,332,717**	**206,788**	**500,540**	**2,043,652**
Business combination	-	811,393	40,130	536,574	1,388,097
Additions	254	77,459	97,522	3,002	178,237
Disposals	-	(8,411)	-	(39,806)	(48,217)
Transferred	-	137,832	(196,903)	59,071	-
31 December 2009	**3,861**	**2,350,990**	**147,537**	**1,059,381**	**3,561,769**
Depreciation					
1 January 2008	**-**	**11,560**	**-**	**94,563**	**106,123**
Charge	-	18,497	-	86,133	104,630
Disposals	-	(354)	-	(3,033)	(3,387)
31 December 2008	**-**	**29,703**	**-**	**177,663**	**207,366**
Business combination	-	76,861	-	281,946	358,807
Charge	-	35,440	-	151,448	186,888
Disposals	-	(394)	-	(24,310)	(24,704)
31 December 2009	**-**	**141,610**	**-**	**586,747**	**728,357**
Net book values					
31 December 2008	**3,607**	**1,303,014**	**206,788**	**322,877**	**1,836,286**
31 December 2009	**3,861**	**2,209,380**	**147,537**	**472,634**	**2,833,412**

Assets with a net book value of RUB 8,694 were held under finance leases (2008: RUB 61,423).

The balance on "Capital Investments" represents buildings that are under construction as well as equipment, which has not been put into operation yet.

As at 31 December 2009 fixed assets of the Group were insured for RUB 360,625 with Russian insurance companies. (2008: RUB 282,384).

(in thousands of Russian Roubles)

11. Intangible Assets

	Trademarks
Cost	
1 January 2008	**600**
Additions	-
Disposals	-
31 December 2008	**600**
Business combination	346
Additions	858
Disposal	(346)
31 December 2009	**1,458**
Accumulated depreciation	
1 January 2008	**33**
Charge	68
Disposal	-
31 December 2008	**101**
Business combination	43
Charge	91
Disposal	(58)
31 December 2009	**177**
NBV at 31 December 2008	**499**
NBV at 31 December 2009	**1,281**

Intangible assets represent a trademark of the Group and of the several trademarks of the Group’s names of deposits.

12. Due to Other Banks

	2009	2008
Unsecured short-term loans from Russian commercial banks	70,053	120,000
Unsecured long-term loans from Russian commercial banks	25,000	-
Unsecured short-term loans from CBRF	-	4,753,000
Secured short-term loans from CBRF	-	708,000
VOSTRO accounts with Russian banks	90,379	-
	185,432	**5,581,000**

Unsecured short-term loans were provided by various Russian banks at fixed rates varying from 4.25% to 5% p.a. and with maturity in January 2010.

Unsecured long-term loans were provided by various Russian banks at fixed rates 10,5% p.a. and with maturity in November 2012.

In 2008 unsecured short-term loans were provided by various Russian banks at fixed rates varying from 10.75% to 15% p.a. and with maturity in January 2009.

(in thousands of Russian Roubles)

13. Customer Accounts

	2009	2008
State and public organisations		
Current/settlement accounts	100,535	2,094
Term deposits	37,850	52,283
	138,385	54,377
Other legal entities		
Current/settlement accounts	2,519,983	164,670
Term deposits	1,837,701	583,734
	4,357,684	748,404
Individuals		
Current/demand accounts	5,295,039	1,263,444
Term deposits	31,317,464	16,387,175
	36,612,503	17,650,619
	41,108,572	**18,453,400**

Deposits and current accounts of the Group's ten largest depositors amounted to RUB 1,633,961 or 4.19% of the overall balance (2008: RUB 614,407 or 3.33%).

Customer accounts stratification at 31 December 2009 was as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	67,368	1,291,340	0.2
From 501 to 5,000	522,558	276,653	1.3
From 5,001 to 10,000	323,704	47,668	0.8
From 10,001 to 50,000	1,202,286	50,824	2.9
From 50,001 to 100,000	2,059,518	29,781	5.0
From 100,001 to 250,000	6,768,794	44,476	16.5
From 250,001 to 500,000	8,291,949	23,886	20.1
500,001 and higher	21,872,395	16,598	53.2
	41,108,572	**1,781,226**	**100.0**

Customer accounts stratification at 31 December 2008 was as follows:

Outstanding balance range	Amount	Accounts	%
Less than 500	40,201	871,599	0.2
From 501 to 5,000	417,355	188,747	2.3
From 5,001 to 10,000	260,051	38,410	1.4
From 10,001 to 50,000	948,574	39,184	5.1
From 50,001 to 100,000	1,474,405	20,517	8.0
From 100,001 to 250,000	4,293,835	28,690	23.3
From 250,001 to 500,000	4,878,925	14,137	26.4
500,001 and higher	6,140,054	5,337	33.3
	18,453,400	**1,206,621**	**100.0**

Geographical, currency analysis of customers, interest rates and the maturity structure of the accounts are provided in Note 31. The Group has several deposits from related parties. Information on related party deposits is disclosed in Note 33.

(in thousands of Russian Roubles)

13. Customer Accounts (continued)

Economic sector concentrations within customer accounts were as follows:

	2009		2008	
	Amount	**%**	**Amount**	**%**
Individuals	36,611,791	89.1	17,650,620	95.6
Financial intermediation	1,366,030	3.3	503,464	2.7
Wholesale and retail trade	551,204	1.3	15,327	0.1
Manufacturing	535,511	1.3	67,369	0.4
Construction	487,724	1.2	31,297	0.2
Transport, storage and communications	288,979	0.7	67,086	0.4
Electricity, gas and water supply	223,438	0.6	23	-
Real estate, renting	96,236	0.2	14	-
Community and personal activities	71,643	0.2	14,453	0.1
Shipping	50,898	0.1	49,598	0.3
Agriculture, hunting and forestry	48,463	0.1	44,634	0.2
Health and social work	23,047	0.1	1,913	-
Education	11,283	-	39	-
Hotels and restaurants	7,153	-	97	-
Fishing	34	-	-	-
Other	735,138	1.8	7,466	-
	41,108,572	**100.0**	**18,453,400**	**100.0**

14. Debt Securities Issued

	2009	2008
Promissory notes	18,654	151,151
Bonds issued on MICEX	1,050,556	1,168,904
	1,069,210	**1,320,055**

Issued Promissory notes are represented by interest bearing Promissory Notes, denominated in RUB with maturity dates up to May 2010 (2008: up to January 2010). Effective interest rates range is from 15.5% to 16.5% (2008: from 3% to 16.5%).

Bonds issued represent non-convertible interest bearing bonds issued on MICEX via public subscription with a maturity date of 17 March 2010, with no possibility of early redemption at the holders' request.
The quantity of bonds issued at 31 December 2007 was 1,500,000.

1,483,082 bonds were redeemed with public irrevocable offer by the Bank on 21 March 2008. They were redeemed with price of 100% of nominal value plus accumulated coupon interest. Redeemed bonds were again sold to investors during the period from March to May 2008

As at 31 December 2008 the quantity of placed bonds was 1,206,769. On 20 March 2009 at official offer the Bank redeemed 1,014,444 bonds with a price of 100% of nominal plus accumulated coupon. Redeemed bonds were again sold in June, September and November 2009.

At 31 December 2009 fair value of bonds issued on MICEX was RUB 1,057,910.

(in thousands of Russian Roubles)

15. Bonds issued by OEFL

Orient Express Finance Limited issued two series of Loan Participation Notes quoted on the Irish Stock Exchange. Terms and outstanding balances of the Notes are as follows:

Currency of series	Coupon rate	Coupon payment dates	Date of maturity	2009	2008
RUB	9.875% (14.25% from 30 September 2008)	3 July and 3 January	2009	0	185,763
USD	11%	3 July and 3 January	2017	1,151,749	1,242,982
				1,151,749	**1,428,745**

16. Warranty on Loans Sold

The warranty on loans sold arises from the transactions described in Note 23. Movements on the warranty during the period were as follows:

	2009	2008
MDM Bank		
Opening balance	217,577	131,636
Fair value of warranty issued in period at date of issue	18,611	200,000
Movement in fair value of warranty in issue	(132,279)	(114,059)
	103,909	**217,577**
Etalonbank		
Opening balance	58,097	-
Fair value of warranty issued in period at date of issue	-	58,097
Movement of fair value of warranty in issue	(58,097)	-
	103,909	**275,674**

17. Accrued Interest Expense and Other Liabilities

	2009	2008
Accrued interest expense	357,288	359,233
Other accrued expenses	221,220	177,432
Taxes	31,426	36,412
Other	41,370	157,546
	651,304	**730,623**

(in thousands of Russian Roubles)

18. Other Borrowings

	2009	2008
Loan from EBRD	284,357	316,500
	284,357	**316,500**

Loan from EBRD

Within the framework of Russia for supporting small business, the Group and the EBRD concluded loan agreements as follows:

Facility	Date	Received/ Amortized Closing balance	Interest	Maturity
450,000	Dec 2007	225,000/ 188,357	Floating rate	24 Dec 2012
400,000	Feb 2008	100,000/ 96,000	Floating rate	27 Feb 2015
		325,000/ 284,357		

19. Finance Lease Liability

Amounts payable under finance lease liability as at 31 December 2009 are:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2009	2008	2009	2008
Amount payable under finance leases:				
Within one year	1,615	6,802	1,557	5,991
In the second to fifth years inclusive	-	1,651	-	1,593
	1,615	8,453	1,557	7,584
Less future finance charges	(58)	(869)	-	-
Present value of minimum lease payments	**1,557**	**7,584**	**1,557**	**7,584**

The interest rate implicit in the lease is 17%. (2008: 17%)

(in thousands of Russian Roubles)

20. Deferred Tax Liability

	2009	2008
Liability at 1 January	(277,421)	(297,317)
Business combination	(25,270)	-
Deferred tax released to Statement of Comprehensive Income during the period (Note 28)	54,888	19,896
Liability at 31 December	**(247,803)**	**(277,421)**

Major components making up the deferred tax liability at 31 December 2009 were:

		31 December 2008		Movement during the year		31 December 2009	
	Tax rate %	**Tempo-rary differences**	**Deferred tax asset/ (liability)**	**Tempora-ry differences**	**Deferred tax asset/ (liability)**	**Tempor-ary diffe-rences**	**Deferred tax asset/ (liability) At 20%**
Securities	20	1,552	310	(730)	(146)	2,282	456
Loan impairment allowance	20	(972,691)	(194,538)	337,513	67,503	(1,310,204)	(262,041)
Other allowances	20	614,061	122,812	(460,019)	(92,004)	1,074,080	214,816
Accrued income	20	(425,629)	(85,125)	824,362	164,872	(1,249,991)	(249,998)
Accrued expenses	20	249,646	49,929	(101,861)	(20,372)	351,507	70,301
Premises and equipment	20	(603,730)	(120,745)	161,742	32,349	(765,472)	(153,094)
Loans sold	20	(4,819,874)	(963,975)	-	-	(4,819,874)	(963,975)
Depreciation of the part related to maintenance of the asset	20	3,733,312	746,662	(659,912)	(131,983)	4,393,224	878,645
Loans to customers	20	1,274,791	254,958	39,625	7,925	1,235,166	247,033
Other items of work capital	20	(438,544)	(87,709)	(288,809)	(57,762)	(149,735)	(29,947)
Business combination			(25,270)	-	(25,270)	-	-
		(1,387,106)	**(302,691)**	**(148,089)**	**(54,888)**	**(1,239,017)**	**(247,803)**

(in thousands of Russian Roubles)

21. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2009		2008	
	Number of shares	**Amount**	**Number of shares**	**Amount**
'Old' ordinary shares with nominal value of RUB 0.01/RUB 1 (not thousands) each	44,798,830,000	447,988	4,479,883	447,988
'Old' preference shares with nominal value of RUB 0.01/RUB 1 (not thousands) each	1,170,000	12	11,700	12
'New' ordinary shares with nominal value of RUB 0.01 (not thousands) each	10,055,054,436	100,551	-	-
'New' preference shares with nominal value of RUB 0.01 (not thousands) each	804,000,000	8,040	-	-
Inflation effect on share capital	-	119,837	-	119,837
	55,659,054,436	**676,428**	**4,491,583**	**567,837**

All ordinary shares carry equal rights.

In June 2009 the existing share capital of the Bank was initially split into 44,798,830,000 ordinary shares with nominal value of RUB 0.01 each and 1,170,000 preference shares with nominal value RUB 0.01 each. The Bank then issued 7,955,054,436 new ordinary shares with nominal value of RUB 0.01 each and 804,000,000 preference shares with nominal value RUB 0.01 each. The shares were issued for conversion of Etalonbank shares therefore were provided only to shareholders of Etalonbank.

On 24 of October the Bank issued 2,100,000,000 ordinary shares with nominal value 0.01 RUB each. These shares were issued for conversion of Bank Dvizheniye shares therefore were provided only to shareholders of bank Dvizheniye.

All preference shares, which are irredeemable, carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank.

Holders of 1,170,000 preference shares are entitled to receive annual dividends of RUB 1.7 (not thousands) per share. Holders of 804,000,000 preference shares are entitled to receive 1.69 of refinancing rate valid at 31 December each year from nominal value per share.

If the dividends are not paid, preference shareholders carry the right to vote at annual and general meetings until the dividends are paid. Currently preference shareholders have the right to vote.

(in thousands of Russian Roubles)

21. Share Capital (continued)

The structure of shareholders at 31 December 2009 and 31 December 2008 is presented below:

	2009		2008	
Shareholder	**Number of shares**	**% holding**	**Number of shares**	**% holding**
Igor Kim	9,790,138,132	18	819,421	18
Antof N.V. (controlled by I Kim)	9,939,810,000	18	993,981	22
Alexander Taranov	3,663,094,072	7	286,513	6
REKHA Holdings Limited (controlled by Renaissance Capital)	6,719,800,000	12	671,980	15
RATTO Holdings Limited (controlled by Renaissance Capital)	2,239,880,000	4	223,988	5
Evgeniya Schouplova (on behalf of Sergei Vlasov)	2,312,020,000	4	231,202	5
Members of the Board of Directors				
Sergei Vlasov	8,919,940,000	16	891,798	20
Andrey Bekarev	3,918,908,938	7	308,911	7
Other shareholders – each less than 5%	8,155,463,294	14	63,789	1
	55,659,054,436	**100**	**4,491,583**	**100**

22. Accumulated Profit

In accordance with Russian Law on banking activity and the Law on joint stock companies, the Bank must use RAS financial statements as the basis for calculating distributable profit. Similarly OEFL is subject to different laws and regulations. Distributable profit may therefore differ from retained earnings shown in these consolidated financial statements. Profits may be used to pay dividends or may be transferred to reserves in accordance with the decision made at annual shareholders meeting. The Bank's reserves under RAS as at 31 December 2009 were RUB 7,425,860 (at 31 December 2008: RUB 3,420,461).

23. Result on Sale of Loans

	2009	2008
Sales of loans to MDM Bank	-	544,020
Sales of loans to Etalonbank	-	(58,097)
Sales of loans to First Collection Bureau	(103,325)	(92,555)
	(103,325)	**393,368**

During the year 2008 the Group sold loans with a carrying value of RUB 9,999,988 at the time of sale to MDM Bank, a related party, who upon receipt recognised the loans as an asset on their balance sheet. Under the sale agreement the Group is an agent for accepting payments under loans sold and has the right to retain fees for servicing borrowers' current accounts on which funds for repayment of the sold loans are transferred. Interest and capital payments are forwarded to MDM Bank. In accordance with the agreement MDM Bank charges the Group a fee if effective rate of portfolio sold is lower than 18% per annum. When it is higher MDM Bank compensates the difference to the Group. Such compensation is shown as interest income and expense in the Statement of Comprehensive Income separately.

(in thousands of Russian Roubles)

23. Result on Sale of Loans (continued)

As part of the sales agreement the Group has issued a warranty in respect of the recovery of the loans sold. The limit of renewable warranty was set initially at RUB 115,000 and was in the form of a guarantee issued in favour of MDM Bank. Should the Group refuse to renew the warranty when it has been fully utilised by bad debts, it is to pay a penalty of 2% of the outstanding balance of the loan principal and accrued interest. Management are of the opinion that the penalty of 2% represents the maximum value of the warranties and this has been used in calculating the result on disposal. However in reality the Group compensates MDM bank by fluctuating amounts.

The result on disposal to MDM Bank has been calculated as follows:

	2009	**2008**
Fair value of consideration (present and future) received in respect of the sale of loans	-	9,999,988
Carrying value of loans derecognised	-	9,999,988
Less element attributable to cash flows from servicing fees	-	(744,020)
	-	**9,255,968**
Less: fair value of warranties issued at date of issue	-	(200,000)
Gain on disposal	**-**	**544,020**

The result on disposal to Etalonbank has been calculated as follows:

	2009	**2008**
Fair value of consideration received in respect of the sale of loans	-	1,841,832
Carrying value of loans derecognised	-	(1,841,832)
Fair value of warranties issued at date of issue	-	(58,097)
Loss on disposal	**-**	**(58,097)**

During the year the Group sold overdue loans to First Collection Bureau ('FCB'). Upon the sale all the risks and rewards are transferred to FCB and the Group does retain neither continuing involvement nor control of the loans sold.

The result on disposal to FCB has been calculated as follows:

	2009	**2008**
Fair value of consideration (present and future) received in respect of the sale of loans	616,317	106,614
Cost of loans derecognised	(2,205,722)	(1,661,541)
Impairment allowance on loans sold	1,486,080	1,462,372
Loss on disposal	**(103,325)**	**(92,555)**

(in thousands of Russian Roubles)

23. Result on Sale of Loans (continued)

Movements on the service fee asset during the year were as follows:

	2009	2008
Brought forward	**1,086,562**	**1,702,019**
Additions in the year, represented by cash flows from service fees on loans sold to be retained by the Group	-	744,020
Amortisation of asset in the year	(659,912)	(1,359,477)
	426,650	**1,086,562**

Management define the real value of the amount paid under the warranty as actual losses arising which are a function of the debts compensated to MDM Bank sold multiplied by the level of impairment on these loans less recoveries from the loans subsequently received after compensation.

(in thousands of Russian Roubles)

24. Interest Income and Expense

	2009	2008
Interest income		
Loans and advances to legal entities	398,003	28,077
Loans and advances to individuals	6,873,778	6,391,937
Securities	428,099	3,754
Finance lease	9,086	-
Due from other banks	14,946	153,594
Interest income on loans sold	161,324	137,428
	7,885,236	**6,714,790**
Interest expense		
Term deposits of individuals	(3,143,702)	(1,698,271)
Finance lease charges	(838)	(4,147)
Term deposits of legal entities	(137,231)	(72,279)
Other borrowings	-	(324,906)
Bonds issued	(161,254)	(209,127)
Bonds issued by OEFL	(120,856)	(212,974)
Promissory notes	(8,552)	(45,752)
Current/settlement accounts	(4,873)	(2,217)
Term deposits of banks	(295,231)	(238,713)
Interest expense on loans sold	(113,281)	(119,485)
	(3,985,818)	**(2,927,871)**
	3,899,418	**3,786,919**

25. Net Allowance for Impairment Losses on Loans and Advances

	2009	2008
Release of allowance on loans repaid in period	1,713,541	572,323
Allowance charged on new loans written during the period	(4,127,644)	(2,332,010)
	(2,414,103)	**(1,759,687)**

(in thousands of Russian Roubles)

26. Net Fee and Commission Income

	2009	2008
Service fees receivable	688,158	1,662,267
Commission on cash transactions	2,234,395	2,220,003
Amortisation of Service Fee Asset (note 23)	(659,912)	(1,359,477)
Other commissions	29,701	21,027
	2,292,342	**2,543,820**
Commission on settlement and foreign currency exchange	(25,852)	(74,336)
Commission on cash transactions	(5,641)	(14,467)
Agency fees	(118,721)	(189,926)
Other	(80,465)	(47,723)
	(230,679)	**(326,452)**
	2,061,663	**2,217,368**

27. Operating Expenses

	2009	2008
Staff costs	(1,358,502)	(1,561,222)
UST on salaries	(283,012)	(298,151)
Administrative expenses	(877,365)	(730,607)
Other expenses related to premises and equipment	(396,556)	(416,661)
Taxes other than on income (Note 29)	(217,116)	(230,620)
Advertising and marketing	(261,474)	(273,027)
Depreciation and Amortisation (Notes 10 and 11)	(186,979)	(104,697)
Allowance for impairment of other assets	(463,279)	(375,228)
	(4,044,283)	**(3,990,213)**

(in thousands of Russian Roubles)

28. Goodwill

On 13 June 2009 the Bank acquired all the assets and liabilities of OAO Etalonbank. Consideration was in the form of 8,759,054,436 (not thousands) new shares issued by the Bank. The form of the combination under Russian law was that of a merger however, since control before and after the event was not the same, under IFRS 3 the combination has been accounted for as an acquisition.

Fair value of net assets acquired, as calculated by management and detailed below, was calculated on the basis of RAS financial statements at the acquisition date, converted to IFRS, with certain additional fair value adjustments such as that for fair value of securities. This also had the effect of bringing the acquired entity’s accounting policies into congruence with the acquirer.

Management determined the fair value of consideration to be the proportion of the value of the merged business allotted to holders of the acquired bank through the issue of new shares. This has been allocated to share capital and the excess over nominal value to share premium. Fair value of the merged business has been valued by an independent professional appraiser.

Goodwill

Fair value of entirely share-based consideration	1,207,217
Carrying value of net assets acquired comprising:	
Cash and cash equivalents	3,396,904
Due from banks	239,020
Loans to customers	3,006,502
Securities	1,707,650
Goodwill	43,546
Other assets	1,025,012
Customer accounts	(2,098,380)
Other liabilities	(5,440,061)
Deferred tax liability	(76,727)
	1,803,466
Fair value adjustments	(191,522)
Fair value of net assets acquired	1,611,944
Excess of assets acquired over consideration, recognized in Statement of Comprehensive Income	**(404,727)**

In Etalonbank accounts certain securities had been classed as held to maturity and been accounted for at amortised cost. All such securities have been remeasured to fair value at the acquisition date. Also the Goodwill included in Etalonbank’s Statement of Financial Position has been written off as it did not represent an identifiable asset.

As at the date of acquisition Etalonbank had a profit in the amount RUB 16,757 and interest income RUB 557,785.

(in thousands of Russian Roubles)

28 Goodwill (continued)

On 25 October 2009 the Bank acquired all the assets and liabilities of ZAO Bank Dvizheniye. Consideration was in the form of 2,100,000,000 (not thousands) new shares issued by the Bank. The form of the combination under Russian law was that of a merger however, since control before and after the event was not the same, under IFRS 3 the combination has been accounted for as an acquisition.

Goodwill

Fair value of entirely share-based consideration	314,000
Carrying value of net assets acquired: (includes cash of 800,199)	314,000
Fair value adjustments	-
Fair value of net assets acquired	314,000
Goodwill	**-**

As at the date of acquisition Bank Dvizheniye had a loss in the amount RUB 2,160 and interest income RUB 211,577.

On 30 October 2009 the Bank acquired 79.94% of OAO Kama Bank. Consideration was partly in cash and partly in the form of repurchase the debt of Kama Bank from its creditor.

Goodwill

Cosideration, including:	**1,125,000**
Cash paid to shareholders	788,000
Repurchase of debt	337,000
Carrying value of net assets acquired: (includes cash of 858,054)	1,080,838
Fair value adjustments	(25,885)
Fair value of net assets acquired	1,054,952
Share of the Bank (79.94%)	843,329
Goodwill	**281,671**
Impairment of Goodwill at 31 December 2009	**(281,671)**

Fair value of the acquired business has been valued by an independent professional appraiser.

As at the date of acquisition Kama Bank had a loss in the amount RUB 149,544 and interest income RUB 493,952

(in thousands of Russian Roubles)

29. Taxation

Income tax comprised the following:

	2009	2008
Current tax charge	(7,224)	(365,032)
Deferred tax release relating to the origination and reversal of temporary differences (Note 20)	54,888	19,896
Income tax credit / (charge) for the period	**47,664**	**(345,136)**

The income tax rate applicable to the majority of the Bank's income was 20% (at 31 December 2008: 24%). The income tax rate applicable to the OEFL's income was 25% (2008: 25%). The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	2009	2008
IFRS (loss) / profit before tax	(23,533)	1,194,448
Adjustments to comply with IFRS including:		
Impairment allowance for loans	10,387	(167,358)
Additional depreciation due to use of higher rates	(99,078)	10,270
Taxes	6,892	32,203
Net accrued interest	(41,184)	77,460
Other accruals	(252,335)	(186,296)
Result on sale of loans	-	(544,020)
Amortisation of service asset	659,912	1,359,477
Value of warranty issued	(171,765)	(55,962)
Negative Goodwill	(404,727)	-
Other	233,200	(104,780)
	(58,698)	420,994
Accounting (loss) / profit under RAS	(82,231)	1,615,442
Adjustments for disallowable items	78,372	(93,906)
Taxable profit at 20%	(52,019)	-
Taxable profit at 15%	48,160	1,521,536
Tax liability at 20% (at 31 December 2008: 24%)	**-**	**365,032**
Tax liability of OEFL at 25% (at 31 December 2008: 25%)		**115**
Tax liability at 15% (at 31 December 2008: 15%)	**7,224**	**-**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (at 31 December 2008: 20%). Other significant taxes borne by the Group and included in operating expenses (Note 27) include:

	2009	2008
Irrecoverable VAT	158,587	203,636
Property tax	56,461	24,967
Other	2,068	2,017
	217,116	**230,620**

Property tax is calculated at a rate of 2.2% (2008: 2.2%) on the value of assets as computed under Russian statutory taxation regulations. Most of the income of the Group is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

(in thousands of Russian Roubles)

30. Analysis by Segment

The Group is organised into two main operating segments, which are reported in these financial statements:

- Corporate banking – includes deposit taking and lending to corporate clients, small and medium enterprises and individual entrepreneurs, leasing, settlements, cash management and cash collection.

- Retail banking – includes deposit taking and lending to individuals, money transfer and foreign exchange services, settlements and cash management.

The Group evaluates performance of its operating segments on the basis of profit or loss before tax not including non-recurring gains and losses, such as result on disposal of property and equipment, and result of business combination. The accounting policies used for preparation of the segment information are the same as those described in the summary of significant accounting policies (Note 4).

The Group has in place a procedure for allocating depreciation and amortisation expense between operating segments to determine segment profit or loss.

Premises and equipment were allocated between operating segments on the basis of quantity of opened accounts for individuals and legal entities.

The majority of operations, credit related commitments, capital expenditure, and revenues related to residents of the Russian Federation (including subsidiaries or associates of these customers registered outside the Russian Federation).

Segment breakdown of assets and liabilities of the Group is set out below:

	2009
Assets	
Corporate banking	4,239,455
Retail banking	35,244,766
Unallocated assets	12,940,155
	52,424,376
Liabilities	
Corporate banking	4,709,142
Retail banking	37,333,555
Unallocated liabilities	2,761,196
	44,803,893

(in thousands of Russian Roubles)

30. Analysis of Segment (continued)

Segment information for the operating segments for the year ended 31 December 2009 is set out below:

	Corporate banking	Retail banking	Unallocated	Total
Interest income	407,089	6,873,778	443,045	7,723,912
Interest income on loans sold	-	161,324	-	161,324
	407,089	7,035,102	443,045	7,885,236
Interest expense	(156,958)	(3,149,483)	(566,096)	(3,872,537)
Interest expense on loans sold	-	(113,281)		(113,281)
	(156,958)	(3,262,764)	(566,096)	(3,985,818)
Net interest income	**250,131**	**3,772,338**	**(123,051)**	**3,899,418**
Net allowance for impairment losses on loans and advances	(159,045)	(2,255,058)	-	(2,414,103)
Net interest income after allowance for impairment loss	**91,086**	**1,517,280**	**(123,051)**	**1,485,315**
Net fee and commission income	165,572	2,028,880	(132,789)	2,061,663
Result on sale of loans to other Banks	-	(103,325)	-	(103,325)
Gains less losses arising from securities	-	-	99,350	99,350
Gains less losses arising from dealing in foreign currencies	-	279,446	(551,005)	(271,559)
Net foreign exchange translation gain/(loss)	9,446	185,860	-	195,306
Release of warranty	-	171,765	-	171,765
Other operating income	-	208,558	388,635	597,193
Allowance for impairment losses against loans resold to other Banks	-	(272,785)	-	(272,785)
Operating income	**266,104**	**4,015,679**	**(318,860)**	**3,962,923**
Operating expenses	(486,959)	(3,384,934)	(172,390)	(4,044,283)
Negative Goodwill	-	-	404,727	404,727
Impairment of Goodwill	-	-	(281,671)	(281,671)
(Loss)/Profit before taxation	**(220,855)**	**630,745**	**(368,194)**	**41,696**
Taxation	2,306	45,358	-	47,664
Net (Loss)/Profit after tax and before other comprehensive income	**(218,549)**	**676,103**	**(368,194)**	**89,360**
Other comprehensive income				
Revaluation of available for sale financial assets	-	-	(8,755)	(8,755)
Translation reserve	-	-	(389)	(389)
Other comprehensive income for the period	**-**	**-**	**(9,144)**	**(9,144)**
Total comprehensive income for the period	**(218,549)**	**676,103**	**(377,338)**	**80,216**

(in thousands of Russian Roubles)

30. Analysis of Segment (continued)

Capital expenditures and depreciation and amortisation charge for the operating segments for the year ended 31 December 2009 is set below:

	Corporate banking	Retail banking	Unallocated	Total
Capital expenditures (Note 10)	390	147,147	-	**147,537**
Depreciation and amortisation (Note 10 and 11)	628	186,351	-	**186,979**

Outstanding credit related commitments (Note 32) for the operating segments as at 31 December 2009 are set out below:

	2009
Corporate banking	26,790
Retail banking	1,350,275
Unallocated assets	-
	1,377,065

31. Financial Risk Management

The Group has a pro-active approach to Management of financial risks (credit, market including interest rate, exchange rate and liquidity risks), operational risk, legal and reputation risk. The primary objectives of the financial risk Management function are to establish risk limits, and then, through the internal control process to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that deviations are corrected in accordance with Management’s policies. The operational and legal Management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational, legal and reputation risks.

Credit Risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Since the Group specializes in retail lending market, the main risk for the Group is credit risk in respect of individual borrowers. The share of consumer loans in the Group’s total assets comprises more than 87%. In addition, of the Group’s income no less than 87% depends on interest and non-interest income from individuals lending. Another risk factor exists for the Group in that there is a concentration of unsecured loans in the retail loan portfolio.

The Group has a credit policy which establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans and contingent operations.

For the purpose of minimising credit risk concentration the Group diversifies the loan portfolio by lending a large number of loans to small borrowers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

There is a group credit function in the Group whose main task is the on-going refinement of the Group’s credit scoring process and collection of credit data as well as other elements of lending.

There is a successful information and analytics system in the Group for supporting credit decisions. This system provides analysis of the Group’s loan portfolio promptly and it helps to manage the key parameters of the credit scoring system depending on factors such as the current rate of overdue debt, specification of credit products, regional analysis and other factors.

An essential part of credit risk Management is the regular estimation of the adequacy of the scoring system used to ensure its forecasting accuracy and timeliness of necessary changes. There is also a centralization of the process for making credit decisions and reviewing the scoring system supported by an extensive data base. The Group also uses professional credit ratings companies.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group’s maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the Statement of Financial Position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

Credit risk for off-Statement of Financial Position 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 making conditional obligations as it does for on-Statement of Financial Position financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Group measures credit risk by reference to its internal rating system which is shown in Note 8.

The Group assumes credit risk in terms of its transfer of loans to MDM Bank, as detailed in Note 23, however it deems the risk from MDM to be minimal as cash consideration is received at or very close to the time loans are transferred. The Group's exposure to loss in terms of the underlying loans sold is also detailed in Note 23.

Country Risk
Country risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets.

The Bank and Kamabank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank and Kamabank are set out in Note 2. Comments on the risk associated with Russian tax are set out in Note 32.

A geographical analysis of the Group's assets and liabilities as at 31 December 2009 is set below:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	4,504,232	620,675	17,162	5,142,069
Mandatory cash balances with the CBRF	334,824	-	-	334,824
Due from other banks	812,167	-	-	812,167
Loans and advances to customers	34,557,465	468,605	-	35,026,070
Accrued interest income and other assets	2,512,120	2,875	-	2,514,995
Securities	5,332,908	-	-	5,332,908
Service fee asset	426,650	-	-	426,650
Premises and equipment	2,833,412	-	-	2,833,412
Intangible assets	1,281	-	-	1,281
Total assets	**51,315,059**	**1,092,155**	**17,162**	**52,424,376**
Liabilities				
Customer accounts	41,072,569	-	36,003	41,108,572
Due to other banks	185,379	53	-	185,432
Debt securities issued	1,069,210	-	-	1,069,210
Bonds issued by OEFL	-	1,151,749	-	1,151,749
Accrued interest expense and other liabilities	641,028	10,276	-	651,304
Other Borrowings	284,357	-	-	284,357
Warranties on loans issued	103,909	-	-	103,909
Finance lease liability	1,557	-	-	1,557
Deferred tax liability	247,803	-	-	247,803
Total liabilities	**43,605,812**	**1,162,078**	**36,003**	**44,803,893**
Net on-Statement of Financial Position	**7,709,247**	**(69,923)**	**(18,841)**	**7,620,483**
Credit related commitments	**1,377,065**	**-**	**-**	**1,377,065**

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

The geographical concentration of the Group’s assets and liabilities as of 31 December 2008 is set out below:

	Russia	OECD	Non OECD	Total
Net on-Statement of Financial Position	**6,926,834**	**(1,467,797)**	**259,262**	**5,718,299**
Credit related commitments	**338,181**	**-**	**-**	**338,181**

Market Risk

A) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Group manages currency risk via providing maximum possible matching of assets and liabilities. Assets & Liabilities Management Committee establishes limits as for the level of accepted risk by currencies as well as on the whole both at the end of every day and within one day.

At 31 December 2009, the Group had the following positions in Russian and other currencies:

	RUB	USD	Other	Total
Assets				
Cash and cash equivalents	3,422,048	1,132,335	587,686	5,142,069
Mandatory cash balances with CBRF	334,824	-	-	334,824
Securities	5,311,306	21,539	63	5,332,908
Due from other banks	812,167	-	-	812,167
Loans and advances to customers	32,188,404	2,154,113	683,553	35,026,070
Accrued int. income and other assets	1,911,532	270,265	333,198	2,514,995
Service fee asset	426,650	-	-	426,650
Premises and equipment	2,833,412	-	-	2,833,412
Intangibles	1,281	-	-	1,281
Total assets	**47,241,624**	**3,578,252**	**1,604,500**	**52,424,376**
Liabilities				
Due to other banks	185,377	3	52	185,432
Customer accounts	32,973,233	4,382,755	3,752,584	41,108,572
Debt securities issued	1,069,210	-	-	1,069,210
Bonds issued by OEFL	-	1,151,749	-	1,151,749
Warranty on loans issued	103,909	-	-	103,909
Accrued int. Expense and other liabilities	604,475	32,735	14,094	651,304
Other borrowings	284,357	-	-	284,357
Finance lease liability	1,557	-	-	1,557
Deferred tax liability	247,803	-	-	247,803
Total liabilities	**35,469,921**	**5,567,242**	**3,766,730**	**44,803,893**
Net Statement of Financial Position	**11,771,703**	**(1,988,990)**	**(2,162,230)**	**7,620,483**
Credit related commitments	**1,377,065**	**-**	**-**	**1,377,065**

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

As of 31 December 2008 the Group had the following positions in Russian and other currencies:

	RUB	USD	Other currencies	Total
Net Statement of Financial Position	**5,632,233**	**72,091**	**13,975**	**5,718,299**
Credit related commitments	**338,181**	**-**	**-**	**338,181**

The following table demonstrates the sensitivity to a reasonably possible change in the RUB to US Dollar exchange rate, with all other variables held constant, of the Group’s profit before tax and the Group’s equity. Analysis has not been provided for other currencies as there are no significant exposures.

	2009		2008	
	Effect on		Effect on	
	Profit before tax	Equity	Profit before tax	Equity
USD				
30% increase	(571,946)	(457,557)	18,058	14,447
30% decrease	571,946	457,557	(18,058)	(14,447)

The Group actively hedges its open currency positions via forward or other contracts (Note 32)

B) Interest Rate Risk

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

The Group is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, the Group has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. The estimation of interest rate risk in the Group is based on gap-analysis of sensitive (towards interest rate changes) financial instruments (SFI). The basic methodological approach of gap-analysis is in recording of future SFI payment flows at Statement of Financial Position cost. The Statement of Financial Position cost is broken down by dates of interest rates revision in compliance with contract maturity dates depending on what date is the earliest.

The Group measures and sets itself targets to its interest rate risk in terms of three ratios:

- Overall level of Risk Sensitive Assets (‘RSA’) to Risk Sensitive Liabilities (‘RSL’)
- Overall gap in interest sensitive assets (‘Gap’) to RSA and
- Weighted average days of RSA (‘WARSA’) to weighted average days to RSL (‘WARSL’)

The level of compliance with the target is then assessed as a percentage via a formula and this is transcribed into a score. Scores are averaged and then assessed against a chart to define in general terms the risk group for the risk the bank is running. These are presented below:

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

Gap Analysis

	Target	31 December 2009	31 December 2008	Compliance score	Score
RSA/ RSL	1.5 / 0.5	0.9346	0.8694	87%	20
Gap/ RSA	0.5	0.0700	0.1503	86%	20
WARSA/ WARSL	1.7	1.4765	1.6349	13%	60
Average score					33.33

Group of risk	Name of the group	Score for the group
Group 1	Minimal risk	Up to 20
Group 2	Low risk	From 21 to 40
Group 3	Middle risk	From 41 to 60
Group 4	High risk	From 61 to 80
Group 5	Maximum risk	From 81 to 100

Following the above schedule the Group is in the Low risk position for both periods.

The majority of interest bearing liabilities are on fixed rate terms but the Group reserved its right to reprice in case of significant fluctuations of interest rates. Management does not consider the Group to have significant exposure as a result of taking long-term deposits at fixed interest rates.
The table below summarises the effective average interest rate, by major currencies, for the main categories of interest bearing assets and liabilities. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end contracted interest rates.

	RUB	USD	EURO
Assets			
Due from banks	6.82	-	-
Loans and advances to customers	22.84	13.29	11.89
Liabilities			
Due to other banks:			
- current term loans and deposits of other banks	4.79	-	-
Customer accounts:			
- term deposits of legal entities	12.19	7.71	6.39
- term deposits of individuals	15.82	10.23	10.11
Promissory notes issued	6.58	-	-
Bonds issued	19.70	-	-
Subordinated loan	-	11.00	-
Other borrowings	11.29	-	-

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Group's profit before tax and the Group's equity:

	31 December 2009	31 December 2008
RUR		
300 bp parallel increase	901,150	374,178
300 bp parallel decrease	16,296	(374,178)
USD		
50 bp parallel increase	20,839	8,763
50 bp parallel decrease	-	(8,763)

C) Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management actively monitors liquidity risk. The table below shows assets and liabilities as at 31 December 2009 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to 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 of the Group and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and Management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Group or securities retained for short-term capital appreciation and thus do not have a stated maturity date.

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

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

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

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

The Group was in compliance with the above ratios during the periods ended 31 December 2009 and 31 December 2008. The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2009 and 31 December 2008.

	Requirement	31 December 2009	31 December 2008
Instant liquidity ratio (N2)	Minimum 15%	91	168
Current liquidity ratio (N3)	Minimum 50%	118	98
Long-term liquidity ratio (N4)	Maximum 120%	79	92

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

The Group holds a diversified portfolio of cash and other financial instruments to support payment obligations and contingent funding. The Group's assets held managing liquidity comprise:

- Cash and cash equivalents (accounts with CBRF and nostro accounts with other banks)
- Listed corporate bonds
- Bonds of major Russian banks
- Loans to customers

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2009. Amounts shown are contractual undiscounted cashflows, including future interest, as required by IFRS 7 revised, although in practice the Group manages liquidity as described above.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Customer accounts	10,541,238	23,611,910	9,396,999	3,981,756	-	47,531,903
Due to other banks	160,647	1,079	1,330	29,948	-	193,004
Debt securities issued	13,673	1,050,556	3,465	2,662	-	1,070,356
Bonds issued by OEFL	-	64,928	64,928	2,045,631	-	2,175,487
Deferred tax liability	-	-	-	-	247,803	247,803
Accrued interest expense and other liabilities	206,352	217,184	80,595	24,014	123,159	651,304
Finance lease liability	439	1,118	-	-	-	1,557
Warranties on loans sold to MDM bank	8,254	34,794	28,384	32,477	-	103,909
Other borrowings	-	48,299	46,927	272,083	-	367,309
Total liabilities	**10,930,603**	**25,029,868**	**9,622,628**	**6,388,571**	**370,962**	**52,342,632**
Guarantees and commitments	**1,377,065**	**-**	**-**	**-**	**-**	**1,377,065**
Assets held for managing liquidity risk	**12,730,878**	**10,703,259**	**10,179,276**	**26,111,362**	**6,939,922**	**66,664,697**

The data in the table above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2009, and IFRS 7 revised does not require such reconciliation.

Management is aware of the significant liquidity gap within one year after the reporting date and the Group addresses it through obtaining inter-bank loans, Lombard loans from CBRF and REPO deals using its highly liquid asset – portfolio of securities.

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

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

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Customer accounts	3,403,431	8,886,395	4,024,321	2,139,253	-	18,453,400
Due to other banks	4,020,000	1,561,000	-	-	-	5,581,000
Debt securities issued	39,000	6,000	20,000	1,255,055	-	1,320,055
Bonds issued by OEFL	-	-	185,763	1,242,982		1,428,745
Deferred tax liability	-	-	-	-	277,421	277,421
Accrued interest expense and other liabilities	430,335	199,936	2,233	19,168	78,951	730,623
Finance lease liability	552	2,519	2,919	1,594	-	7,584
Warranties on loans sold to MDM bank	15,626	65,029	51,488	85,434	-	217,577
Warranties on loans sold to Etalon bank	-	-	-	-	58,097	58,097
Other borrowings	-	-	-	316,500	-	316,500
Total liabilities	**7,908,944**	**10,720,879**	**4,286,724**	**5,059,986**	**414,469**	**28,391,002**
Total assets	**8,247,210**	**5,742,417**	**5,272,348**	**12,315,738**	**2,531,588**	**34,109,301**
Net liquidity gap	**338,266**	**(4,978,462)**	**985,624**	**7,255,752**	**2,117,119**	**5,718,299**

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

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the 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, as many of these commitments will expire or terminate without being funded.

Operational Risk

Operational risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional wrongful actions of personnel and force-majeure circumstances.

The Group has internal regulations and procedures aimed to minimise operational risk. A report on operational risk is considered quarterly by the Management Board and once a year at the meeting of the Board of Directors of the Bank.

Insurance

The use of insurance as a means of regulating risk is relatively less developed in the Russian Federation than other countries. Management has not made use of this risk Management tool.

Details of property insurance are set out in Note 10.

As at the end of the period the Bank and Kamabank are members of governmental deposit insurance scheme.

(in thousands of Russian Roubles)

31. Financial Risk Management (continued)

D) Fair values and maximum exposure to credit risk

Management have assessed that except where otherwise stated fair values of assets and liabilities not currently carried at fair value (only securities and buildings are currently carried at fair value) do not differ materially from carrying values in the statement of financial position.

The Group’s maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position.

32. Contingencies, Commitments and Derivative Financial Instruments

Legal Proceedings

From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no allowance has been made in these financial statements.

Tax Legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group 's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital Commitments

As at 31 December 2009 and 31 December 2008 the Group had no material capital commitments.

Credit Related Commitments

Credit related commitments comprise loan commitments and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments are as follows:

	2009	2008
Undrawn credit lines	1,364,067	325,181
Guarantees issued to third parties	12,998	13,000
	1,377,065	**338,181**

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

Derivatives

Foreign exchange and other derivative financial instruments are generally traded on Interbank Currency Exchange with professional market counterparties on standardised contractual terms and conditions.

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

(in thousands of Russian Roubles)

32. Contingencies, Commitments and Derivative Financial Instruments (continued)

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

	Contract / notional amount CCY	Contracted exchange rate	Fair value	
			Assets	Liabilities
SWAPs				
Buy EUR sell RUR				
Less than one month	49,800	43.08	2,160,737	2,145,135
Buy USD sell RUR				
Less than one month	65,356	29.89	1,976,640	1,953,556
Forwards				
Buy RUR sell USD				
Less than one month	710	30.27	21,473	21,492
Buy RUR sell EUR				
Less than one month	100	43.44	4,339	4,344
Total	**115,966**		**4,163,189**	**4,124,527**

The corresponding fair value gain and asset of RUB 38,663 has been recorded in the statement of comprehensive income and the relevant asset in other assets.

Assets Pledged

As at 31 December 2009 there were 866,503 securities with carrying value in amount of RUB 863,969 pledged to secure liabilities of the Group in order to obtain overdraft loans if necessary (2008 – 8,900 securities).

Warranty on loans sold

Details of warranties on loans sold are available in note 16.

Leased Fixed Assets

During the period the Group leased certain assets from third parties. Details of lease payments lease payable are set below:

	2009	2008
Operating lease:		
Payable within one year	166,921	126,057
Payable within two to five years	208,191	161,437
Payable over five years	1,611	12,956
	376,723	**300,450**

Operating lease includes a number of contracts expiring in 2010, but which can be prolonged, and this will result in substantial lease payable within two to five years.

33. Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A holding of 5% or more by one party in another is considered by Management to be one of the possible indicators that the parties are related. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The list of those companies and individuals considered by Management to be related parties as at 31 December 2009 is set out below:

	Activities
Significant shareholders	
Igor Kim	
Sergey Vlasov	President of the Bank
Andrey Beckarev	
Alexander Taranov	
Rekha Holdings Limited	Investment
Antof N.V.	Investment
RATTO Holdings Limited	Investment
Gennadiy Kozovoy	
Evgeniya Shuplova	
Subsidiary companies	
VEB Finance Ltd.	Financial intermediary
AVK-Gamma Ltd.	Rent
Associated companies	
CJSC Sibirskoye Credit Bureau	Financial intermediary
Companies under common control through shareholders	
OAO "MDM Bank"	Banking
OAO KB "Uzhniy region"	Banking
OAO "Rostpromstroybank"	Banking
ZAO "D2 Insurance" (till 10/10/2008 ZAO "SibZhaso")	Insurance
ZAO "Aksioma Capital"	
OOO "Asmodius"	
OAO "CK"	

33. Related Parties (continued)

OOO "K-Lombard"	
OOO "Managing Company "Food-Master"	
OOO "Oskar S"	
ProMeDin GmbH	
AXI CAPITAL LIMITED	
AO "Master Bank"	Banking
OOO "Dinastiy-T"	
OOO "Regiondevelopment"	
OOO "Bank gotovogo businessa"	
OOO "Scientific Future Management"	
OOO "Aliance-Invest"	
ZAO "Plaza Evolution"	
OOO "Resursniy center"	
Wolfus Developments Limited	
OOO "Orion"	
ZAO “RosTehnologii”	
OOO “Avangard”	
OOO “Ustina”	
ZAO “Russian-Korean commerce centre”	
OOO "Kalina"	
OOO “Phito-product”	
OAO “Bavlensky zavod Electrodvigatel”	
OOO “Gidroindustriya”	
BORGOLA HOLDING LIMITED	Financial intermediary
OAO "First Collection Bureau"	Financial intermediary
OOO “Blagoveshchenskoe Credit Agency”	Financial intermediary
OOO “Khabarovsk Credit Agency”	Financial intermediary
OOO “Primorskoe Credit Agency”	Financial intermediary
OOO “Irkutsk Credit Agency”	Financial intermediary
OOO “Zabaikalsk Credit Agency”	Financial intermediary
OOO “Stroiinvest”	Financial intermediary

Members of the Board of Management
Sergey Vlasov (also a shareholder)
Vladislav Pershin
Elena Kalinina
Ludmila Proskurina
Natalia Popova
Kirill Nifontov (also a shareholder)
Marina Baiborodina

Members of the Board of Directors

Yuriy Vavilov	Chairman of the Board of Directors
Sergey Vlasov	President of the Bank
Sergei Nazarov	
Nifontov Kirill (also a shareholder)	
Alexandr Taranov (also a shareholder)	
Artyom Kozovoy (also a shareholder)	
German Tsoy (also a shareholder)	

(in thousands of Russian Roubles)

33. Related Parties (continued)

During the reporting period the Group entered into transactions with related parties, which included loan and deposit agreements, and provision of guarantees. Details of transactions and balances with related parties are set out in the tables below (all balances are unsecured unless otherwise stated). Balances and transactions with shareholders are included as such below regardless of whether the shareholders concerned also belong to another category of related party.

	2009								
	Share-holders	Mem-bers of BOD	Managem ent (excl-uding BOD)	Subsidiaries	Assoc-iates	Other related parties	Total balances/ trans-actions with related parties	Parties that ceased to be related during the year	Total for the category
Balances									
Cash and cash equivalents	-	-	-	-	-	284,155	284,155	-	**5,142,069**
Due from other banks	-	-	-	-	-	200,000	**200,000**	-	**812,167**
Securities	-	-	-	-	-	757,852	**757,852**	-	**5,332,908**
Loans issued	17	2,082	2,051	-	-	532,519	**536,669**	**275,700**	**37,590,099**
Impairment allowance	-	-	-	-	-	-	-	-	**(2,564,029)**
Other assets	-	-	38	-	-	13,313	**13,351**	-	**1,136,187**
Current accounts	2,090	1,525	4,156	30	-	46,784	**54,585**	5	**7,915,557**
Deposits	432,181	18,514	126,985	-	-	270,325	**848,005**	-	**33,193,015**
Due to other banks	-	-	-	-	-	5	**5**	-	**185,432**
Promissory notes issued	-	-	-	-	-	-	-		**18,654**
Other liabilities	-	-	-	-	-	11,464	**11,464**	-	**294,015**
Liabilities under finance lease	-	-	-	-	-	-	-	-	**1,557**
Credit related commitments	66,000	2,300	20,860	-	-	258,798	**347,958**	-	**1,377,065**
Accrued interest income		5	21	-		319	**345**	**1,496**	**1,378,808**
Other borrowings	-	-	-	-	-	-	-	-	**284,357**
Accrued interest expense	31,054	31	26	-	-	1,717	32,828	-	**357,289**
Balance on loans sold to MDM Bank	-	-	-	-	-	4,264,902	**4,264,902**	-	**4,264,902**
Balances on loans sold to Etalon Bank	-	-	-	-	-	-	-	-	-
Warranties issued	-	-	-	-	-	103,909	**103,909**	-	**103,909**
Transactions									
Interest income on loans issued	1,989	164	1,587	-	-	50,277	**54,017**	**27,411**	**7,295,813**
Income on loans sold	-	-	-	-	-	161,324	**161,324**	-	**161,324**
Interest income from securities	-	-	-	-	-	30,995	**30,995**	-	**428,099**
Interest expense	36,339	1,250	3,270	-	-	40,135	**80,994**	-	**3,872,537**
Expense on loans sold	-	-	-	-	-	113,281	**113,281**	-	**113,281**
Rent expense	-	-	488	2,831	-	-	**3,319**	-	**237,969**
Commission received	182	15	70	2	-	690	**959**	-	**2,292,342**
Commission paid	-	-	-	-	-	112,516	112,516	-	**230,679**
Other income	-	-	-	-	-	31,681	**31,681**	-	**260,193**
Other expense	42,130	4,216	45,174	-	-	30,347	**121,867**	-	**3,806,314**
Result on sale of loans to First Collection Bureau	-	-	-	-	-	103,325	**103,325**	-	**103,325**

(in thousands of Russian Roubles)

33. Related Parties (continued)

	2008								
	Share-holders	**Mem-bers of BOD**	**Managem ent (excl-uding BOD)**	**Subsidiaries**	**Assoc-iates**	**Other related parties**	**Total balances/ trans-actions with related parties**	**Parties that ceased to be related during the year**	**Total for the category**
Balances									
Cash and cash equivalents	-	-	-	-	-	234,457	234,457	-	3,265,054
Due from other banks	-	-	-	-	-	-	-	-	277,308
Loans issued	65,000	-	18,256	18,273	-	3,374	104,903	-	24,509,634
Impairment allowance	-	-	-	-	-	-	-	-	(1,283,427)
Other assets	-	-	38	11	-	23,489	23,538	-	3,692,271
Balances on correspondent accounts	2,794	2	2,293	15,812	-	664	21,565	445	1,430,208
Deposits	29,394	3,161	7,647	-	-	25,000	65,202	-	17,023,192
Due to other banks	-	-	-	-	-	-	-	-	5,581,000
Promissory notes issued	-	-	-	-	-	-	-	-	151,151
Other liabilities	-	-	-	11,493	-	11,592	23,085	293	195,130
Liabilities under finance lease	-	-	-	-	-	-	-	-	7,584
Unused credit lines	-	-	-	-	-	-	-	-	325,181
Guarantees issued	-	-	-	12,000	-	-	12,000	-	13,000
Accrued interest income	-	-	2	31	-	23	56	-	644,659
Other borrowings	-	-	-	-	-	-	-	-	1,750,103
Accrued interest expense	8	7	4	-	-	7	26	-	343,632
Balance on loans sold to URSA Bank	-	-	-	-	-	9,932,590	9,932,590	-	9,932,590
Balances on loans sold to Etalon Bank	-	-	-	-	-	641,247	641,247	-	641,247
Warranties issued	-	-	-	-	-	275,674	275,674	-	275,674
Transactions									
Interest income on loans issued	453	-	1,078	3,952	-	4,071	9,554	-	6,577,375
Income on loans sold	-	-	-	-	-	137,428	137,428	-	137,428
Interest expense	12,576	1,093	1,734	-	-	1,588	16,991	-	2,797,832
Expense on loans sold	-	-	-	-	-	119,485	119,485	-	119,485
Rent expense	-	-	375	578	-	-	953	-	222,424
Commission received	2	5	4	640	-	3	654	2	2,543,820
Commission paid	-	-	-	137,045	-	-	137,045	-	327,396
Other income	-	-	4	7,447	-	-	7,451	-	308,901
Other expense	113,039	-	78,070	-	-	796	191,905	2,175	3,989,850
Result on sale of loans to URSA Bank	-	-	-	-	-	544,020	544,020	-	544,020
Result on sale of loans to Etalon Bank	-	-	-	-	-	58,097	58,097	-	58,097
Result on sale of loans to First Collection Bureau	-	-	-	92,555	-	-	92,555	-	92,555
Loans sold to URSA Bank	-	-	-	-	-	9,999,988	9,999,988	-	9,999,988
Loans sold to Etalon Bank	-	-	-	-	-	1,841,832	1,841,832	-	1,841,832
Loans sold to First Collection Bureau	-	-	-	1,661,541	-	-	1,661,541	-	1,661,541

The salary paid to the members of the Bank's Management during 2009 amounted to RUB 92,637 (2008: 132,986). There were no long-term benefits, post – employment benefits, termination benefits or share based payment. No remuneration to non-executive members of the Board of the Directors was paid during 2009 and 2008.

(in thousands of Russian Roubles)

33. Related Parties (continued)

Movements on loans issued, correspondent accounts and deposits in the accounting period were as follows:

Items	Opening balance	Movements		Closing balance
Loans issued	104,903	1,184,759	(753,093)	536,569
Balances on correspondent accounts	21,565	5,810,632	(5,777,612)	54,585
Customer accounts	65,202	2,228,603	(1,445,800)	848,005

34. Capital Management

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

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

As at 31 December 2009, the Group's capital adequacy ratio was 17.68% (2008: 18.4%).

35. Events after the reporting date

On 5 May 2010 the Bank merged Kama Bank.

On 28 January 2010 the Board of Directors of the Bank approved issuance of three series of bonds of 3,000,000,000 (not thousand) with a nominal value of 1,000 RUB (not thousand) each. The first series of bonds of 1,000,000,000 (not thousands) was issued in March 2010.

On 2 March 2010 the Board of Directors of the Bank approved an additional share issue of 1,400,590,695 (not thousand) shares with a nominal value 0.01 RUB (not thousands) each.

On 17 March 2010 the Bank redeemed all bonds previously issued on MICEX on the scheduled maturity date.

On 23 March 2010 the guarantee previously issued by the Bank to MDM bank regarding sold loans was extinguished in amount of RUB 3,423,376.

On 24 March 2010 the Board of Directors of the Bank has approved a sale of associate CJSC Sibirskoye Bureau of Credit Histories.

In January 2010 Mr. Igor Kim has sold part of his shares to Mr.Bekarev and Mr.Taranov thus the biggest shareholder since that is Mr.Vlasov.