LLC CB “Aljba Alliance”

Consolidated Financial Statements
For the Year Ended December 31, 2009

COMMERCIAL BANK "ALJBA ALLIANCE"
(LIMITED LIABILITY COMPANY)

CONTENTS

COMMERCIAL BANK "ALJBA ALLIANCE"
(LIMITED LIABILITY COMPANY)

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

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

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

These consolidated financial statements for the year ended December 31, 2009 were authorized for issue on June 25, 2010 by the Bank's Management Board.

On behalf of the Management Board:

A.N. Yakimov	**O.I. Anokhina**
Chairman of the Management Board	**Chief Accountant**
June 25, 2010	June 25, 2010
Moscow	Moscow

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INDEPENDENT AUDITORS' REPORT

To the Participants and the Board of Directors of Commercial Bank "Aljba Alliance" (Limited Liability Company):

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Deloitte & Touche

June 25, 2010
Moscow

COMMERCIAL BANK "ALJBA ALLIANCE"
(LIMITED LIABILITY COMPANY)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Russian Rubles)

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Interest income	6, 28	349,572	425,324
Interest expense	6, 28	(261,914)	(233,937)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		87,658	191,387
Recovery of provision/(provision) for impairment losses on interest bearing assets	7	20,254	(82,694)
NET INTEREST INCOME		107,912	108,693
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	8	228,084	(228,801)
Net gain on foreign exchange operations	9	276,582	306,766
Net gain on precious metals operations		7,383	12,332
Fee and commission income received	10	118,441	270,636
Fee and commission expense paid	10	(9,042)	(14,124)
Recovery of other provisions		-	4,210
Operations with non-current assets held for sale	19	118,633	(114,256)
Other income	11	22,166	16,644
NET NON-INTEREST INCOME		762,247	253,407
OPERATING INCOME		870,159	362,100
OPERATING EXPENSES	12, 28	(467,767)	(466,838)
PROFIT/(LOSS) BEFORE INCOME TAX		402,392	(104,738)
Income tax expense	13	(55,532)	(43,656)
Profit/(loss) from continuing operations		346,860	(148,394)
Profit/(loss) from discontinued operations	5	65,090	(72,558)
NET PROFIT/(LOSS)		**411,950**	**(220,952)**

On behalf of the Management Board:

Российская Федерация ★ Коммерческий Банк "Альба Альянс" (общество с ограниченной ответственностью) ★ Лицензия № 2593 ★ г. Москва ★ ОГРН 1020000004787 ALJBA ALLIANCE

A.N. Yakimov
Chairman of the Management Board

June 25, 2010
Moscow

O.I. Anokhina
Chief Accountant

June 25, 2010
Moscow

The notes on pages 9-46 form an integral part of these consolidated financial statements.

COMMERCIAL BANK “ALJBA ALLIANCE”
(LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Russian Rubles)

	Year ended December 31, 2009	Year ended December 31, 2008
NET PROFIT/(LOSS)	411,950	(220,952)
OTHER COMPREHENSIVE (LOSS)/PROFIT		
Exchange differences on translation of foreign operations	(773)	29,292
OTHER COMPREHENSIVE (LOSS)/PROFIT	(773)	29,292
TOTAL COMPREHENSIVE PROFIT/(LOSS)	**411,177**	**(191,660)**

On behalf of the Management Board:

A.N. Yakimov
Chairman of the Management Board

June 25, 2010
Moscow

O.I. Anokhina
Chief Accountant

June 25, 2010
Moscow

The notes on pages 9-46 form an integral part of these consolidated financial statements.

COMMERCIAL BANK “ALJBA ALLIANCE”
(LIMITED LIABILITY COMPANY)

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

	Notes	December 31, 2009	December 31, 2008
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	14	705,269	1,803,469
Financial assets at fair value through profit or loss	15	1,086,233	286,467
Due from banks	16	2,104,824	3,137,625
Loans to customers	17,28	1,350,658	2,016,303
Property, plant and equipment	18	642,428	675,046
Current income tax assets		26,045	47,693
Other assets	20	26,768	240,839
		5,942,225	8,207,442
Non-current assets held for sale	19	-	709,747
TOTAL ASSETS		**5,942,225**	**8,917,189**
LIABILITIES:			
Loans from the Central Bank of the Russian Federation	21	-	1,098,513
Due to banks	22	94,351	265,233
Customer accounts	23,28	3,597,770	4,238,853
Debt securities issued	24	228,053	684,273
Current income tax liabilities		6,847	25,838
Deferred income tax liabilities	13	52,487	21,711
Other liabilities	25	106,676	1,067,904
		4,086,184	7,402,325
Net assets attributable to the participants of the Group	26	1,856,041	1,514,864
TOTAL LIABILITIES		**5,942,225**	**8,917,189**

On behalf of the Management Board:

A.N. Yakimov
Chairman of the Management Board

June 25, 2010
Moscow

O.I. Anokhina
Chief Accountant

June 25, 2010
Moscow

The notes on pages 9-46 form an integral part of these consolidated financial statements.

COMMERCIAL BANK "ALJBA ALLIANCE" (LIMITED LIABILITY COMPANY)

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

(in thousands of Russian Rubles)

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax, including profit/(loss) from discontinued operations		467,482	(177,296)
Adjustments for:			
Provision for impairment losses on interest bearing assets		(20,254)	82,694
Recovery of other provisions		-	(4,210)
Depreciation of property, plant and equipment		30,993	29,829
Net change in interest accruals		(38,515)	30,550
Gain on disposal of property, plant and equipment		(4,329)	(1,250)
Net change in fair value of financial assets at fair value through profit or loss		(46,458)	191,134
Change in the value of non-current assets held for sale		-	114,256
Gain on disposal of non-current assets held for sale		(118,633)	-
(Profit)/loss from discontinued operations		(65,090)	72,558
(Gain)/loss on foreign exchange operations		(15,806)	(103,275)
Cash flows from operating activities before changes in operating assets and liabilities		**189,390**	**234,990**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(77,336)	131,710
Due from banks		363,287	(607,945)
Financial assets at fair value through profit or loss		(750,215)	(184,481)
Loans to customers		602,935	4,087,010
Other assets		124,336	(35,654)
Increase/(decrease) in operating liabilities:			
Loans from the Central Bank of the Russian Federation		(1,102,026)	1,095,000
Due to banks		(157,957)	(4,864,257)
Customer accounts		(653,809)	96,060
Debt securities issued		(536,173)	569,188
Other liabilities		8,108	(105,188)
Cash (outflow)/inflow from operating activities before taxation		(1,989,460)	416,433
Income tax paid		(22,099)	(50,103)
Net cash (outflow)/inflow from operating activities		(2,011,559)	366,330

COMMERCIAL BANK "ALJBA ALLIANCE" (LIMITED LIABILITY COMPANY)

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

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,734)	(12,863)
Proceeds on sale of property, plant end equipment		5,686	7,340
Sale of investments available-for-sale		-	83
Sale of non-current assets held for sale		(179)	-
Net cash outflow on Group reorganization		(25)	(81,888)
Net cash inflow/(outflow) from investing activities		3,748	(87,328)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions to Group participants		(70,000)	-
Net cash outflow from financing activities		(70,000)	-
Effect of foreign exchange rate changes on cash and cash equivalents		232,659	361,807
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,845,152)	640,809
CASH AND CASH EQUIVALENTS, beginning of year	**14**	**4,147,743**	**3,506,934**
CASH AND CASH EQUIVALENTS, end of year	**14**	**2,302,591**	**4,147,743**

Interest paid and received by the Group during the year ended December 31, 2009 amounted to RUB 234,052 thousand and RUB 343,663 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2008 amounted to RUB 206,205 thousand and RUB 428,142 thousand, respectively.

On behalf of the Management Board:

A.N. Yakimov
Chairman of the Management Board

June 25, 2010
Moscow

O.I. Anokhina
Chief Accountant

June 25, 2010
Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ★ Лицензия № 2593 ★ г. МОСКВА ★ ОГРН 1025000004787 ALJBA ALLIANCE

The notes on pages 9-46 form an integral part of these consolidated financial statements.

1. ORGANIZATION

LLC CB "Aljba Alliance" (the "Bank") is a limited liability company, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation and conducts its business under general license number 2593. In addition, the Bank holds licenses for broker, dealer, depositary and security management operations issued by the Federal Commission for the Securities Market in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank's activities include commercial banking, financial and other operations. These operations include attraction of deposits, issue of commercial loans in freely convertible currencies and in Russian rubles, settlements on customer export/import operations, currency exchange operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players, and operations with securities and derivatives. The Bank conducts operations in the Russian and international markets.

The registered office of the Bank is located at 1 Kremlevskaya nab., bld. 2, Moscow, Russian Federation.

The Bank is a parent company of a banking group (the "Group") which includes the following enterprises consolidated in the financial statements:

Name	**Country of operation**	**Proportion of ownership interest/ voting rights, %**		**Type of operation**
		December 31, 2009	**December 31, 2008**	
ZAO AKB UCB	Russia	100%	100%	Banking (see Note 4)
OOO "SOVLINK"	Russia	100%	100%	Broker and dealer services, corporate finance and financial advisory services
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, broker operations, securities management, agency and other services to Russian debt and equity securities market players
Lopilato Investments Limited	Cyprus	100%	100%	Investments, securities management
OOO "Aljba Vehicle"	Russia	100%	100%	Transportation services
Isvar Holding Limited	Cyprus	-	100%	Investments, securities management
ZAO "Arand"	Russia	-	100%	Domestic investments
OOO "VNIIESO"	Russia	-	74.99%	Research and development of specialized welding equipment
OOO "NPO Zavod Electrik"	Russia	-	74.99%	Holding company management and accounting operations
ZAO "Electrik-MIKS"	Russia	-	74.99%	Organization of welding equipment manufacturing, marketing and service operations; trade
OOO "Zavod Electrik"	Russia	-	74.99%	Contact welding equipment manufacturing
OOO "Komplektatsia i Materialy"	Russia	-	74.99%	Wholesale trade operations in materials and components for welding equipment manufacturing

As at December 31, 2009 and 2008, the following participants (ultimate beneficiaries) owned the Bank:

Stakeholders	% in equity
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
Total	**100.0**

These consolidated financial statements were authorized for issue by the Management Board of Commercial Bank "Aljba Alliance" (Limited Liability Company) on June 25, 2010.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in thousands of Russian rubles ("kRUR"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments. The US dollar was the Group's functional currency before January 1, 2005, for which reason the Group did not apply IAS 29 "Financial Reporting in Hyperinflationary Economies."

The Bank and its Russian subsidiaries maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the applicable statutory accounting records and have been adjusted to conform with IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Functional currency

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group (the "functional currency"). The functional currency of the financial statements is the Russian Ruble ("RUB").

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to December 31 each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

All material intra-group transactions, balances, income and expenses are eliminated on consolidation.

Acquisitions

The assets, liabilities and contingent liabilities of a subsidiary 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 recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

Non-controlling interest is initially measured at the non-controlling interest's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to owners of the parent and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded in net assets attributable to the participants of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The difference, between the carrying amount of minority interest and the amount received on its purchase is recognized in net assets attributable to the owners of the participants of the Group.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities of the company acquired and the measurement of the cost of the combination; and
- Any excess remaining after such reassessment is recognized immediately in consolidated profit or loss statement.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially recognized at fair value. The initial cost of a financial asset or financial liability not at fair value through profit or loss is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with the Central Bank of the Russian Federation and balances on correspondent accounts with other banks.

Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative financial instruments or securities acquired principally for the purpose of selling/redemption in the near term, or it is a part of portfolio of identified financial instruments that are managed together and for which there is evidence of an intention of short-term profit-taking, or financial assets/liabilities which are initially classified by the Group as financial assets and liabilities at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

Dividends received on financial assets at fair value through profit or loss are recognized in net gain on financial assets and liabilities at fair value through profit or loss.

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency, precious metals and securities. Derivative financial instruments entered into by the Group do not qualify for hedge accounting.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including foreign currency forwards, swaps and options to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are measured at amortized cost using the effective interest method.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income and/or (expense).

Loans to customers

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

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs, directly attributable to the acquisition or creation of qualifying financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write-off of loans and advances

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

Allowance for impairment losses

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

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

The determination of the provision for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profit and loss using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater compared to recorded impairment.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization and any accumulated impairment loss (if any). The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.

Depreciation of property, plant and equipment is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%-4%
Furniture and equipment	5%-20%
Transport vehicles	20%

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held-for-sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to net assets attributable to the participants of the Group, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the financial statements if:

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

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as operating expenses in the consolidated income statement.

Due to banks and customer accounts, loans from the Central Bank of the Russian Federation, and debt securities issued

Due to banks, customer accounts, loans from to the Central Bank of the Russian Federation and debt securities issued are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Provisions

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

Financial guarantee contracts issued and letters of credit

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

Commitments and contingencies

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

Net assets attributable to the participants

As the Bank is incorporated as a limited liability company, members may leave the company at any time regardless of the agreement of other members or the company. If any of the participants leaves the company the participant's share is transferred to the company. The Company shall pay to such member the value of the member's share or transfer property of the same value subject to agreement of the member. For this reason, shares of the participants in the company's charter capital, and retained earnings of the company are reported as net assets attributable to the participants of the Group.

Retirement and other benefit obligations

In accordance with the requirements of the Russian legislation, state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. Such expense is charged in the period when the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds as selected by employees. The Group does not have any pension arrangements separate from the State pension system of the Russian Federation. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

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

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

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

Recognition of fee and commission income and expense

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

Recognition of other income and expense

Other income and expense are recognized on an accruals basis in the period to which they relate.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Rubles at the appropriate spot rates of exchange rates prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RUR using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive income and recognized in the Group's foreign currency translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Rates of exchange

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

	December 31, 2009	**December 31, 2008**
RUB/USD	30.2442	29.3804
RUB/EUR	43.3883	41.4411

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Offset of financial assets and liabilities

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

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans

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

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

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The 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 in future periods.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of comprehensive statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Deferred tax

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The estimation of probability is based on the management's estimate of future taxable profit and requires significant judgment of the Group. Taxation is discussed in Notes 13 and 27.

Adoption of new and revised standards

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

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

Standards and interpretations in issue and not yet adopted

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

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

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

IFRIC 9 "Reassessment of Embedded Derivatives" which requires that there should be no reassessment of whether an embedded derivative should be separated from the host contract after initial recognition, unless there have been changes to the contract.

Financial instruments: Classification and Measurement (Exposure draft) - In July 2009 IASB issued an exposure draft (ED) that is a part of IASB's project to replace IAS 39: Recognition and Measurement. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognised financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortised cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortised cost, unless designated as at fair value through profit or loss (FVTPL). Those financial instruments measured at fair value will either be classified as FVTPL or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income (FVTOCI). All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39. The ED does not permit reclassifications out of or into amortised cost, FVTPL or FVTOCI after initial recognition.

The effective date of these changes is not yet determined but the IASB expects to finalize the new classification and management model in time to allow entities to voluntary adopt the new model for 2009 year-end financial statements.

4. GROUP REORGANIZATION

In December 2008 the Group purchased shares in 4 entities located in St.-Petersburg and engaged in welding equipment development, production, distribution and maintenance: OOO "NPO Zavod Electrik" (74.99%), OOO "Zavod Electrik" (74.99%), OOO "Komplektatsia i Materialy" (74.99%) and OOO "VNIIESO" (74.99%). At the same time, ZAO "Elektrik-MIKS" fully owned by OOO "NPO Zavod Elektric" also became part of the Group.

No minority interest was recognized on the acquisition as the Group acquired net liabilities of the new subsidiary. Loss on acquisition recognized by the Group amounted to RUB 72,558 thousand. Net cash inflow on acquisition amounted to RUB 363 thousand.

In June 2008, the Group sold its 99% share in ZAO "Sovlink-Trest" held at December 31, 2007. Net assets of ZAO "Sovlink-Trest" at the date of disposal amounted to RUB 239 thousand. Consideration received as a result of the sale totaled RUB 594 thousand.

In 2008, the Group paid RUB 82,845 thousand to settle its liabilities on acquisition of 49% in ZAO AKB "USB" made in 2007..

In December 2009, the Group sold the disposed of its shares in ZAO "Elektrik-MIKS".

The result on the sale of ZAO "Elektrik-MIKS" comprises:

Consideration received	10
Net liabilities disposed of	15,243
Gain on disposal of the subsidiary	**15,253**

During 2009, the Group revised the strategic profile of certain subsidiaries and decided to suspend their operations. On the basis of an arbitration court decision initiated by OOO "VNIIESO" and OOO "Zavod Elektrik" these companies were put under external administration. As a result the Group lost a control over operating and financial policies of these companies and stopped their consolidation. Close business relationships of OOO "NPO Zavod Elektrik" and OOO "Komplektatsia and Materialy" with OOO "VNIIESO" and OOO "Zavod Elektrik" de facto resulted in a discontinuance of their business at the end of the reporting period. For this reason the Group also ceased consolidating these entities in the Group's financial statements as the effect of the consolidation was not material.

The aggregate net liabilities of the subsidiaries disposed of due to loss of control amounted to RUB 79,131 thousand.

As part of its long-term strategic profile and investment optimization strategy, management decided on voluntary liquidation of ZAO AKB "USB" (resolution of the sole shareholder of June 1, 2009) and ZAO "Arand" (resolution of the sole shareholder of December 26, 2008). ZAO "Arand" was liquidated on February 8, 2010. During 2009, operations of ZAO AKB "USB" were transferred to LLC CB "Aljba Alliance". On June 18, 2010 a correspondent account of ZAO AKB "USB" with the Central Bank of the Russian Federation was closed. On June 23, 2010 a liquidation committee of ZAO AKB "USB" filed documents with the Central Bank of the Russian Federation for removal of ZAO AKB "USB" from the state register of legal entities.

5. DISCONTINUED OPERATIONS

In December 2009, the Group sold its 74.99% interest in ZAO "Elektrik-MIKS" (St.-Petersburg) (Note 4).

The combined financial results of discontinued operations of OOO "VNIIESO", OOO "Zavod Elektrik", OOO "NPO Zavod "Elektric", OOO "Komplektatsia i Materialy" and ZAO "Elektrik-Miks" reported in the consolidated income statement of the Group are presented below. The comparative data on profit and losses and cash flows with respect to discontinued operations are presented on the basis of performance of the entities classified as discontinued operations.

	Year ended December 31, 2009	Year ended December 31, 2008
Interest expense	(4,744)	-
Net gain on foreign exchange operations	1,423	-
Fee and commission expense paid	(397)	-
Other income	59,699	-
OPERATING EXPENSES	(85,049)	-
Income tax expense	(226)	-
Result of acquisition of subsidiaries	-	(72,558)
Result of disposal of subsidiaries	94,384	
Profit/(loss) from discontinued operations	65,090	(72,558)
Cash flows from discontinued operations		
Net cash flows from operating activities	(328)	363
Net cash flow	(328)	363

6. NET INTEREST INCOME

	Year ended December 31, 2009	Year ended December 31, 2008
Interest income		
Interest income on assets recorded at amortized cost:		
Interest income on impaired assets	275,301	348,079
Interest income on unimpaired assets	44,049	62,721
Interest income on assets at fair value through profit or loss	30,222	14,524
Total interest income	**349,572**	**425,324**
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	275,301	348,079
Interest on due from banks	44,049	62,721
Total interest income on assets recorded at amortized cost	**319,350**	**410,800**
Interest income on assets at fair value through profit or loss comprises:		
Interest on financial assets held for trading	30,222	14,524
Total interest income on assets at fair value through profit or loss	**30,222**	**14,524**
Interest expense		
Interest expense on liabilities recorded at amortized cost	(261,914)	(233,937)
Total interest expense	**(261,914)**	**(233,937)**
Interest expense on liabilities recorded at amortized cost:		
Interest on customer accounts	(199,065)	(143,253)
Interest on due to banks	(11,543)	(33,430)
Interest on debt securities issued	(27,241)	(40,868)
Interest on loans from the Central Bank of the Russian Federation	(24,065)	(16,386)
Total interest expense on liabilities recorded at amortized cost	**(261,914)**	**(233,937)**
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	**87,658**	**191,387**

7. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers
December 31, 2007	**96,318**
Provisions	82,694
December 31, 2008	**179,012**
Recovery of provisions	(20,254)
Write-off of assets	(15,705)
Disposal of assets	(14,116)
December 31, 2009	**128,937**

8. NET GAIN/(LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets at fair value through profit or loss comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Net gain/(loss) on operations with financial assets held for trading	228,084	(231,563)
Net gain on operations with financial assets initially recognized at fair value through profit and loss	-	2,762
Total net gain/(loss) on financial assets at fair value through profit or loss	**228,084**	**(228,801)**
Net gain/(loss) on operations with financial assets held for trading comprise:		
Dealing, net	172,119	(50,906)
Net fair value adjustment	46,458	(191,134)
Dividend income	9,507	10,477
Total net gain/(loss) on operations with financial assets held for trading	**228,084**	**(231,563)**

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Dealing, net	260,776	173,290
Translation differences, net	15,806	133,476
Total net gain on foreign exchange operations	**276,582**	**306,766**

10. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Fee and commission income:		
Consulting services	46,209	48,293
Broker operations with securities	34,483	195,001
Settlement services	13,537	11,570
Trust and fiduciary activities	6,132	8,244
Guarantees	5,319	2,096
Agency services on bank operations	4,969	-
Foreign currency operations	1,327	700
Other	6,465	4,732
Total fee and commission income	**118,441**	**270,636**
Fee and commission expense:		
Settlement services	(2,670)	(2,407)
Broker operations with securities	(2,452)	(7,360)
Trust and fiduciary activities	(1,515)	(2,483)
Consulting services	(1,197)	(693)
Foreign currency operations	(819)	(937)
Other	(389)	(244)
Total fee and commission expense	**(9,042)**	**(14,124)**

11. OTHER INCOME

Other income comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Penalties received from customers on securities operations	13,244	10,516
Property rental income	4,074	3,489
Income from sale of property, plant and equipment	4,329	1,250
Other	519	1,389
Total other income	**22,166**	**16,644**

12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Payroll and bonuses	235,897	225,483
Taxes, other than income tax	51,536	39,591
Depreciation of property, plant and equipment	30,993	29,829
Unified social tax	27,635	30,347
Operating leases	23,406	26,452
Inventories	17,751	6,869
Communications	17,146	16,651
Professional services	14,215	12,777
Security expenses	12,797	13,959
Payments to the Deposit Insurance Fund	10,209	6,797
Property, plant and equipment maintenance	7,781	10,957
Data processing	4,145	4,384
Insurance costs	4,081	5,295
Business trip expenses	1,819	3,464
Unused vacation provision	1,656	4,975
Other expenses	6,700	29,008
Total operating expenses	**467,767**	**466,838**

13. INCOME TAX

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

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

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

The tax rate used for the 2009 and 2008 reconciliations above is the corporate tax rate of 20% and 24% payable by corporate entities in the Russian Federation and 10% in Cyprus on taxable profits under tax law in that jurisdiction. As at December 31, 2009 and 2008, deferred income tax was calculated at the rate of 20%.

Temporary differences as at December 31, 2009 and 2008 comprise:

	December 31, 2009	December 31, 2008
Deductible temporary differences:		
Due from banks	48,683	-
Loans to customers	10,217	103,645
Other assets	26,110	7,647
Debt securities issued	1,761	61,963
Other liabilities	-	13,624
Financial assets and liabilities at fair value through profit or loss	-	25,225
Total deductible temporary differences	**86,771**	**212,104**
Taxable temporary differences:		
Property, plant and equipment	(287,763)	(291,894)
Other liabilities	(39,577)	-
Financial assets and liabilities at fair value through profit or loss	(15,028)	-
Customer accounts	(1,418)	(330)
Due from banks	-	(9,587)
Total taxable temporary differences	**(343,786)**	**(301,811)**
Net taxable temporary differences	**(257,015)**	**(89,707)**
Net deferred income tax liabilities at the statutory tax rate (20%) recorded in the income statement	(52,487)	(21,711)
Deferred income tax assets at the statutory tax rate recorded in the income statement	1,084	3,770
Unrecognized deferred income tax assets	(1,084)	(3,770)
Net deferred income tax liabilities	**(52,487)**	**(21,711)**

A reconciliation of income tax expense and accounting profit for the years ended December 31, 2009 and 2008 is presented below:

	Year ended December 31, 2009	Year ended December 31, 2008
Profit/(loss) before income tax	402,392	(104,738)
Tax at the statutory tax rate (20%/24%)	80,478	(25,137)
Change in unrecognized deferred income tax assets	(2,686)	(1,800)
Tax effect of permanent differences	(36,024)	36,516
Effect of tax rate different from the prime rate	13,764	29,735
Tax effect of change in the tax rate from 24% to 20%	-	4,342
Income tax expense	**55,532**	**43,656**

	Year ended December 31, 2009	Year ended December 31, 2008
Current income tax expense	24,756	74,564
Deferred income tax expense/(recovery)	30,776	(30,908)
Income tax expense	**55,532**	**43,656**

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

	December 31, 2009	December 31, 2008
Balances with the Central Bank of the Russian Federation	590,107	1,749,338
Cash	115,162	54,131
Total cash and balances with the Central Bank of the Russian Federation	**705,269**	**1,803,469**

The balances with the Central Bank of the Russian Federation as at December 31, 2009 and 2008 include RUB 92,126 thousand and RUB 14,790 thousand, respectively, which represents the minimum reserve deposits required by the Central Bank of the Russian Federation. The Group is required to maintain minimum reserve deposits with the Central Bank of the Russian Federation at all times.

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

	December 31, 2009	December 31, 2008
Correspondent accounts with other banks	1,689,448	2,359,064
Cash and balances with the Central Bank of the Russian Federation	705,269	1,803,469
	2,394,717	4,162,533
Less minimum reserve deposits with the Central Bank of the Russian Federation	(92,126)	(14,790)
Total cash and cash equivalents	**2,302,591**	**4,147,743**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2009	December 31, 2008
Financial assets held for trading:		
Debt securities	604,551	48,915
Equity securities	427,124	236,592
Derivative financial instruments	54,558	960
Total financial assets at fair value through profit or loss	**1,086,233**	**286,467**

Financial assets held for trading comprise:

	Nominal interest rate	December 31, 2009	Nominal interest rate	December 31, 2008
Corporate Eurobonds	7.288-10.25%	394,740	-	-
Corporate bonds	16.5-17.0%	105,275	10.5-14.0%	48,915
Eurobonds of foreign countries	8.75-9.625%	104,536	-	-
Total debt securities		**604,551**		**48,915**

	December 31, 2009	December 31, 2008
Shares of Russian companies	231,483	236,592
Shares/Global depositary receipts (GDRs) on non-resident entities	113,830	-
Shares of credit institutions	81,811	-
Total equity securities	**427,124**	**236,592**

	December 31, 2009			December 31, 2008		
	Notional	Fair value		Notional	Fair value	
	value	Asset	Liability	value	Asset	Liability
Derivative financial instruments:						
Foreign currency contracts						
Forwards	1,721,325	54,558	-	612,873	960	-
Securities contracts						
Forwards	43,998	-	(293)	-	-	-
Total derivative financial instruments		**54,558**	**(293)**		**960**	**-**
Total financial assets held for trading		**1,086,233**			**286,467**	

16. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	December 31, 2009	December 31, 2008
Correspondent accounts with banks	1,689,448	2,359,064
Amounts at broker accounts with financial organizations	296,829	430,816
Time deposits with banks	118,547	347,745
Total due from banks	**2,104,824**	**3,137,625**

Amounts at broker accounts with other financial institutions include amounts on accounts for settlements with ZAO “Moscow Interbank Currency Exchange”, Russian Trading System stock exchange, ZAO AKB “National Clearing Centre”, and amounts placed with Penson GHCO and FMF Global Inc for broker operations with securities and other financial instruments.

As at December 31, 2009 and 2008 included in balances due from banks and other financial institutions are deposits with restrictions on their use - guarantee deposits totaling RUB 25,304 thousand and RUB 24,092 thousand, respectively, placed by the Group for its operations with plastic cards.

As at December 31, 2009 and 2008 the Group had due from five and six financial institutions totaling RUB 1,724,272 thousand and RUB 1,742,146 thousand, respectively, which individually exceeded 10% of the Group’s net assets attributable to stakeholders.

17. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2009	December 31, 2008
Loans to customers	1,479,595	2,195,315
Less: allowance for impairment losses	(128,937)	(179,012)
Total loans to customers	**1,350,658**	**2,016,303**

Movements in the allowances for impairment losses for the years ended December 31, 2009 and 2008 are disclosed in Note 7.

The table below summarizes the amount of loans analyzed by type of collateral:

	December 31, 2009	December 31, 2008
Loans collateralized by pledge of corporate shares	244,909	319,333
Loans collateralized by goods in turnover	127,147	41,258
Loans collateralized by real estate and rights thereto	105,534	127,632
Loans collateralized by pledge of equipment	89,777	49,708
Loans collateralized by pledge of cash and promissory notes of the Group	2,428	426,000
Loans collateralized by corporate guarantees	-	97,623
Unsecured loans	909,800	1,133,761
	1,479,595	2,195,315
Less: allowance for impairment losses	(128,937)	(179,012)
Total loans to customers	**1,350,658**	**2,016,303**

	December 31, 2009	December 31, 2008
Analysis by sector/type of borrower:		
Real estate	260,756	108,011
Oil production	241,954	-
Trade	186,745	420,142
Individuals	178,606	192,324
Machinery construction	136,099	-
Chemical industry	130,000	-
Transport and communication	123,666	105,247
Finance sector	82,903	282,194
Food industry	42,342	86,068
Gold mining company	31,488	392,519
Services	30,767	29,000
Printing industry	23,150	71,539
Research and development	-	9,936
Agriculture	-	224,900
Other	11,119	273,435
	1,479,595	2,195,315
Less: allowance for impairment losses	(128,937)	(179,012)
Total loans to customers	**1,350,658**	**2,016,303**

Loans to individuals comprise the following products:

	December 31, 2009	December 31, 2008
Investment loans	101,404	113,318
Housing loans	30,226	-
Consumer loans	25,399	65,526
Mortgage loans	21,303	3,600
Car loans	274	8,390
Other	-	1,490
	178,606	192,324
Less: allowance for impairment losses	(9,046)	(21,680)
Total loans to individuals	**169,560**	**170,644**

As at December 31, 2009 and 2008 the Group granted loans to two and four borrowers totaling RUB 463,266 thousand and RUB 848,308 thousand, respectively, which individually exceeded 10% of the Group's net assets attributable to the stakeholders.

As at December 31, 2009 and 2008 loans to customers included loans in amounts of RUB 1,336,623 thousand and RUB 1,864,302 thousand, respectively, that were individually determined to be impaired. As at December 31, 2009 and 2008 these loans were secured by collateral with fair value of RUB 809,941 thousand and RUB 1,238,890 thousand, respectively, including shares of Russian companies with a fair value of RUB 428,209 thousand and RUB 367,206 thousand, respectively. The impairment provision for these loans amounted to RUB 128,331 thousand and RUB 114,144 thousand, respectively.

For the purposes of estimating impairment of individual loans the Group analyses the financial performance, debt service, credit history and collateral.

18. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Buildings and other real estate	Furniture and equipment	Transport vehicles	Total
At cost				
As at December 31, 2007	**840,605**	**64,549**	**9,797**	**914,951**
Additions	2,644	8,131	2,088	12,863
Additions resulting from acquisition of subsidiaries	-	2,617	-	2,617
Disposals	(4,654)	(3,634)	(5,110)	(13,398)
As at December 31, 2008	**838,595**	**71,663**	**6,775**	**917,033**
Additions	-	1,227	507	1,734
Disposal of subsidiaries	-	(2,617)	-	(2,617)
Disposals	(16)	(11,057)	(511)	(11,584)
As at December 31, 2009	**838,579**	**59,216**	**6,771**	**904,566**
Accumulated depreciation				
As at December 31, 2007	**167,646**	**44,020**	**7,800**	**219,466**
Charge for the year	20,301	8,610	918	29,829
Eliminated on disposal	(1,590)	(1,198)	(4,520)	(7,308)
As at December 31, 2008	**186,357**	**51,432**	**4,198**	**241,987**
Charge for the year	24,317	4,980	1,696	30,993
Disposal of subsidiaries	-	(615)	-	(615)
Eliminated on disposal	(16)	(8,979)	(1,232)	(10,227)
As at December 31, 2009	**210,658**	**46,818**	**4,662**	**262,138**
Net book value				
As at December 31, 2009	**627,921**	**12,398**	**2,109**	**642,428**
As at December 31, 2008	**652,238**	**20,231**	**2,577**	**675,046**

As at December 31, 2009 and 2008, included in property, plant and equipment were fully depreciated equipment with historical cost of RUB 25,312 thousand and RUB 20,776 thousand, respectively.

19. NON-CURRENT ASSETS HELD FOR SALE

In July 2008 the Group purchased a building and a land plot in St.-Petersburg with a view to their subsequent sale and recognized them as non-current assets held for sale as at December 31, 2008. As at December 31, 2008 the Group's liability under this transaction of RUB 824,003 thousand is recorded within other liabilities.

As a result of market research and negotiations with potential buyers, the Group signed a preliminary sale agreement on September 25, 2008, which provides for a principal sale agreement to be signed by September 30, 2009.

As at December 31, 2008, the Group determined the fair value of the assets based on an independent appraiser's report and recognized an impairment loss of RUB 114,256 thousand on the asset in the consolidated income statement.

In 2009 the Group disposed off the non-current assets held for sale, and recognized gain from sale of RUB 118,633 thousand in the consolidated income statement. Simultaneously, the Group settled the related liability (Note 25).

20. OTHER ASSETS

Other assets comprise:

	December 31, 2009	December 31, 2008
Other financial assets		
Receivables on other transactions	13,261	159,361
Receivables on securities transactions	7,313	74,175
Other	277	854
Total other financial assets	**20,851**	**234,390**
Other non-financial assets:	5,917	6,449
Total other assets	**26,768**	**240,839**

21. LOANS FROM THE CENTRAL BANK OF THE RUSSIAN FEDERATION

As at December 31, 2008, loans from the Central Bank of Russian Federation were uncollateralized and amounted to RUB 1,098,513 thousand with maturities in January through March 2009 and bearing interest at 12%-12.75% per annum.

22. DUE TO BANKS

Due to banks or other financial institutions comprise:

	December 31, 2009	December 31, 2008
Term deposits of banks and other financial institutions	94,112	264,975
Correspondent accounts of other banks	239	258
Total due to banks	**94,351**	**265,233**

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2009	December 31, 2008
Current/settlement accounts and demand deposits	1,138,678	2,421,681
Term deposits	2,459,092	1,817,172
Total customer accounts	**3,597,770**	**4,238,853**

	December 31, 2009	December 31, 2008
Analysis by sector:		
Individuals	2,814,862	2,212,178
Finance sector	383,620	848,216
Transport and communications	172,863	180,859
Construction and real estate	58,365	14,887
Trade and personal services	56,354	132,018
Gold mining companies	40,167	637
Fuel, oil and gas industries	15,158	287,264
Private sector	11,502	9,111
Printing industry	10,441	5,093
Agriculture	10,370	-
Chemical industry	37	10,097
Advertising and marketing	-	468,734
Research and development, pilot production and consulting	-	17,884
Television and radio	-	11,295
Other	24,031	40,580
Total customer accounts	**3,597,770**	**4,238,853**

24. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	December 31, 2009			December 31, 2008		
	Maturity date month/year	**Annual interest rate, %**	**Amount**	**Maturity date month/year**	**Annual interest rate, %**	**Amount**
Interest-bearing promissory notes	June-October 2010	6.5-8	228,053	March 2009-February 2011	8.5-12	684,273
Total debt securities issued			**228,053**			**684,273**

25. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2009	December 31, 2008
Other financial liabilities		
Payables on securities transactions	51,964	55,014
Settlements with suppliers and contractors	30,309	150,532
Other	1,263	11,355
Payable on non-current assets held for sale	-	824,003
Payable on subsidiaries acquired	-	9,918
Total other financial liabilities	**83,536**	**1,050,822**
Other non-financial liabilities	23,140	17,082
Total other liabilities	**106,676**	**1,067,904**

26. NET ASSETS ATTRIBUTABLE TO THE PARTICIPANTS

As at December 31, 2009 and 2008, movements in net assets attributable to the participants comprise the following:

	Total net assets attributable to the participants
December 31, 2007	**1,706,524**
Gain on translation from functional currency of subsidiaries to presentation currency	29,292
Net loss for the period	(220,952)
December 31, 2008	**1,514,864**
Net profit for the period	411,950
Loss on translation from functional currency of subsidiaries to presentation currency	(773)
Distribution to participants	(70,000)
December 31, 2009	**1,856,041**

As at December 31, 2009 and 2008, net assets attributable to the participants included paid stakes of the participants in the charter capital amounting to RUB 370,907 thousand. Participants have a right to sell their stakes to the Group subject to preliminary notification. Distribution of shares between participants of the Group is presented in Note 1.

In 2009, according to the resolution of the general meeting of LLC CB “Aljba Alliance” participants the Group made a distribution of RUB 70,000 thousand to the participants on a pro rata basis.

The Group’s reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

The Group’s maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by another party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

As at December 31, 2009 and 2008, the nominal or contract amounts were:

	December 31, 2009	December 31, 2008
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	358,593	526,781
Commitments on loans and unused credit lines	102,884	33,540
Letters of credit and other transaction related contingent obligations	29,045	22,488
Total contingent liabilities and credit commitments	**490,522**	**582,809**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers’ financial performance, debt service and other conditions characterizing credit risks and assessed by the Group at the time of such decision. As at December 31, 2009 included in commitments on loans and unused credit lines are RUB 73,038 representing the Bank’s commitments to extend loans within unused credit line limits that are conditioned on the above.

Fiduciary activities – In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or willful misconduct by the Group only. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the clients' position. In the judgment of management, as at December 31, 2009 and 2008 the maximum potential financial risk on assets accepted by the Bank on behalf of its customers did not exceed RUB 127,905 thousand and RUB 291,244 thousand, respectively. These amounts represent customers' funds and securities under the management of the Group as at December 31, 2009 and 2008, including securities under trusteeship as at December 31, 2009 and 2008 in the amount of RUB 2,763 thousand and RUB 1,045 thousand, respectively.

The Group also provides depositary services to its customers. As of December 31, 2009 and 2008, the Group had securities belonging to its customers totaling 9,942,778,251 items and 4,718,035,635 items, respectively, in its nominal holder accounts.

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

Some retail banks are receiving claims from individual customers with respect to certain commissions withheld by the banks under loan agreements. Therefore, the Central Bank of the Russian Federation has issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Group, and has established procedures on disclosing additional information in loan agreements in compliance with the Central Bank of the Russian Federation instruction.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation which allows the Russian tax authorities to take decisions based on their own arbitrary interpretations of these provisions. In practice, the Russian Federation tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

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

Operating environment – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Russian tax, currency and customs legislation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

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

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

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

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

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

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

28. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;

(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Group is a venturer;

(d) Members of key management personnel of the Group or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as at December 31, 2009 and 2008:

	December 31, 2009		December 31, 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	**27,775**	**1,479,595**	**6,128**	**2,195,315**
- key management personnel	367		128	
- entities with joint control or significant influence over the Group	9,000		-	
- other related parties	18,408		6,000	
Allowance on loans to customers	**(707)**	**(128,937)**	**(502)**	**(179,012)**
- key management personnel	(7)		(10)	
- other related parties	(700)		(492)	
Customer accounts	**97,328**	**3,597,770**	**60,168**	**4,238,853**
- key management personnel	75,250		25,429	
- entities with joint control or significant influence over the Group	4,116		22,594	
- other related parties	17,962		12,145	
Guarantees issued and similar commitments	**9,289**	**358,593**	**3,628**	**526,781**
- key management personnel	3,465		3,334	
- entities with joint control or significant influence over the Group	5,522		-	
- other related parties	302		294	

Included in the consolidated income statement for the years ended December 31, 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	December 31, 2009		December 31, 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Interest income	**3,586**	**349,572**	**256**	**425,324**
- entities with joint control or significant influence over the entity	1,031		-	
- key management personnel	91		240	
- other related parties	2,464		16	
Interest expense	**(4,600)**	**(261,914)**	**(1,937)**	**(233,937)**
- entities with joint control or significant influence over the entity	(20)		(85)	
- key management personnel	(4,262)		(1,757)	
- other related parties	(318)		(95)	
Salary and bonuses:				
- short-term compensation of key management personnel	(62,602)	(235,897)	(46,785)	(225,483)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments below are made in accordance with the requirements of IAS 32 “Financial Instruments”: Disclosure” and IAS 39 "Financial instruments: Recognition and Measurement.” Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities recorded at amortized cost is presented below:

	December 31, 2009		December 31, 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	613,143	613,143	1,788,679	1,788,679
Due from banks	2,104,824	2,104,824	3,137,625	3,137,625
Other financial assets	20,851	20,851	234,390	234,390
Loans from the Central Bank of the Russian Federation	-	-	1,098,513	1,098,513
Due to banks	94,351	94,351	265,233	265,233
Customer accounts	3,597,770	3,597,770	4,238,853	4,238,853
Debt securities issued	228,053	228,053	684,273	684,273
Other financial liabilities	83,536	83,536	1,050,822	1,050,822

As at December 31, 2009 and 2008 the fair value of loans to customers which were carried at cost net of the impairment allowance totaling RUB 1,350,658 thousand and RUB 2,016,303 thousand, respectively, may not be determined with sufficient reliability, as it is impossible to obtain market information or apply another method to measure such financial instruments.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group’s approach to valuation and fair value hierarchy categorization for financial instruments recognized at fair value is as follows:

		December 31, 2009	
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Financial assets at fair value through profit or loss	1,036,478	-	49,755

Level 1 of the fair value hierarchy include financial assets at fair value through profit or loss (equity securities, debt securities, forwards and futures for securities and foreign currency) of which the fair value is fully determined on the basis of published price quotations in the active market. The share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss at December 31, 2009 was 95.42%.

Level 3 of the fair value hierarchy include equity securities of three issues of which the fair value is determined using a valuation technique based on the available information on the last market transactions for the sale and purchase of shares, the fair values of the issuers' net assets at the reporting date, the reputation of issuers and discounted future cash flows.

Upon initial recognition, these equity securities held for trading were measured at fair values on the basis of active market quotations. In December 2008, the Group purchased these equity securities at fair value of RUB 13,605 thousand; at December 31, 2008 profit from fair value adjustment of RUB 902 thousand was recognized in the consolidated income statement. In March 2009 the Group purchased additional equity securities of thee companies into the trading portfolio for RUB 84,546 thousand. At December 31, 2009 the Group reclassified these equity securities from Level 1 to Level 3 of the fair value hierarchy due to changes in the level of observability of market data. The loss on the fair value adjustment of these equity securities amounted to RUB 39,849 thousand on the basis of the valuation technique applied, and was reported in the consolidated income statement.

The amendment to IFRS 7 with regards to additional financial instruments disclosures was adopted by the Group in 2009. In accordance with IFRS 7, paragraph 44G, no comparable information needs to be presented for such disclosures.

30. CAPITAL MANAGEMENT

The Group manages capital to ensure continuous operations of all entities of the Group as a going concern while maximizing the return to shareholders through the optimization of the balance between debt and net assets attributable to the Group's participants.

The Group's capital structure includes funds of the Group's participants, which include charter capital and retained earnings.

Management considers the structure of net assets attributable to the Group's participants on a quarterly basis. As part of this review, management considers the cost of net assets attributable to the Group's participants and the risks associated with each class of the net assets.

Decisions to raise debt are made by an authorized management body depending on the amount of the deal.

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

The Central Bank of the Russian Federation requires banks to maintain a statutory capital adequacy ratio computed based on Russian Accounting Standards.

In accordance with the requirements established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital to risk weighted assets ("net assets adequacy ratio") above the established minimum level. As at December 31, 2009, the minimum level was 10%. During 2009 and 2008 the Bank complied with the mandatory net assets adequacy ratio.

31. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations include:

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

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

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. These processed are performed by the Credit Committees and the Group's Management.

The lending process in the Group is strictly controlled, and the credit policy is balanced and prudent, strongly centralized, and preventing acceptance of unreasonably high risks able to negatively affect the operations of the Group and its customers. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrowers and products are approved by the Bank's Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Group's management. Actual exposures against limits are monitored by the Group's management daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent unused portions of credit in the form of loans and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum credit risk exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	December 31, 2008 Net exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	497,981	-	497,981	-	497,981
Financial assets at fair value through profit or loss, except for equity securities	659,109	-	659,109	-	659,109
Due from banks	2,104,824	-	2,104,824	-	2,104,824
Loans to customers	1,350,658	(2,428)	1,348,230	(517,842)	830,388
Other financial assets	20,851	-	20,851	-	20,851
Commitments on loans and unused credit lines	102,884	-	102,884	-	102,884
Guarantees issued and similar commitments	358,593	-	358,593	-	358,593
Letters of credit and other transaction related contingent obligations	29,045	-	29,045	-	29,045

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	December 31, 2008 Net exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	1,734,548	-	1,734,548	-	1,734,548
Financial assets at fair value through profit or loss, except for equity securities	49,875	-	49,875	-	49,875
Due from banks	3,137,625	-	3,137,625	-	3,137,625
Loans to customers	2,016,303	(426,000)	1,590,303	(571,252)	1,019,051
Other financial assets	234,390	-	234,390	-	234,390
Commitments on loans and unused credit lines	33,540	-	33,540	-	33,540
Guarantees issued and similar commitments	526,781	-	526,781	-	526,781
Letters of credit and other transaction related contingent obligations	22,488	-	22,488	-	22,488

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets that are neither past due nor impaired:

	AAA	AA	A	BBB	>BBB	Not rated	December 31, 2009 Total
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	497,981	-	-	497,981
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	-	499,276	159,833	659,109
Due from banks	-	53,463	996,224	391,061	93,750	570,326	2,104,824
Loans to customers	-	-	-	-	-	2,428	2,428
Other financial assets	-	-	-	-	-	20,851	20,851

	AAA	AA	A	BBB	>BBB	Not rated	Total at December 31, 2008
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	1,734,548	-	-	1,734,548
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	-	-	49,875	49,875
Due from banks	-	9,308	854,966	1,228,245	147,779	897,147	3,137,625
Loans to customers	-	-	-	-	-	426,000	426,000
Other financial assets	-	-	-	-	-	234,390	234,390

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation.
The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration

The Group's Management Board and the Credit Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The management sets country limits.

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

	The Russian Federation	**OECD countries**	**Non-OECD countries**	**December 31, 2009 Total**
FINANCIAL ASSETS:				
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	613,143	-	-	613,143
Financial assets at fair value through profit or loss	223,962	5,999	856,272	1,086,233
Due from banks	209,487	1,571,885	323,452	2,104,824
Loans to customers	1,264,437	63,858	22,363	1,350,658
Other financial assets	10,235	-	10,616	20,851
TOTAL FINANCIAL ASSETS	**2,321,264**	**1,641,742**	**1,212,703**	**5,175,709**
FINANCIAL LIABILITIES				
Due to banks	239	94,112	-	94,351
Customer accounts	3,068,226	8,611	520,933	3,597,770
Debt securities issued	228,053	-	-	228,053
Other financial liabilities	31,572	-	51,964	83,536
TOTAL FINANCIAL LIABILITIES	**3,328,090**	**102,723**	**572,897**	**4,003,710**
LIQUIDITY GAP	**(1,006,826)**	**1,539,019**	**639,806**	

	The Russian Federation	**OECD countries**	**Non-OECD countries**	**December 31, 2008 Total**
FINANCIAL ASSETS:				
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	1,788,679	-	-	1,788,679
Due from banks	1,259,154	1,717,891	160,580	3,137,625
Loans to customers	1,775,916	-	240,387	2,016,303
Financial assets at fair value through profit or loss	270,188	10,398	5,881	286,467
Other financial assets	136,911	2,170	95,309	234,390
TOTAL FINANCIAL ASSETS	**5,230,848**	**1,730,459**	**502,157**	**7,463,464**
FINANCIAL LIABILITIES				
Loans from the Central Bank of the Russian Federation	1,098,513	-	-	1,098,513
Due to banks	177,082	88,141	10	265,233
Customer accounts	3,568,693	12,870	657,290	4,238,853
Debt securities issued	540,543		143,730	684,273
Other financial liabilities	203,259	229	847,334	1,050,822
TOTAL FINANCIAL LIABILITIES	**5,588,090**	**101,240**	**1,648,364**	**7,337,694**
LIQUIDITY GAP	**(357,242)**	**1,629,219**	**(1,146,207)**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Group management and the Management Board control these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

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

The review of the balance sheet interest rate and liquidity risks on a basis of carrying amounts of assets and liabilities is provided below:

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2009 Total
FINANCIAL ASSETS:					
Financial assets at fair value through profit or loss	604, 551	-	-	-	604,551
Due from banks	1,592,306	-	93,746	-	1,686,052
Loans to customers	165,290	393,647	633,156	158,565	1,350,658
Total interest bearing financial assets	**2,362,147**	**393,647**	**726,902**	**158,565**	**3,641,261**
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	613,143	-	-	-	613,143
Financial assets at fair value through profit or loss	481,682	-	-	-	481,682
Due from banks	385,971	-	-	32,801	418,772
Other financial assets	20,783	-	-	68	20,851
TOTAL FINANCIAL ASSETS	**3,863,726**	**393,647**	**726,902**	**191,434**	**5,175,709**
FINANCIAL LIABILITIES:					
Due to banks and other financial institutions	-	-	94,112	-	94,112
Customer accounts	624,793	1,581,442	789,913	15,674	3,011,822
Debt securities issued	31, 423	-	196,630	-	228,053
Total interest bearing financial liabilities	**656, 216**	**1,581,442**	**1,080,655**	**15,674**	**3,333,987**
Customer accounts	585,948	-	-	-	585,948
Due to banks and other financial institutions	239	-	-	-	239
Other financial liabilities	83,536	-	-	-	83,536
TOTAL FINANCIAL LIABILITIES	**1,325,939**	**1,581,442**	**1,080,655**	**15,674**	**4,003,710**
Liquidity gap	2,537,787	(1,187,795)	(353,753)	175,760	
Cumulative liquidity gap	**2,537,787**	**1,349,992**	**996,239**	**1,171,999**	
Interest sensitivity gap	1,705,931	(1,187,795)	(353,753)	142,891	
Cumulative interest sensitivity gap	**1,705,931**	**518,136**	**164,383**	**307,274**	

The following table presents the analysis of liquidity risk as at December 31, 2009, which represents the expected maturity for non-derivative financial liabilities calculated based on the undiscounted contractual maturities of the financial liabilities including interest that will be earned on those liabilities except where the Group anticipates that the cash flow will occur in a different period.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	-	-	97,523	-	97,523
Customer accounts	625,203	1,601,587	829,852	16,705	3,073,347
Debt securities issued	31,423	-	204,430	-	235,853
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**656,626**	**1,601,587**	**1,131,805**	**16,705**	**3,406,723**
Customer accounts	585,948	-	-	-	585,948
Due to banks	239	-	-	-	239
Other financial liabilities	83,536	-	-	-	83,536
Liabilities on financial guarantees	-	137,293	21,300	200,000	358,593
Commitments on loans and unused credit lines	102,884	-	-	-	102,884
TOTAL FINANCIAL LIABILITIES	**1,429,233**	**1,738,880**	**1,153,105**	**216,705**	**4,537,923**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2008 Total
FINANCIAL ASSETS:					
Financial assets at fair value through profit or loss	48,915	-	-	-	48,915
Due from banks	1,498,177	147,343	159,103	24,092	1,828,715
Loans to customers	230,476	473,731	730,930	581,166	2,016,303
Total interest bearing financial assets	**1,777,568**	**621,074**	**890,033**	**605,258**	**3,893,933**
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	1,788,679	-	-	-	1,788,679
Financial assets at fair value through profit or loss	237,552	-	-	-	237,552
Due from banks	1,300,910	-	8,000	-	1,308,910
Other financial assets	234,351	-	-	39	234,390
Total financial assets	**5,339,060**	**621,074**	**898,033**	**605,297**	**7,463,464**
FINANCIAL LIABILITIES:					
Loans from the Central Bank of the Russian Federation	934,113	164,400	-	-	1,098,513
Due to banks	30,000	235,233	-	-	265,233
Customer accounts	850,346	68,916	1,346,931	252,707	2,518,900
Debt securities issued	-	76,009	365,764	242,500	684,273
Total interest bearing financial liabilities	**1,814,459**	**544,558**	**1,712,695**	**495,207**	**4,566,919**
Customer accounts	1,719,953	-	-	-	1,719,953
Due to banks	-	-	-	-	-
The Group's liability to pay for purchased non-current assets held for sale	-	-	824,003	-	824,003
Liability of the Group to pay for acquired subsidiaries	-	-	9,918	-	9,918
Other financial liabilities	206,161	215	10,525	-	216,901
Total financial liabilities	**3,740,573**	**544,773**	**2,557,141**	**495,207**	**7,337,694**
Liquidity gap	1,598,487	76,301	(1,659,108)	110,090	
Cumulative liquidity gap	**1,598,487**	**1,674,788**	**15,680**	**125,770**	
Interest sensitivity gap	(36,891)	76,516	(822,662)	110,051	
Cumulative interest sensitivity gap	**(36,891)**	**39,625**	**(783,037)**	**(672,986)**	

The following table presents the analysis of liquidity risk as at December 31, 2008, which represents the expected maturity for non-derivative financial liabilities calculated based on the undiscounted contractual maturities of the financial liabilities including interest that will be earned on those liabilities except where the Group anticipates that the cash flow will occur in a different period.

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2008 Total
FINANCIAL LIABILITIES							
Loans from the Central Bank of the Russian Federation	938,944	168,812	-	-	-	-	1,107,756
Due to banks	30,081	234,760	12,760	-	-	-	277,601
Customer accounts	851,477	71,506	1,416,377	253,240	-	-	2,592,600
Debt securities issued	-	77,739	394,707	285,612	-	-	758,058
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**1,820,502**	**552,817**	**1,823,844**	**538,852**	**-**	**-**	**4,736,015**
Customer accounts	1,719,953	-	-	-	-	-	1,719,953
The Group's liability to pay for purchased non-current assets held for sale	-	-	833,922	-	-	-	833,922
Commitments on loans and unused credit lines	31,419	-	2,034	87	-	-	33,540
Guarantees issued and similar commitments	-	145,462	34,417	146,902	200,000	-	526,781
Other financial liabilities	206,161	215	10,524	-	-	-	216,900
TOTAL FINANCIAL LIABILITIES	**3,778,035**	**698,494**	**2,704,741**	**685,841**	**200,000**	**-**	**8,067,111**

Market risk

Market risk represents the risk of the fair value of future cash flows on a financial instrument changing as a result of market price fluctuations. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2008.

Market risk arises from open positions on interest, currency and equity instruments which are subject to general and specific market fluctuations and changes in market rate volatility.

Interest rate risk

The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on assets at floating interest rates. The sensitivity analysis uses possible changes in floating interest rate of 5% increase and 10% decrease.

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

Impact on profit before tax

	December 31, 2009		December 31, 2008	
	Interest rate +5%	Interest rate -10%	Interest rate +5%	Interest rate -10%
Assets				
Financial assets at fair value through profit or loss	28,958	(57,916)	2,343	(4,686)
Due from banks	78,029	(156,058)	81,003	(162,006)
Loans to customers	36,977	(73,955)	47,381	(94,763)
Liabilities:				
Loans from the Central Bank of the Russian Federation	-	-	(51,591)	103,183
Due to banks	(1,765)	3,529	(11,047)	22,094
Customer accounts	(110,684)	221,368	(70,120)	140,241
Debt securities issued	(5,192)	10,384	(11,236)	22,473
Net impact on profit before tax	26,324	(52,648)	(13,267)	26,536

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Finance Committee controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department of the Bank performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Russian Federation.

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

	RUB	**USD** USD 1 = RUB 30.2442	**EUR** EUR 1 = RUB 43.3883	**Other currency**	**December 31, 2009 Total**
Financial assets					
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	505,503	47,097	60,543	-	613,143
Financial assets at fair value through profit or loss	184,994	901,239	-	-	1,086,233
Due from banks	19,921	1,826,197	251,371	7,335	2,104,824
Loans to customers	385,136	960,778	4,744	-	1,350,658
Other financial assets	9,161	11,530	160	-	20,851
Total financial assets	**1,104,715**	**3,746,841**	**316,818**	**7,335**	**5,175,709**
Financial liabilities					
Customer accounts	782,182	2,022,637	788,083	4,868	3,597,770
Due to banks	239	94,112	-	-	94,351
Debt securities issued	-	228,053	-	-	228,053
Other financial liabilities	43,913	39,335	288	-	83,536
Total financial liabilities	**826,334**	**2,384,137**	**788,371**	**4,868**	**4,003,710**
OPEN BALANCE SHEET POSITION	**278,381**	**1,362,704**	**(471,553)**	**2,467**	

Derivative financial instruments and spot contracts

Fair values of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	RUB	**USD** USD 1 = RUB 30.2442	**EUR** EUR 1 = RUB 43.3883	**Other currency**	**December 31, 2009 Total**
Payables on forward and spot transactions	(159,215)	(787,196)	(1,442,316)	(648,070)	(3,036,797)
Receivables on forward and spot transactions	787,456	2,219,000	30,341	-	3,036,797
Payables on futures transactions	-	(2,535,079)	-	-	(2,535,079)
Receivables on futures transactions	-	-	1,889,762	645,317	2,535,079
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**628,241**	**(1,103,275)**	**477,787**	**(2,753)**	
NET POSITION	**906,622**	**259,429**	**6,234**	**(286)**	

	RUB	USD USD 1 = RUB 29.3804	EUR EUR 1 = RUB 41.4411	Other currency	December 31, 2008 Total
Financial assets					
Cash and balances with the Central Bank of the Russian Federation, less minimum reserve deposits with the Central Bank of the Russian Federation	781,270	623,358	384,051	-	1,788,679
Financial assets at fair value through profit or loss	270,188	16,279	-	-	286,467
Due from banks	54,563	2,181,112	885,843	16,107	3,137,625
Loans to customers	1,362,328	653,972	3	-	2,016,303
Other financial assets	158,663	75,727	-	-	234,390
Total financial assets	**2,627,012**	**3,550,448**	**1,269,897**	**16,107**	**7,463,464**
Financial liabilities					
Customer accounts	1,338,152	1,881,055	1,010,146	9,500	4,238,853
Loans from the Central Bank of the Russian Federation	1,098,513	-	-	-	1,098,513
Due to banks	177,082	88,151	-	-	265,233
Debt securities issued	232,374	323,932	127,967	-	684,273
Other financial liabilities	201,663	848,839	316	4	1,050,822
Total financial liabilities	**3,047,784**	**3,141,977**	**1,138,429**	**9,504**	**7,337,694**
OPEN BALANCE SHEET POSITION	**(420,772)**	**408,471**	**131,468**	**6,603**	

Derivative financial instruments and spot contracts

Fair values of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	RUB	USD USD 1 = RUB 29.3804	EUR EUR 1 = RUB 41.4411	Other currency	December 31, 2008 Total
Payables on forward and spot transactions	-	(484,917)	(137,376)	-	(622,293)
Receivables on forward and spot transactions	590,889	31,404	-	-	622,293
Payables on futures transactions	-	(9,740)	(10,360)	-	(20,100)
Receivables on futures transactions	-	10,360	9,740	-	20,100
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**590,889**	**(452,893)**	**(137,996)**	**-**	
NET POSITION	**170,117**	**(44,422)**	**(6528)**	**6,603**	

Currency risk sensitivity analysis

The Group carries out "value at risk" (VaR) analysis and an analysis of projected financial result's sensitivity to changes in currency rates by one point, their 1% volatility and to change in the amount invested by one unit of functional currency to assess the possible losses due to changes in foreign exchange rates for each currency position and in general for aggregate open currency position. The Bank uses Financial Risk Manager software system produced by INEC company to carry out VaR and sensitivity analyses. The report on VaR analysis provided below presents ruble estimate of loss amounts that with 95% confidence level will not be exceeded by the expected losses on the open currency position within 1 day provided that the current market trends continue.

Currency	**Total open position December 31, 2009 RUB'000**	**95% 1 day volatility**	**Currency**	**Total open position December 31, 2008 RUB'000**	**95% 1 day volatility**
U.S. Dollars	259,429	0.6679	U.S. Dollars	(44,422)	0.4709
Euro	6,234	0.7310	Euro	(6,528)	0.6253
Swiss franc	2,149	0.7589	Swiss franc	4,864	0.6284
UK pound sterling	(2,464)	0.8626	UK pound sterling	1,647	0.6287
Japanese yen	29	1.0471	Japanese yen	43	0.9486
Danish krone	-	-	Danish krone	49	0.4756
95% 1 day VaR	**3,416**		**95% 1 day VaR**	**392**	

Other price risks

The Group is exposed to equity price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes. The Group is engaged in active trading with such instruments.

The table below presents the amount of loss from equity and debt security portfolios of the Group which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends in the securities market are preserved.

	VaR (1 day, 0.95) (RUB '000)	**VaR (1 day, 0.95) %**	**VaR (10 days, 0.95) (RUB '000)**	**VaR (10 days, 0.95) %**
December 31, 2009				
Shares	36,565	8.74	115,628	27.62
Bonds	12,287	2.93	38,854	9.28
December 31, 2008				
Shares	32,375	11.3	102,377	35.8
Bonds	6,693	2.3	21,166	7.4

As at December 31, 2009 and 2008, if the value of shares changes by 10% the value of the portfolio will increase or decrease by RUB 42,712 thousand and RUR 23.659 thousand, respectively.

Limitations of sensitivity analysis

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

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

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. The assumption that all interest rates change in an identical manner is another limitation.

Limitations associated with VaR analysis include the availability of a history of quotes for the previous year for a financial instrument within the portfolio. It should be noted that the sum of VaR indicators for individual positions exceeds the overall portfolio VaR as this analysis takes into account the effect of diversification.

32. SUBSEQUENT EVENTS

On April 28, 2010 the Group approved a distribution of RUB 15,059 thousand to the participants.