# Sovcombank (LLC)

Consolidated Financial Statements

for the year ended 31 December 2009

## Contents

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## Independent Auditors' Report

To the Board of Directors of Sovcombank (LLC)

### Report on the Consolidated Financial Statements

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

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

ZAO KPMG

ZAO KPMG
30 April 2010

| | Notes | 2009 RUR'000 | 2008 (Restated) RUR'000 |
|---|---|---|---|
| Interest income | 4 | 6 211 033 | 5 095 478 |
| Interest expense | 4 | (2 807 823) | (1 699 199) |
| **Net interest income** | | **3 403 210** | **3 396 279** |
| Fee and commission income | 5 | 193 490 | 325 139 |
| Fee and commission expense | 6 | (90 887) | (61 630) |
| **Net fee and commission income** | | **102 603** | **263 509** |
| Net gain (loss) on financial instruments at fair value through profit or loss | | 2 108 922 | (34 060) |
| Net gain (loss) on available-for-sale assets | | 98 673 | (58 276) |
| Net foreign exchange (loss) income | | (33 142) | 75 074 |
| Other operating income | 7 | 108 683 | 157 661 |
| **Operating income** | | **5 788 949** | **3 800 187** |
| Impairment losses | 8 | (3 140 609) | (1 473 932) |
| Personnel expenses | 9 | (1 436 681) | (1 666 787) |
| Other general administrative expenses | 10 | (1 267 401) | (1 461 927) |
| **Loss before taxes** | | **(55 742)** | **(802 459)** |
| Income tax (expense) benefit | 11 | (12 268) | 70 466 |
| **Loss** | | **(68 010)** | **(731 993)** |
| **Other comprehensive income (loss)** | | | |
| Revaluation reserve for available-for-sale assets | | | |
| - Net change in fair value of available-for-sale assets, net of tax | | 33 208 | (34 879) |
| Revaluation of buildings, net of tax | | (10 306) | (23 864) |
| **Other comprehensive income (loss), net of tax** | | **22 902** | **(58 743)** |
| **Total comprehensive loss** | | **(45 108)** | **(790 736)** |
| **Loss attributable to:** | | | |
| Equity holders of the Bank | | (68 010) | (732 112) |
| Minority interest | | - | 119 |
| **Loss** | | **(68 010)** | **(731 993)** |
| **Total comprehensive loss attributable to:** | | | |
| Equity holders of the Bank | | (45 108) | (790 855) |
| Minority interest | | - | 119 |
| **Total comprehensive loss** | | **(45 108)** | **(790 736)** |

The consolidated financial statements as set out on pages 4 to 76 were approved by the Board of Directors on 30 April 2010.

Mr. Khotimsky S.V.
Chief Executive Officer

Mr. Sokolov K.Y.
Chief Financial Officer

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

| | Notes | 2009 | 2008 (Restated) | 2007 (Restated) |
|---|---|---|---|---|
| | | **RUR'000** | **RUR'000)** | **RUR'000** |
| **ASSETS** | | | | |
| Cash and cash equivalents | 12 | 3 400 616 | 4 022 423 | 2 560 460 |
| Mandatory cash balances with the Central Bank of the Russian Federation | | 168 643 | 25 856 | 164 018 |
| Placements with banks | | 35 000 | 1 500 | 9 002 |
| Financial instruments at fair value through profit or loss | 13 | | | |
| - Held by the Group | | 4 579 362 | 585 183 | 584 288 |
| - Pledged under sale and repurchase agreements | | 8 954 785 | 50 669 | - |
| Loans to customers | 16 | 14 744 207 | 14 941 459 | 12 777 678 |
| Available-for-sale assets | 14 | | | |
| - Held by the Group | | 10 259 | 439 156 | - |
| - Pledged under sale and repurchase agreements | | 8 644 | 732 928 | - |
| Held-to-maturity investments | 15 | | | |
| - Held by the Group | | - | 1 321 531 | - |
| - Pledged under sale and repurchase agreements | | - | 755 689 | - |
| Investment property | 17 | 120 701 | 123 112 | 135 341 |
| Property, equipment and intangible assets | 18 | 1 016 436 | 1 151 208 | 868 418 |
| Deferred tax asset | 24 | 349 740 | 192 992 | 105 447 |
| Other assets | 19 | 362 183 | 487 743 | 342 264 |
| Goodwill | 38 | 407 478 | 407 478 | 113 905 |
| **Total assets** | | **34 158 054** | **25 238 927** | **17 660 821** |
| **LIABILITIES** | | | | |
| Current accounts and deposits from customers | 20 | 21 989 977 | 16 794 814 | 13 128 970 |
| Deposits and balances from banks | 21 | 7 526 911 | 4 566 513 | 1 343 112 |
| Subordinated debt | 22 | 756 957 | 609 385 | 300 000 |
| Promissory notes | | 647 326 | 455 845 | 381 821 |
| Other liabilities | 23 | 229 028 | 434 246 | 407 706 |
| Deferred tax liability | 24 | 128 531 | 43 419 | 149 084 |
| **Total liabilities** | | **31 278 730** | **22 904 222** | **15 710 693** |
| **EQUITY** | | | | |
| Charter capital | 25 | 1 097 561 | 1 097 561 | 900 000 |
| Other capital contributions | | 2 428 960 | 1 838 759 | 860 820 |
| Revaluation surplus for property and equipment | | 2 311 | 12 617 | 36 481 |
| Revaluation reserve for available-for-sale assets | | (1 671) | (34 879) | - |
| (Accumulated losses) / Retained earnings | | (647 837) | (579 827) | 152 285 |
| **Total equity attributable to equity holders of the Bank** | | **2 879 324** | **2 334 231** | **1 949 586** |
| Minority interest | | - | 474 | 542 |
| **Total equity** | | **2 879 324** | **2 334 705** | **1 950 128** |
| **Total liabilities and equity** | | **34 158 054** | **25 238 927** | **17 660 821** |

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

| | Notes | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and fee and commission receipts | | 6 242 041 | 4 839 538 |
| Interest and fee and commission payments | | (2 789 092) | (1 508 125) |
| Net receipts (payments) from financial instruments at fair value through profit or loss | | 1 600 444 | (46 030) |
| Net receipts (payments) from available-for-sale assets | | 98 673 | (54 930) |
| Net receipts from foreign exchange | | 188 151 | 242 043 |
| Other operating income receipts | | 49 956 | 122 948 |
| Operating expenses payments | | (2 531 292) | (2 548 409) |
| | | | |
| **(Increase)/decrease in operating assets** | | | |
| Mandatory cash balances with the Central Bank of the Russian Federation | | (148 755) | 138 162 |
| Placements with banks | | (33 500) | 7 502 |
| Financial instruments at fair value through profit or loss | | (14 143 255) | (1 388 523) |
| Loans to customers | | (2 933 423) | (2 607 139) |
| Other assets | | (76 187) | (103 254) |
| | | | |
| **Increase/(decrease) in operating liabilities** | | | |
| Current accounts and deposits from customers | | 6 844 141 | 2 867 466 |
| Deposits and balances from banks | | 4 310 985 | 2 403 743 |
| Promissory notes | | 174 308 | 13 681 |
| Other liabilities | | (34 699) | 63 978 |
| **Net cash (used in) from operating activities before taxes paid** | | **(3 181 504)** | **2 442 651** |
| Taxes paid | | (24 875) | (217 999) |
| **Cash flows (used in) from operations** | | **(3 206 379)** | **2 224 652** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of property, equipment and intangible assets | | (163 004) | (506 808) |
| Proceeds from disposal of property, equipment and intangible assets | | 119 267 | 24 380 |
| Proceeds from disposal of investment property | | 2 411 | 8 716 |
| Acquisition of subsidiaries, net of cash received | | - | (175 395) |
| Sales of subsidiaries and associates, net of cash disposed | | (961 285) | - |
| Sale of available-for-sale assets | | 1 191 428 | 183 620 |
| Proceeds from (sales of) held-to-maturity investments | | 1 608 260 | (2 063 807) |
| **Cash flows from (used in) investing activities** | | **1 797 077** | **(2 529 294)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Contribution by participants | 25 | 590 201 | 1 175 500 |
| Subordinated debt received | | 126 656 | 295 443 |
| **Cash flows from financing activities** | | **716 857** | **1 470 943** |

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

| | Notes | 2009<br>RUR'000 | 2008<br>RUR'000 |
|---|---|---|---|
| **Net (decrease) increase in cash and cash equivalents** | | **(692 445)** | **1 166 301** |
| Effect of changes in exchange rates on cash and cash equivalents | | 70 638 | 295 662 |
| Cash and cash equivalents at the beginning of the year | | 4 022 423 | 2 560 460 |
| **Cash and cash equivalents at the end of the year** | 12 | **3 400 616** | **4 022 423** |

| | Attributable to participants of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Charter capital** | **Other capital contributions** | **Revaluation reserve for property** | **Revaluation reserve for assets available-for-sale** | **Retained earnings (accumulated losses)** | **Total** | **Minority interests** | **Total Equity** |
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **Balance as at 1 January 2008 (Restated)** | **900 000** | **860 820** | **36 481** | **-** | **152 285** | **1 949 586** | **542** | **1 950 128** |
| Loss | - | - | - | - | (732 112) | (732 112) | 119 | (731 993) |
| Other comprehensive income | | | | | | | | |
| Revaluation of buildings, net of tax | - | - | (23 864) | - | - | (23 864) | - | (23 864) |
| Net change in fair value of available-for-sale assets, net of tax | - | - | - | (34 879) | - | (34 879) | - | (34 879) |
| Total other comprehensive loss | - | - | (23 864) | (34 879) | | (58 743) | - | (58 743) |
| **Total comprehensive (loss) income** | **-** | **-** | **(23 864)** | **(34 879)** | **(732 112)** | **(790 855)** | **119** | **(790 736)** |
| Minority interest in acquired subsidiaries | - | - | - | - | - | - | (187) | (187) |
| Contributions by participants (note 25) | 197 561 | 977 939 | - | - | - | 1 175 500 | - | 1 175 500 |
| **Balance as at 31 December 2008 (Restated)** | **1 097 561** | **1 838 759** | **12 617** | **(34 879)** | **(579 827)** | **2 334 231** | **474** | **2 334 705** |

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

| | Attributable to participants of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Charter capital** | **Other capital contributions** | **Revaluation reserve for property** | **Revaluation reserve for available-for-sale assets** | **Retained earnings (accumulated losses)** | **Total** | **Minority interests** | **Total Equity** |
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **Balance as at 1 January 2009 (Restated)** | **1 097 561** | **1 838 759** | **12 617** | **(34 879)** | **(579 827)** | **2 334 231** | **474** | **2 334 705** |
| Loss | - | - | - | - | (68 010) | (68 010) | - | (68 010) |
| Other comprehensive income | | | | | | | | |
| Revaluation of buildings, net of tax | - | - | (10 306) | - | - | (10 306) | - | (10 306) |
| Net change in fair value of available-for-sale assets, net of tax | - | - | - | 33 208 | - | 33 208 | - | 33 208 |
| Total other comprehensive income (loss) | - | - | (10 306) | 33 208 | - | 22 902 | - | 22 902 |
| **Total comprehensive income (loss)** | **-** | **-** | **(10 306)** | **33 208** | **(68 010)** | **(45 108)** | **-** | **(45 108)** |
| Contributions from (paid to) participants (note 25) | - | 590 201 | - | - | - | 590 201 | (474) | 589 727 |
| **Balance as at 31 December 2009** | **1 097 561** | **2 428 960** | **2 311** | **(1 671)** | **( 647 837)** | **2 879 324** | **-** | **2 879 324** |

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

# 1 Background

## Principal activities

These consolidated financial statements include the financial statements of Sovcombank (LLC) (the “Bank” or “Sovcombank”) and its subsidiaries (together referred to as the “Group” or “Sovcombank Group”). A list of principal consolidated subsidiaries of the Sovcombank Group is disclosed in note 39.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank operates under general banking licence № 963 issued by the Central Bank of the Russian Federation (the “CBRF”). The Bank also has licences for operations with securities and custody services issued by the Federal Securities Market Commission (the “FSMC”) on 7 February 2006. The Bank is a member of the state deposit insurance scheme in the Russian Federation.

The Group’s principal business activity is retail and corporate banking operations within the Russian Federation. The Group is headquartered in Kostroma and has a network of branches in the Central, Ural, Siberian, South and Far East Federal Districts. The Group operates in 25 regions and more than 260 cities of the Russian Federation. The Group has 3,096 employees as at 31 December 2009 (31 December 2008: 4,250).

## Shareholders

As at 31 December 2009 and 31 December 2008, the Group's ownership is as follows:

| | **Ownership %<br>31 December 2009** | **Ownership %<br>31 December 2008** |
|---|---|---|
| TBIF Financial Services B.V. (“TBIF”) | 62.3725% | 60.8725% |
| SovCo Capital Partners B.V. | 37.6275% | 37.6275% |
| Other | - | 1.5% |

The parent company of TBIF, TBIH Financial Services Group N.V. (“TBIH”) is located in the Netherlands. TBIH, through its subsidiaries, pursues investment opportunities in the field of financial services, focusing on banking, retail lending (financial leases and consumer financing), insurance, asset management and investment advisory services. The ultimate parent of TBIH, Kardan N.V., is located in the Netherlands.

## Russian business environment

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

# 2 Basis of preparation

## Statement of compliance

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

### Basis of measurement

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

### Functional and presentation currency

The functional currency of the Bank and all of its subsidiaries is the Russian Rouble ("RUR") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUR is also the presentation currency for the purposes of these consolidated financial statements.

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

### Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates - note 16;
- Buildings and investment property revaluation estimates - notes 17 and 18;
- Goodwill impairment assessment - note 38.

## 3 Significant accounting policies

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

### Basis of consolidation

#### *Subsidiaries*

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

#### *Acquisitions of entities under common control*

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Bank's equity except that any share capital of the acquired entities is recognised as part of other capital contributions. Any cash paid for the acquisition is debited to equity.

### *Acquisitions and disposals of minority interest*

A difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Bank's interest in the subsidiary including attributable goodwill, is recognised in profit or loss.

### *Associates*

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

### *Transactions eliminated on consolidation*

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

### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

### Minority interest

Minority interest is that part of the profit or loss, other comprehensive income and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Bank.

Minority interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Minority interest in the profit or loss and other comprehensive income is separately disclosed in the consolidated statement of comprehensive income.

## Foreign currency transactions

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

## Inflation accounting

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

## Cash and cash equivalents

The Group includes cash, nostro accounts with the CBRF and other banks, and placements with other banks with an original maturity less than 90 days in cash and cash equivalents. The minimum mandatory reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawability.

## Financial instruments

### *Classification*

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

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

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

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

### *Recognition*

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

### *Measurement*

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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

### *Fair value measurement principles*

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

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

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

### *Gains and losses on subsequent measurement*

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

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

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

### *Derecognition*

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

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### *Repurchase and reverse repurchase agreements*

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

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

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

### Offsetting

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

## Property, equipment and intangible assets

### *Owned assets*

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

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

### *Leased assets*

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

### *Revaluation*

Buildings are measured at revalued amounts. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on a building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

### *Depreciation*

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

| | |
|---|---|
| Buildings | 20-50 years |
| Leasehold improvements | 3 years |
| Computers | 2-5 years |
| Motor vehicles | 3-5 years |
| Furniture and equipment | 3-7 years |
| Intangible assets | 2-10 years |

## Intangible assets

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

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

## Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## Impairment

### *Financial assets carried at amortized cost*

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

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

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

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

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

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

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

### *Financial assets carried at cost*

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

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

### *Available-for-sale assets*

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### *Non financial assets*

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

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

## Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

## Credit related commitments

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

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

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

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

## Charter Capital

Based on the Charter each participant in the Bank has the unilateral right to withdraw his capital from the Bank and receive his share of the Bank's net assets within three months after the end of the year of the withdrawal. Management considered the amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* and concluded all requirements to treat its capital puttable instruments as equity are met.

## Distributions to participants

Distributions to participants are recognized in the period in which they are declared. The Group distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

## Taxation

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

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

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

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

## Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

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

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

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

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

## Changes in accounting policies

Pursuant to the amendments of IAS 18 *Revenue*, which are effective from 1 January 2009, the Group has changed its accounting policy in respect of fees and costs that form part of the effective interest rate of a financial instrument. Previously certain costs that were deferred are now reported in the period they are incurred. This change in accounting policy is applied retrospectively.

Comparative information as at 31 December 2008 is restated as follows:

| | **2008 (restated) RUR'000** | **Adjustment RUR'000** | **2008 (before restatement) RUR'000** |
|---|---|---|---|
| **Assets** | | | |
| Loans to customers | 14 941 459 | (196 549) | 15 138 008 |
| Deferred tax asset | 192 992 | 39 346 | 153 646 |
| **Equity** | | | |
| Accumulated losses | (579 827) | (157 203) | (422 624) |

Comparative information as at 31 December 2007 is restated as follows:

| | **2007 (restated) RUR'000** | **Adjustment RUR'000** | **2007 (before restatement) RUR'000** |
|---|---|---|---|
| **Assets** | | | |
| Loans to customers | 12 777 678 | (153 114) | 12 930 792 |
| Deferred tax asset | 105 447 | 36 747 | 68 700 |
| **Equity** | | | |
| Retained earnings | 152 285 | (116 367) | 268 652 |

Comparative information for the year ended 31 December 2008 is restated as follows:

| | 31 December 2008 (restated) | Adjustment | 31 December 2008 (before restatement) |
|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 |
| Interest income | 5 095 478 | 441 256 | 4 654 222 |
| Personnel expenses | (1 666 787) | (352 532) | (1 314 255) |
| Other general administrative expenses | (1 461 927) | (148 798) | (1 313 129) |
| Provision for loan impairment (note 8) | (1 399 328) | 16 639 | (1 415 967) |
| Income tax benefit/(expense) | 70 466 | 2 599 | 67 867 |

Starting from 1 January 2009 pursuant to the amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009) the Group has reclassified charter capital, other capital contributions, other reserves and retained earnings attributable to participants from liabilities to equity.

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

## New Standards and Interpretations not yet adopted

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

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

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

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

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (effective for annual periods beginning on or after 1 July 2009) clarifies the classification of assets and liabilities on disposal of a subsidiary.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009) addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised.

# 4 Net interest income

| | 2009 RUR'000 | 2008 RUR'000 (Restated) |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 5 217 354 | 4 783 606 |
| Securities | 928 977 | 231 219 |
| Placements with banks | 64 702 | 80 653 |
| | **6 211 033** | **5 095 478** |
| **Interest expense** | | |
| Current accounts and deposits from customers | (2 103 238) | (1 371 958) |
| Deposits and balances from banks | (597 271) | (272 745) |
| Promissory notes | (63 997) | (45 927) |
| Subordinated debt | (43 317) | (8 569) |
| | **(2 807 823)** | **(1 699 199)** |

# 5 Fee and commission income

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Settlement fees | 93 858 | 104 465 |
| Cash withdrawal fees | 30 563 | 43 244 |
| Plastic card fees | 18 817 | 13 704 |
| Insurance agent services | 15 771 | - |
| Foreign exchange operations | 11 441 | 30 930 |
| Guarantee issuance fees | 6 808 | 29 716 |
| Cash transportation fees | 6 485 | 8 808 |
| Operations with securities | 5 095 | 4 746 |
| Merchant services | - | 81 419 |
| Other | 4 652 | 8 107 |
| | **193 490** | **325 139** |

# 6 Fee and commission expense

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Settlement fees | (34 120) | (11 652) |
| Cash transportation fees | (16 902) | (30 437) |
| Depository fees | (10 721) | (7 698) |
| Plastic card fees | (10 380) | (4 371) |
| Other borrowed funds fees | (10 344) | (870) |
| Cash transaction fees | (4 648) | (4 460) |
| Other | (3 772) | (2 142) |
| | **(90 887)** | **(61 630)** |

# 7 Other operating income

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Insurance activities | 40 042 | 137 654 |
| Investment property revaluation | 23 086 | - |
| Gain on disposal of fixed assets | - | 4 797 |
| Income recognised on disposal of subsidiaries | 25 680 | - |
| Reversal of impairment recognised on buildings | 9 961 | - |
| Operating lease | 6 377 | 5 788 |
| Other | 3 537 | 9 422 |
| | **108 683** | **157 661** |

# 8 Impairment losses

| | 2009 RUR'000 | 2008 RUR'000 (restated) |
|---|---|---|
| Loans to customers | (3 099 584) | (1 399 328) |
| Other assets | (41 025) | - |
| Buildings | - | (74 604) |
| | **(3 140 609)** | **(1 473 932)** |

# 9 Personnel expenses

| | 2009 RUR'000 | 2008 RUR'000 (Restated) |
|---|---|---|
| Employee compensation | (1 202 113) | (1 391 183) |
| Payroll related taxes | (234 568) | (275 604) |
| | **(1 436 681)** | **(1 666 787)** |

# 10 Other general administrative expenses

| | 2009 RUR'000 | 2008 RUR'000 (Restated) |
|---|---|---|
| Occupancy | (273 328) | (372 193) |
| Advertising and marketing | (179 244) | (276 789) |
| Depreciation and amortization | (168 473) | (113 573) |
| Professional and security services | (166 812) | (176 464) |
| Communications and information services | (89 278) | (93 484) |
| Taxes other than on income | (73 617) | (38 369) |
| Repairs and maintenance | (73 083) | (91 155) |
| Insurance | (63 014) | (52 598) |
| Provisions for legal claims | (65 787) | - |
| Transport | (48 022) | (73 052) |
| Other | (66 743) | (174 250) |
| | **(1 267 401)** | **(1 461 927)** |

# 11 Income tax expense

| | 2009 RUR'000 | 2008 RUR'000 (Restated) |
|---|---|---|
| **Current tax expense** | | |
| Current tax expense | (74 414) | (94 629) |
| Tax in respect of prior years | - | (18 037) |
| | **(74 414)** | **(112 666)** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 62 146 | 183 132 |
| **Total income tax (expense) benefit** | **(12 268)** | **70 466** |

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

### Reconciliation of effective tax rate

| | 2009 | | 2008 (Restated) | |
|---|---|---|---|---|
| | RUR'000 | % | RUR'000 | % |
| Loss before tax | **(55 742)** | | **(802 459)** | |
| Income tax benefit at the applicable tax rate | 11 148 | 20% | 192 590 | 24% |
| Unrecognised deferred tax asset | (13 566) | (24%) | (59 936) | (8%) |
| Effect of non-deductible expenses | (24 638) | (44%) | (17 353) | (2%) |
| Effect of lower tax rates | 14 788 | 26% | - | |
| Tax in respect of prior years | - | | (18 037) | (2%) |
| Effect of changes in tax rates | - | | (26 798) | (3%) |
| | **(12 268)** | **(22%)** | **70 466** | **9%** |

# 12 Cash and cash equivalents

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Due from the CBRF | 1 181 778 | 2 455 178 |
| Cash on hand | 928 161 | 739 084 |
| Nostro accounts with OECD banks | 636 991 | 579 880 |
| Nostro accounts with Russian banks | 620 417 | 248 281 |
| Placements with banks | 33 269 | - |
| | **3 400 616** | **4 022 423** |

# 13 Financial instruments at fair value through profit or loss

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Held by the Group** | | |
| **Government and municipal bonds** | | |
| Moscow City | 446 005 | - |
| Moscow region | 304 998 | 35 968 |
| Russian Government Federal bonds (OFZ) | 122 378 | - |
| **Total government and municipal bonds** | **873 381** | **35 968** |

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Corporate bonds** | | |
| Moscow Credit Bank | 696 502 | 32 823 |
| MTS (Mobile TeleSystem) | 476 648 | 106 699 |
| Russian Standard Bank | 397 817 | - |
| Agency for Housing Mortgage Lending | 226 127 | - |
| Lukoil | 201 153 | 762 |
| MDM Bank (URSA Bank) | 179 298 | 38 376 |
| Renaissance Capital Bank | 150 490 | - |
| X5 Finance | 142 998 | - |
| VK-Invest | 114 939 | - |
| LenSpetsSMU | 100 351 | - |
| Promsvyaz Bank | 98 874 | - |
| RVK Finance | 92 856 | - |
| Bank Vozrozhdenie | 51 471 | - |
| Leasing Company Business Alliance | 42 186 | - |
| Russian Railways | 37 787 | - |
| Sibmetinvest | 27 876 | - |
| Ukrsotsbank | 16 096 | - |
| OGK-2 | 2 971 | - |
| AFK Sistema | 1 913 | - |
| Rusfinance Bank | - | 146 089 |
| Sberbank | - | 97 866 |
| ALFA bank | - | 70 307 |
| Norilsk Nikel | - | 56 293 |
| **Total corporate bonds** | **3 058 353** | **549 215** |
| **Promissory notes** | | |
| Globeksbank | 291 338 | - |
| LOKO-Bank | 112 458 | - |
| Probusinessbank | 111 292 | - |
| Kedr Bank | 111 094 | - |
| **Total promissory notes** | **626 182** | **-** |
| **Derivative financial instruments** | | |
| Foreign currency contracts | 21 446 | - |
| **Total derivative financial instruments** | **21 446** | **-** |
| **Total financial instruments at fair value through profit or loss held by the Group** | **4 579 362** | **585 183** |

| | 2009<br>RUR'000 | 2008<br>RUR'000 |
|---|---|---|
| **Government and municipal bonds pledged under sale and repurchase agreements** | | |
| Russian Government Federal bonds (OFZ) | 2 034 772 | - |
| Moscow City | 582 923 | - |
| **Total Government and municipal bonds pledged under sale and repurchase agreements** | **2 617 695** | **-** |
| **Corporate bonds pledged under sale and repurchase agreements** | | |
| Agency for Housing Mortgage Lending | 1 588 926 | - |
| Renaissance Capital Bank | 943 652 | 21 865 |
| HKF Bank | 835 167 | - |
| Russian Railways | 659 403 | - |
| Russian Standard Bank | 433 471 | - |
| RVK Finance | 297 902 | - |
| MDM Bank (URSA Bank) | 206 927 | - |
| Sibmetinvest | 177 872 | - |
| MTS (Mobile TeleSystem) | 157 386 | - |
| TGK-1 | 117 689 | - |
| X5 Finance | 112 858 | - |
| AFK Sistema | 108 146 | - |
| Rosbank | 51 204 | - |
| Rusfinance Bank | 23 317 | 28 804 |
| Dalsvyaz | 22 440 | - |
| **Total Corporate bonds pledged under sale and repurchase agreements** | **5 736 360** | **50 669** |
| **Promissory notes pledged under sale and repurchase agreements** | | |
| CenterTelekom | 600 730 | - |
| **Total Promissory notes pledged under sale and repurchase agreements** | **600 730** | **-** |
| **Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements** | **8 954 785** | **50 669** |
| **Total financial instruments at fair value through profit or loss** | **13 534 147** | **635 852** |

As of 31 December 2009 and 2008, the Group has pledged securities as collateral under repurchase agreements included in deposits and balances from banks (refer to note 21).

## Foreign currency contracts

The table below summarises the contractual amounts of forward exchange contracts outstanding as at 31 December 2009 and 31 December 2008 with details of the contracted exchange rates and remaining periods to maturity. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in the consolidated statement of comprehensive income and in financial instruments at fair value through profit or loss, as appropriate.

| | Notional amount | | Weighted average contracted exchange rates | |
|---|---|---|---|---|
| | 2009 RUR'000 | 2008 RUR'000 | 2009 RUR'000 | 2008 RUR'000 |
| **Buy RUR/sell USD** | | | | |
| Less than three months | 20 868 | - | 30.25 | - |
| **Buy USD/sell RUR** | | | | |
| Less than three months | 1 153 132 | - | 29.88 | - |
| **Buy EUR/sell RUR** | | | | |
| Less than three months | 1 001 600 | - | 43.08 | - |
| **Total** | **2 175 600** | **-** | **34.79** | **-** |

## Reclassification out of financial assets at fair value through profit or loss

During 2008, pursuant to the amendments to IAS 39 and IFRS 7, the Group reclassified certain quoted securities from trading to available-for-sale assets. The Group identified securities eligible under the amendments for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Group determined that the Georgian conflict in August 2008 in the context of deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 11 August 2008 at fair value at that date. The table below sets out the quoted securities reclassified and their carrying and fair values:

| | 31 December 2009 RUR'000 | | 31 December 2008 RUR'000 | | 11 August 2008 RUR'000 |
|---|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying and fair value |
| Quoted securities reclassified to available-for-sale assets | 18 903 | 18 903 | 1 172 084 | 1 172 084 | 1 382 930 |
| | **18 903** | **18 903** | **1 172 084** | **1 172 084** | **1 382 930** |

The table below sets out the amounts actually recognised in profit or loss and equity in respect of quoted securities reclassified out of financial assets at fair value through profit or loss:

| | 2009 RUR'000 | | 2008 RUR'000 | |
|---|---|---|---|---|
| | **Recognised for reclassified assets** | **Would have been recognized if the reclassifications were not made** | **Recognised for reclassified assets** | **Would have been recognized if the reclassifications were not made** |
| Interest income | 30 220 | 30 220 | 25 234 | 25 234 |
| Gains (losses) arising from available-for-sale assets, net | 98 673 | 140 183 | (58 276) | (101 874) |
| **Total recognised in profit or loss for the period (before tax)** | **128 893** | **170 403** | **(33 042)** | **(76 640)** |
| Net change in fair value of available-for-sale assets | 41 510 | - | (43 598) | - |
| **Total amount recognized within consolidated statement of comprehensive income for the period (before tax)** | **170 403** | **170 403** | **(76 640)** | **(76 640)** |

# 14 Available-for-sale assets

| | **2009 RUR'000** | **2008 RUR'000** |
|---|---|---|
| **Held by the Group** | | |
| **Government and municipal bonds** | | |
| Samara region bonds | 8 253 | - |
| Russian Government Federal bonds (OFZ) | 2 006 | 96 037 |
| **Total government and municipal bonds** | **10 259** | **96 037** |
| | | |
| **Corporate bonds** | | |
| Rosbank | - | 177 717 |
| AKBars Bank | - | 41 952 |
| Aladuskin Finance | - | 36 340 |
| Russian Standard Bank | - | 30 158 |
| HydroOGK | - | 11 145 |
| Rosselhozbank | - | 6 300 |
| VTB | - | 887 |
| **Total corporate bonds** | **-** | **304 499** |
| | | |
| **Equity instruments** | | |
| Sberbank | - | 38 620 |
| **Total equity instruments** | **-** | **38 620** |
| **Total available-for-sale assets held by the Group** | **10 259** | **439 156** |

| | 2009<br>RUR'000 | 2008<br>RUR'000 |
|---|---|---|
| **Government and municipal bonds pledged under sale and repurchase agreements** | | |
| Russian Government Federal bonds (OFZ) | 8 644 | - |
| Moscow region | - | 75 783 |
| Sakha Republic | - | 47 410 |
| Nizhnii Novgorod region | - | 9 355 |
| Samara region | - | 8 800 |
| **Total government and municipal bonds pledged under sale and repurchase agreements** | **8 644** | **141 348** |
| | | |
| **Corporate bonds ledged under sale and repurchase agreements** | | |
| Rosbank | - | 102 840 |
| NOMOS Bank | - | 98 321 |
| Zenit Bank | - | 93 603 |
| VTB | - | 71 615 |
| Petrocommerce Bank | - | 67 522 |
| Rosselhozbank | - | 62 058 |
| Russian Standard Bank | - | 30 158 |
| TransKreditBank | - | 29 010 |
| St.Petersburg Bank | - | 24 095 |
| Mosenergo | - | 12 358 |
| **Total corporate bonds pledged under sale and repurchase agreements** | **-** | **591 580** |
| **Total available-for-sale assets pledged under sale and repurchase agreements** | **8 644** | **732 928** |
| **Total available-for-sale assets** | **18 903** | **1 172 084** |

As of 31 December 2009 and 2008, the Group pledged securities as collateral under repurchase agreements included in deposits and balances from banks (refer to note 21).

# 15 Held-to-maturity investments

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Held by the Group** | | |
| **Corporate bonds** | | |
| Gazprom | - | 1 170 636 |
| Severstal | - | 117 250 |
| Petrocommerce Bank | - | 16 521 |
| Rosselhozbank | - | 10 117 |
| VTB | - | 7 007 |
| **Total corporate bonds** | **-** | **1 321 531** |
| | | |
| **Pledged under sale and repurchase agreements** | | |
| **Corporate bonds** | | |
| VTB | - | 498 192 |
| VTB24 | - | 169 100 |
| Promsvyazbank | - | 49 896 |
| Renaissance Finance | - | 38 501 |
| **Total Held-to-maturity investments pledged under sale and repurchase agreements** | **-** | **755 689** |
| **Total Held-to-maturity investments** | **-** | **2 077 220** |

As of 31 December 2009 and 2008, the Group pledged securities as collateral under repurchase agreements included in deposits and balances from banks (refer to note 21).

During 2009 the Group sold a significant part (RUR 1 608 260 thousand) of the held-to-maturity investments portfolio before maturity. The Group reclassified the remaining portfolio into financial instruments at fair value through profit or loss. The Group is prohibited from classifying investments as held-to-maturity for the two years subsequent to 31 December 2009.

# 16 Loans to customers

| | 2009 RUR'000 | 2008 RUR'000 (Restated) | 2007 RUR'000 (Restated) |
|---|---|---|---|
| **Loans to individuals** | | | |
| Consumer loans | 8 716 888 | 9 622 166 | 7 253 677 |
| Mortgage loans | 870 584 | 932 708 | 972 431 |
| Car loans | 234 316 | 470 607 | 510 461 |
| Other | 655 576 | 579 709 | 510 382 |
| **Total loans to individuals** | **10 477 364** | **11 605 190** | **9 246 951** |
| **Loans to corporate entities and finance lease receivables** | | | |
| Loans to small and medium size companies | 6 085 076 | 4 301 950 | 4 034 696 |
| Finance lease receivables | 461 137 | 753 264 | 235 237 |
| **Total loans to corporate entities and finance lease receivables** | **6 546 213** | **5 055 214** | **4 269 933** |
| **Gross loans to customers** | **17 023 577** | **16 660 404** | **13 516 884** |
| Less allowance for impairment | (2 279 370) | (1 718 945) | (739 206) |
| **Net loans to customers** | **14 744 207** | **14 941 459** | **12 777 678** |

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

| | 2009 RUR'000 | 2008 RUR'000 (Restated) | 2007 RUR'000 (Restated) |
|---|---|---|---|
| Balance at the beginning of the year | **(1 718 945)** | **(739 206)** | **(36 783)** |
| Allowance for loan impairment | (3 099 584) | (1 399 328) | (186 470) |
| Loans written off as uncollectible | 2 539 159 | 726 332 | 2 627 |
| **Loan impairment allowance at the end of the year** | **(2 279 370)** | **(1 412 202)** | **(220 626)** |
| Allowance for loan impairment acquired in business combination | - | (306 743) | (518 580) |
| **Net loan impairment allowance at the end of the year** | **(2 279 370)** | **(1 718 945)** | **(739 206)** |

## Credit quality of loans to individuals

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

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans, % |
|---|---|---|---|---|
| **Consumer loans** | | | | |
| - Not past due | 6 773 202 | (68 506) | 6 704 696 | 1,0% |
| - Overdue less than 30 days | 361 074 | (63 675) | 297 399 | 17,6% |
| - Overdue 30-89 days | 339 127 | (155 313) | 183 814 | 45,8% |
| - Overdue 90-179 days | 366 081 | (215 286) | 150 795 | 58,8% |
| - Overdue 180-360 days | 877 404 | (768 282) | 109 122 | 87,6% |
| **Total consumer loans** | **8 716 888** | **(1 271 062)** | **7 445 826** | **14,6%** |
| **Mortgage loans** | | | | |
| - Not past due | 524 365 | (4 943) | 519 422 | 0,9% |
| - Overdue less than 30 days | 50 402 | (2 514) | 47 888 | 5,0% |
| - Overdue 30-89 days | 19 073 | (2 076) | 16 997 | 10,9% |
| - Overdue 90-179 days | 17 089 | (3 002) | 14 087 | 17,6% |
| - Overdue 180-360 days | 82 996 | (24 698) | 58 298 | 29,8% |
| - Overdue more than 360 days | 176 659 | (87 697) | 88 962 | 49,6% |
| **Total mortgage loans** | **870 584** | **(124 930)** | **745 654** | **14,4%** |
| **Car loans** | | | | |
| - Not past due | 142 848 | (1 421) | 141 427 | 1,0% |
| - Overdue less than 30 days | 27 601 | (4 810) | 22 791 | 17,4% |
| - Overdue 30-89 days | 16 975 | (6 771) | 10 204 | 39,9% |
| - Overdue 90-179 days | 18 753 | (10 980) | 7 773 | 58,6% |
| - Overdue 180-360 days | 28 139 | (18 876) | 9 263 | 67,1% |
| **Total car loans** | **234 316** | **(42 858)** | **191 458** | **18,3%** |
| **Other loans to individuals** | | | | |
| - Not past due | 405 490 | (27 675) | 377 815 | 6,8% |
| - Overdue less than 30 days | 119 045 | (4 617) | 114 428 | 3,9% |
| - Overdue 30-89 days | 14 947 | (8 589) | 6 358 | 57,5% |
| - Overdue 90-179 days | 16 113 | (6 858) | 9 255 | 42,6% |
| - Overdue 180-360 days | 58 956 | (15 436) | 43 520 | 26,2% |
| - Overdue more than 360 days | 41 025 | (24 440) | 16 585 | 59,6% |
| **Total other loans to individuals** | **655 576** | **(87 615)** | **567 961** | **13,4%** |
| **Total loans to individuals** | **10 477 364** | **(1 526 465)** | **8 950 899** | **14,6%** |

The following table provides information on the credit quality of loans to individuals as at 31 December 2008 (restated):

| | **Gross loans RUR'000** | **Impairment allowance RUR'000** | **Net loans RUR'000** | **Impairment to gross loans, %** |
|---|---|---|---|---|
| **Consumer loans** | | | | |
| - Not past due | 6 868 047 | (44 344) | 6 823 703 | 0,6% |
| - Overdue less than 30 days | 892 043 | (115 307) | 776 736 | 12,9% |
| - Overdue 30-89 days | 356 573 | (129 375) | 227 198 | 36,3% |
| - Overdue 90-179 days | 390 792 | (215 577) | 175 215 | 55,2% |
| - Overdue 180-360 days | 600 074 | (422 345) | 177 729 | 70,4% |
| - Overdue more than 360 days | 514 637 | (405 808) | 108 829 | 78,9% |
| **Total consumer loans** | **9 622 166** | **(1 332 756)** | **8 289 410** | **13,9%** |
| **Mortgage loans** | | | | |
| - Not past due | 664 134 | (9 162) | 654 972 | 1,4% |
| - Overdue less than 30 days | 92 118 | (9 014) | 83 104 | 9,8% |
| - Overdue 30-89 days | 35 495 | (6 664) | 28 831 | 18,8% |
| - Overdue 90-179 days | 54 298 | (7 858) | 46 440 | 14,5% |
| - Overdue 180-360 days | 70 174 | (27 782) | 42 392 | 39,6% |
| - Overdue more than 360 days | 16 489 | (7 216) | 9 273 | 43,8% |
| **Total mortgage loans** | **932 708** | **(67 696)** | **865 012** | **7,3%** |
| **Car loans** | | | | |
| - Not past due | 329 879 | (7 012) | 322 867 | 2,1% |
| - Overdue less than 30 days | 54 203 | (6 638) | 47 565 | 12,2% |
| - Overdue 30-89 days | 40 706 | (6 387) | 34 319 | 15,7% |
| - Overdue 90-179 days | 14 590 | (2 050) | 12 540 | 14,1% |
| - Overdue 180-360 days | 14 065 | (4 797) | 9 268 | 34,1% |
| - Overdue more than 360 days | 17 164 | (12 229) | 4 935 | 71,2% |
| **Total car loans** | **470 607** | **(39 113)** | **431 494** | **8,3%** |
| **Other loans to individuals** | | | | |
| - Not past due | 359 305 | (17 849) | 341 456 | 5,0% |
| - Overdue less than 30 days | 57 281 | (2 864) | 54 417 | 5,0% |
| - Overdue 30-89 days | 56 869 | (13 739) | 43 130 | 24,2% |
| - Overdue 90-179 days | 79 595 | (38 751) | 40 844 | 48,7% |
| - Overdue 180-360 days | 6 990 | (5 004) | 1 986 | 71,6% |
| - Overdue more than 360 days | 19 669 | (15 722) | 3 947 | 79,9% |
| **Total other loans to individuals** | **579 709** | **(93 929)** | **485 780** | **16,2%** |
| **Total loans to individuals** | **11 605 190** | **(1 533 494)** | **10 071 696** | **13,2%** |

## *Analysis of collateral*

The following table provides the analysis of loans to individuals, net of impairment, by types of collateral as at 31 December 2009:

| RUR'000 | Consumer loans | Mortgage loans | Car loans | Other loans to individuals | Total |
|---|---|---|---|---|---|
| Real estate | - | 745 654 | - | 325 721 | 1 071 375 |
| Motor vehicles | - | - | 191 458 | 35 852 | 227 310 |
| Goods and materials | - | - | - | 508 | 508 |
| Other collateral | - | - | - | 4 862 | 4 862 |
| No collateral | 7 445 826 | - | - | 201 018 | 7 646 844 |
| **Total loans to individuals** | **7 445 826** | **745 654** | **191 458** | **567 961** | **8 950 899** |

The following table provides the analysis of loans to individuals, net of impairment, by types of collateral as at 31 December 2008:

| RUR'000 | Consumer loans (Restated) | Mortgage loans | Car loans | Other loans to individuals | Total (Restated) |
|---|---|---|---|---|---|
| Real estate | - | 865 012 | - | 265 931 | 1 130 943 |
| Motor vehicles | - | - | 431 494 | 37 272 | 468 766 |
| Goods and materials | - | - | - | 54 052 | 54 052 |
| Other collateral | - | - | - | 10 109 | 10 109 |
| No collateral | 8 289 410 | - | - | 118 416 | 8 407 826 |
| **Total loans to individuals** | **8 289 410** | **865 012** | **431 494** | **485 780** | **10 071 696** |

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The Group estimates loan impairment for loans to individuals based on its past historical loss experience and in some cases peer group experience for comparable loan groups.

The most significant assumptions at 31 December 2009 are as follows:

- real estate collateral values are discounted by 40%
- motor vehicle collateral values are discounted by 50%
- migration estimates are based on 12 month historic loss migration patterns adjusted for current economic conditions.

## Analysis of movements in the loan impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

| | Consumer loans RUR'000 | Mortgage loans RUR'000 | Car loans RUR'000 | Other loans to individuals RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|
| Balance at the beginning of the year | (1 332 756) | (67 696) | (39 113) | (93 929) | (1 533 494) |
| Provision for loan impairment | (2 338 752) | (77 510) | (64 518) | 6 314 | (2 474 466) |
| Loans written off as uncollectible | 2 400 446 | 20 276 | 60 773 | - | 2 481 495 |
| **Net loan impairment allowance at the end of the year** | **(1 271 062)** | **(124 930)** | **(42 858)** | **(87 615)** | **(1 526 465)** |

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

| | Consumer loans RUR'000 (Restated) | Mortgage loans RUR'000 | Car loans RUR'000 | Other loans to individuals RUR'000 | Total RUR'000 (Restated) |
|---|---|---|---|---|---|
| Balance at the beginning of the year | (627 909) | (6 860) | (3 782) | (16 325) | (654 876) |
| Provision for loan impairment | (1 124 436) | (60 836) | (35 331) | (77 604) | (1 298 207) |
| Loans written off as uncollectible | 726 332 | - | - | - | 726 332 |
| **Loan impairment allowance at the end of the year** | **(1 026 013)** | **(67 696)** | **(39 113)** | **(93 929)** | **(1 226 751)** |
| Allowance for loan impairment acquired in business combination | (306 743) | - | - | - | (306 743) |
| **Net loan impairment allowance at the end of the year** | **(1 332 756)** | **(67 696)** | **(39 113)** | **(93 929)** | **(1 533 494)** |

Changes in these estimates could effect the loan impairment provision for loans to individuals. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the loan impairment provision on loans to individuals as of 31 December 2009 would be RUR 214 821 thousand lower/higher (31 December 2008: RUR 241 720 thousand).

## Credit quality of loans to corporate entities

The following table provides information on the credit quality of the loans to corporate entities and finance lease receivables as at 31 December 2009:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to corporate entities and finance lease receivables** | | | | |
| Loans and finance lease receivables without individual signs of impairment | 4 774 293 | (116 836) | 4 657 457 | 2,4% |
| Impaired loans and finance lease receivables: | | | | |
| - Overdue less than 90 days | 839 282 | (97 235) | 742 047 | 11,6% |
| - Overdue more than 90 days and less than 1 year | 737 646 | (385 184) | 352 462 | 52,2% |
| - Overdue more than 1 year | 194 992 | (153 650) | 41 342 | 78,8% |
| Total impaired loans and finance lease receivables | 1 771 920 | (636 069) | 1 135 851 | 35,9% |
| **Total loans to corporate entities and finance lease receivables** | **6 546 213** | **(752 905)** | **5 793 308** | **11,5%** |

The following table provides information on the credit quality of the loans to corporate entities and finance lease receivables as at 31 December 2008:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to corporate entities and finance lease receivables** | | | | |
| Loans and finance lease receivables without individual signs of impairment | 4 142 389 | (120 355) | 4 022 034 | 2,9% |
| Impaired loans and finance lease receivables: | | | | |
| - Overdue less than 90 days | 864 349 | (49 835) | 814 514 | 5,8% |
| - Overdue more than 90 days and less than 1 year | 47 235 | (15 106) | 32 129 | 32,0% |
| - Overdue more than 1 year | 1 241 | (155) | 1 086 | 12,5% |
| Total impaired loans and finance lease receivables | 912 825 | (65 096) | 847 729 | 7,1% |
| **Total loans to corporate entities and finance lease receivables** | **5 055 214** | **(185 451)** | **4 869 763** | **3,7%** |

The majority of loans to corporate entities are represented by loans issued to small and medium size companies.

In determining the impairment allowance for the loan portfolio to corporate entities for which no specific impairment has been identified, management assumes loss rates which are derived from historic losses adjusted for current market conditions, to be 2.4% as at 31 December 2009 (2008: 2.9%).

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

The Group estimates loan impairment for loans to corporate entities and finance lease receivables based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

Changes in these estimates could effect the loan impairment provision for loans to corporate entities. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be RUR 46 346 thousand lower/higher (31 December 2008: RUR 38 958 thousand).

During the year ended 31 December 2009 the Group renegotiated loans to legal entitites that would otherwise be past due or impaired of RUR 189 379 thousand (31 December 2008: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in loans without individual signs of impairment unless the borrower is unable to meet the renegotiated terms.

### *Analysis of collateral*

The following table provides the analysis of loans to corporate entities, net of impairment, by types of collateral as at 31 December 2009:

| | 2009 | | |
|---|---|---|---|
| | **Loans to corporate entities RUR'000** | **Finance lease receivables RUR'000** | **Total RUR'000** |
| Real estate | 2 834 619 | - | 2 834 619 |
| Motor vehicles | 64 736 | - | 64 736 |
| Equipment, goods and materials | 462 443 | 347 619 | 810 062 |
| Securities and equity investments | 181 044 | - | 181 044 |
| Other | 1 295 286 | - | 1 295 286 |
| No collateral | 607 561 | - | 607 561 |
| **Total** | **5 445 689** | **347 619** | **5 793 308** |

The following table provides the analysis of loans to corporate entities, net of impairment, by types of collateral as at 31 December 2008:

| | 2008 | | |
|---|---|---|---|
| | **Loans to corporate entities RUR'000** | **Finance lease receivables RUR'000** | **Total RUR'000** |
| Real estate | 811 759 | - | 811 759 |
| Motor vehicles | 100 396 | - | 100 396 |
| Equipment, goods and materials | 1 077 974 | 738 750 | 1 816 724 |
| Securities and equity investments | 792 627 | - | 792 627 |
| Other | - | - | - |
| No collateral | 1 348 257 | - | 1 348 257 |
| **Total** | **4 131 013** | **738 750** | **4 869 763** |

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue loans with a gross value of RUR 1 771 920 thousand (2008: RUR 912 825 thousand) are secured by collateral with a fair value of RUR 1 223 832 thousand (2008: RUR 673 825 thousand).

During the year ended 31 December 2009 the Group obtained assets with the carring amount of RUR 48 514 thousand (31 December 2008: nil) by taking control of collateral securing loans to corporate entities and finance lease receivables.

## Analysis of movements in the allowance for loan impairment

Movements in the loan impairment allowance by classes of loans to corporate entities and finance lease receivables are as follows:

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Balance at the beginning of the year | (185 451) | (84 330) |
| Provision for loan impairment | (625 118) | (101 121) |
| Loans written off as uncollectible | 57 664 | - |
| **Loan impairment allowance at the end of the year** | **(752 905)** | **(185 451)** |

## Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

| | 2009 RUR'000 | 2008 RUR'000 (restated) |
|---|---|---|
| Loans to individuals | 10 477 364 | 11 605 190 |
| Real estate | 3 466 207 | 1 550 119 |
| Finance | 866 416 | 667 878 |
| Manufacturing | 732 076 | 673 887 |
| Trade | 592 193 | 732 763 |
| Public sector | 288 343 | 197 228 |
| Professional services | 275 000 | - |
| Agriculture | 177 910 | 354 407 |
| Catering | 30 732 | 52 063 |
| Leasing | 23 809 | 342 385 |
| Hotel industry | 18 149 | - |
| Transport | 9 324 | 64 830 |
| Other | 66 054 | 419 654 |
| | **17 023 577** | **16 660 404** |
| Less allowance for loan impairment | (2 279 370) | (1 718 945) |
| | **14 744 207** | **14 941 459** |

## Significant credit exposures

As at 31 December 2009 and 2008 the Group has no borrowers or groups of connected borrowers, respectively, whose loan balances exceed 10% of loans to customers.

## Loan maturities

The maturity of the loan portfolio is presented in note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans.

# 17 Investment property

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Fair value at the beginning of the year | 123 112 | 135 341 |
| Additions | - | 10 921 |
| Disposals | (25 497) | (10 132) |
| Revaluation recognised in profit or loss | 23 086 | (13 018) |
| **Fair value at the end of the year** | **120 701** | **123 112** |

During 2009 rental income recognized in relation to investment property is RUR 5 277 thousand (31 December 2008: 5 661 thousand).

Management values investment properties based on the results of an independent appraisal performed by LLC "Neo Center". The approach used for the revaluation is consistent with revaluation of buildings in own use (note 18).

# 18 Property, equipment and intangible assets

| | Land and buildings RUR'000 | Leasehold improvements RUR'000 | Computers RUR'000 | Motor Vehicles RUR'000 | Furniture and equipment RUR'000 | Construction in progress RUR'000 | Intangible assets RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost/revalued amount** | | | | | | | | |
| As at 1 January 2009 | 610 649 | 74 244 | 218 961 | 50 671 | 222 063 | 8 449 | 133 604 | 1 318 641 |
| Additions | 17 184 | 1 898 | 70 476 | 4 707 | 11 158 | 2 331 | 55 250 | 163 004 |
| Disposals and write-offs | (6 406) | - | (24 716) | (13 475) | (31 635) | (5 987) | (22 552) | (104 771) |
| Disposals for companies deconsolidated (note 37) | (7 555) | - | (12 385) | (1 135) | (12 749) | (26) | (10 000) | (43 850) |
| Revaluation | (2 921) | - | - | - | - | - | - | (2 921) |
| Elimination of accumulated depreciation on revalued assets | (21 128) | - | - | - | - | - | - | (21 128) |
| **As at 31 December 2009** | **589 823** | **76 142** | **252 336** | **40 768** | **188 837** | **4 767** | **156 302** | **1 308 975** |
| **Depreciation** | | | | | | | | |
| As at 1 January 2009 | - | (19 180) | (67 856) | (15 431) | (40 857) | - | (24 109) | (167 433) |
| Depreciation charge | (22 025) | (24 797) | (49 648) | (4 906) | (40 699) | - | (26 398) | (168 473) |
| Disposals | 2 | - | 2 693 | 2 335 | 1 521 | - | 2 039 | 8 590 |
| Disposals for companies deconsolidated (note 37) | 895 | - | 6 946 | 456 | 5 352 | - | - | 13 649 |
| Revaluation | 21 128 | - | - | - | - | - | - | 21 128 |
| **As at 31 December 2009** | **-** | **(43 977)** | **(107 865)** | **(17 546)** | **(74 683)** | **-** | **(48 468)** | **(292 539)** |
| **Carrying value as at 31 December 2009** | **589 823** | **32 165** | **144 471** | **23 222** | **114 154** | **4 767** | **107 834** | **1 016 436** |
| Carrying value as at 31 December 2008 | 610 649 | 55 064 | 151 105 | 35 240 | 181 206 | 8 449 | 109 495 | 1 151 208 |

| | Land and buildings RUR'000 | Leasehold improvements RUR'000 | Computers RUR'000 | Motor Vehicles RUR'000 | Furniture and equipment RUR'000 | Construction in progress RUR'000 | Intangible assets RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost/revalued amount** | | | | | | | | |
| As at 1 January 2008 | 638 391 | 14 000 | 134 082 | 46 038 | 41 791 | 8 648 | 59 910 | 942 860 |
| Acquired in business combination (note 37) | - | - | 7 720 | 368 | 4 793 | 15 | - | 12 896 |
| Additions | 87 102 | 60 244 | 93 319 | 11 413 | 181 115 | - | 73 694 | 506 887 |
| Disposals | (2 978) | - | (16 160) | (7 148) | (5 636) | (214) | - | (32 136) |
| Revaluation | (93 439) | - | - | - | - | - | - | (93 439) |
| Elimination of accumulated depreciation on revalued assets | (18 427) | - | - | - | - | - | - | (18 427) |
| **As at 31 December 2008** | **610 649** | **74 244** | **218 961** | **50 671** | **222 063** | **8 449** | **133 604** | **1 318 641** |
| **Depreciation** | | | | | | | | |
| As at 1 January 2008 | - | (4 620) | (44 149) | (9 268) | (10 222) | - | (6 183) | (74 442) |
| Acquired in business combination (note 37) | - | - | (3 225) | (154) | (2 008) | - | - | (5 387) |
| Depreciation charge | (20 149) | (14 560) | (24 678) | (6 136) | (30 124) | - | (17 926) | (113 573) |
| Disposals | 1 722 | - | 4 196 | 127 | 1 497 | - | - | 7 542 |
| Revaluation | 18 427 | - | - | - | - | - | - | 18 427 |
| **As at 31 December 2008** | **-** | **(19 180)** | **(67 856)** | **(15 431)** | **(40 857)** | **-** | **(24 109)** | **(167 433)** |
| **Carrying value as at 31 December 2008** | **610 649** | **55 064** | **151 105** | **35 240** | **181 206** | **8 449** | **109 495** | **1 151 208** |
| Carrying value as at 31 December 2007 | 638 391 | 14 000 | 85 313 | 36 770 | 31 569 | 8 648 | 53 727 | 868 418 |

During the year the Group reclassified certain assets between categories to better reflect the nature of the assets. Prior year comparatives have been changed.

### Revalued assets

As at 31 December 2009 buildings were revalued by management based on the results of an independent appraisal performed by LLC "NEO centre".

The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The carrying value of buildings as at 31 December 2009, if the land and buildings would not have been revalued, would be RUR 673 993 thousand (2008: RUR 732 464 thousand).

# 19 Other assets

| | **2009** | **2008** |
|---|---|---|
| | **RUR'000** | **RUR'000** |
| Property taken back in respect of loans and cancelled lease receivables | 81 037 | 9 176 |
| Advances to suppliers | 79 005 | 112 541 |
| Income tax receivables | 65 719 | 121 993 |
| VAT receivables | 46 848 | 131 030 |
| Security deposit | 45 366 | 44 070 |
| Consideration receivable on disposal of subsidiaries | 27 665 | - |
| Coins | 19 270 | 152 |
| Taxes other than VAT and income tax | 6 133 | 9 303 |
| Settlements with personnel | 2 401 | 3 841 |
| Unsettled transaction on securities | - | 13 286 |
| Other | 21 262 | 42 351 |
| | **394 706** | **487 743** |
| Impairment allowance in respect of property taken back in respect of cancelled loans and leases | (32 523) | - |
| | **362 183** | **487 743** |

### Analysis of movements in the impairment allowance

| | **2009 RUR'000** | **2008 RUR'000** |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Provision for impairment | 41 025 | - |
| Assets written off as uncollectible | (8 502) | |
| **Balance at the end of the year** | **32 523** | **-** |

# 20 Current accounts and deposits from customers

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| **Individuals** | | |
| Current accounts and demand deposits | 1 761 052 | 561 711 |
| Term deposits | 15 786 461 | 12 231 402 |
| **Corporates** | | |
| Current accounts and demand deposits | 3 896 221 | 2 452 089 |
| Term deposits | 546 243 | 1 549 612 |
| | **21 989 977** | **16 794 814** |

## Concentrations of current accounts and deposits from customers

As at 31 December 2009 the Group has one customer (31 December 2008: no customers), whose balance exceeded 10% of total current accounts and deposits from customers. This balance as at 31 December 2009 is RUR 2 583 252 thousand.

# 21 Deposits and balances from banks

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Deposits from the CBRF | | |
| -Collateralized by security | 3 841 278 | 1 284 468 |
| -Uncollateralized | - | 2 084 500 |
| Amounts payable under repurchase agreements with banks | 3 499 206 | - |
| Deposits from banks | - | 1 036 891 |
| Vostro accounts of banks | 139 420 | 16 |
| Deposits from banks obtained for leasing activities | 47 007 | 111 429 |
| Deposits from banks obtained by credit agencies for consumer lending | - | 49 209 |
| | **7 526 911** | **4 566 513** |

As at 31 December 2009 the Group has two counterparties (31 December 2008: two counterparties), whose aggregated balances exceeds more than 10% of total deposits and balances from banks. The total amount of these balances as at 31 December 2009 is RUR 5 864 521 thousand or 78% of deposits and balances from banks (31 December 2008: RUR 4 415 576 thousand or 97% of deposits and balances from banks).

## Securities pledged

As of 31 December 2009 and 2008, the Bank has pledged certain securities as collateral under repurchase agreements with the Central Bank of Russia and other counterparties (refer notes 13, 14 and 15).

# 22 Subordinated debt

| Principal'000 | Currency | Counterparty | Interest rate | Issue dates | Maturity date | 31 December 2009 RUR'000 | 31 December 2008 RUR'000 |
|---|---|---|---|---|---|---|---|
| 25 000 | USD | Nederlandse Financierings-Maatschappij voor Ontwikkelings landen N.V. | 3m Libor+ 4,25% | 24.10.2008 22.01.2009 | 15.10.2018 | 756 957 | 367 200 |
| 3 150 | EUR | SovCo Capital Partners B.V. | 11,00% | 31.12.2008 | 31.12.2013 | - | 130 539 |
| 3 800 | USD | SovCo Capital Partners B.V. | 11,00% | 31.12.2008 | 31.12.2013 | - | 111 646 |
| | | | | | | **756 957** | **609 385** |

# 23 Other liabilities

| | 2009 RUR'000 | 2008 RUR'000 |
|---|---|---|
| Provision for legal claim | 65 787 | - |
| Payables to suppliers | 44 041 | 67 207 |
| Consideration payable on acquisition of subsidiaries | 41 645 | 71 616 |
| Payables to personnel | 25 288 | 58 834 |
| Non-income taxes payable | 17 099 | 18 356 |
| Accrued depositary insurance payment | 15 502 | 11 384 |
| VAT payable | 7 542 | 7 142 |
| Insurance reserves | - | 104 196 |
| Payables related to consumer finance lending activities | - | 57 462 |
| Income taxes payable | - | 6 735 |
| Other | 12 124 | 31 314 |
| | **229 028** | **434 246** |

# 24 Deferred tax

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2009 and 2008. These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

| | Assets | | Liabilities | | Net | | |
|---|---|---|---|---|---|---|---|
| **RUR'000** | **2009** | **2008 (restated)** | **2009** | **2008 (restated)** | **2009** | **2008 (restated)** | **2007 (restated)** |
| Placements with banks | - | - | - | - | - | - | (656) |
| Financial instruments | - | - | (107 882) | (7 019) | (107 882) | (7 019) | (634) |
| Loans to customers | 274 241 | 156 881 | - | - | 274 241 | 156 881 | 12 591 |
| Investment property | - | - | (5 321) | (4 957) | (5 321) | (4 957) | (6 528) |
| Property, equipment and intangible assets | - | - | (26 396) | (63 249) | (26 396) | (63 249) | (76 468) |
| Other assets | - | - | - | - | - | - | 1 623 |
| Current accounts and deposits from customers | - | - | - | (3 187) | - | (3 187) | 304 |
| Promissory notes | - | - | - | (164) | - | (164) | 409 |
| Other liabilities | 29 224 | 21 092 | - | - | 29 224 | 21 092 | 25 722 |
| Tax losses carry forward | 57 343 | 50 176 | - | - | 57 343 | 50 176 | - |
| **Recognized net deferred tax assets/(liabilities)** | **360 808** | **228 149** | **(139 599)** | **(78 576)** | **221 209** | **149 573** | **(43 637)** |

Reconciliation of the deferred tax position as of 31 December is as follows:

| | **2009 RUR'000** | **2008 RUR'000 (restated)** | **2007 RUR'000 (restated)** |
|---|---|---|---|
| Deferred tax asset | 349 740 | 192 992 | 105 447 |
| Deferred tax liability | (128 531) | (43 419) | (149 084) |
| **Net position** | **221 209** | **149 573** | **(43 637)** |

## Movement in temporary differences during the year ended 31 December 2009

| RUR'000 | Balance 1 January 2009 | Recognised in income | Recognised in other comprehensive income | Disposed in business deconsolidation | Balance 31 December 2009 |
|---|---|---|---|---|---|
| Financial instruments | (7 019) | (92 562) | (8 301) | - | (107 882) |
| Loans to customers | 156 881 | 117 360 | - | - | 274 241 |
| Investment property | (4 957) | (364) | - | - | (5 321) |
| Property, equipment and intangible assets | (63 249) | 20 064 | 2 576 | 14 213 | (26 396) |
| Current accounts and deposits from customers | (3 187) | 3 187 | - | - | - |
| Promissory notes | (164) | 164 | - | - | - |
| Other liabilities | 21 092 | 7 130 | - | 1 002 | 29 224 |
| Tax losses carry forward | 50 176 | 7 167 | - | - | 57 343 |
| | **149 573** | **62 146** | **(5 725)** | **15 215** | **221 209** |

## Movement in temporary differences during the year ended 31 December 2008

| RUR'000 | Balance 1 January 2008 | Recognised in income (restated) | Recognised in other comprehensive income | Acquired in business combination | Balance 31 December 2008 (restated) |
|---|---|---|---|---|---|
| Placements with banks and other financial institutions | (656) | 656 | - | - | - |
| Financial instruments | (634) | (15 105) | 8 720 | - | (7 019) |
| Loans to customers | 12 591 | 148 898 | - | (4 608) | 156 881 |
| Investment property | (6 528) | 1 571 | - | - | (4 957) |
| Property, equipment and intangible assets | (76 468) | 7 253 | 5 966 | - | (63 249) |
| Other assets | 1 623 | (1 623) | - | - | - |
| Current accounts and deposits from customers | 304 | (3 491) | - | - | (3 187) |
| Promissory notes | 409 | (573) | - | - | (164) |
| Other liabilities | 25 722 | (4 630) | - | - | 21 092 |
| Tax losses carry forward | - | 50 176 | - | - | 50 176 |
| | **(43 637)** | **183 132** | **14 686** | **(4 608)** | **149 573** |

## Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

| | **2009** | | | **2008** | | |
|---|---|---|---|---|---|---|
| **RUR'000** | **Amount before tax** | **Tax expense** | **Amount net-of-tax** | **Amount before tax** | **Tax expense** | **Amount net-of-tax** |
| Net change in fair value of available-for-sale assets | 41 509 | (8 301) | 33 208 | (43 599) | 8 720 | (34 879) |
| Revaluation surplus for buildings | (12 882) | 2 576 | (10 306) | (29 830) | 5 966 | (23 864) |
| **Other comprehensive income** | **28 627** | **(5 725)** | **22 902** | **(73 429)** | **14 686** | **(58 743)** |

# 25 Charter capital and other capital contributions

In February 2008 Sovcombank issued additional shares with a nominal value of RUR 197 560 976 for RUR 1 075 500 000. Furthermore, a resolution was passed transferring subordinated debt provided by TBIF Financial Services B.V. to charter capital and other capital contributions. The increased capital of RUR 1 075 500 000 was generated via cash injections from SovCo Capital Partners B.V. and TBIF Financial Services B.V. and the conversion of the subordinated debt due to TBIF Financial Services B.V.

In June 2008 SovCo Capital Partners B.V. and TBIF Financial Services B.V. made an additional pro-rata RUR 100 000 000 capital contribution.

In March and June 2009 TBIF Financial Services B.V. made additional capital contributions in the amounts RUR 510 201 000 and RUR 80 000 000, respectively.

# 26 Risk management

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

## Risk management policies and procedures

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

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. Application of risk management policies is subject to regular review by the Internal Audit department.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

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

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Department implemented a system of identification and quantification of operational risks.

## Market risk

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

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

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the First Deputy Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

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

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

## Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

| | **2009** | | **2008** | |
|---|---|---|---|---|
| **RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 100 bp parallel rise | (54 808) | (54 808) | (25 953) | (25 953) |
| 100 bp parallel fall | 54 808 | 54 808 | 25 953 | 25 953 |

The following table shows information on the exposure to interest rate risks as at 31 December 2009. The table includes assets and liabilities at their carrying value, as at the earlier of the following two dates: maturity or the date of re-pricing of interest rates.

| | **Less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** | **Non-interest bearing** | **Overdue** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 33 269 | - | - | - | - | 3 367 347 | - | 3 400 616 |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | - | - | - | 168 643 | - | 168 643 |
| Placements with banks | - | - | - | 35 000 | - | - | - | 35 000 |
| Financial instruments at fair value through profit or loss | | | | | | | | |
| - Held by the Group | - | 118 780 | 984 202 | 2 863 395 | 591 539 | 21 446 | - | 4 579 362 |
| - Pledged under sale and repurchase agreements | | 23 317 | - | 7 225 717 | 1 705 751 | - | - | 8 954 785 |
| Loans to customers | 860 134 | 1 685 329 | 5 656 345 | 5 173 037 | 345 925 | - | 1 023 437 | 14 744 207 |
| Available-for-sale assets | | | | | | | | |
| - Held by the Group | - | - | - | 8 253 | 2 006 | - | - | 10 259 |
| - Pledged under sale and repurchase agreements | - | - | - | - | 8 644 | - | - | 8 644 |
| Investment property | - | - | - | - | - | 120 701 | - | 120 701 |
| Property, equipment and intangible assets | - | - | - | - | - | 1 016 436 | - | 1 016 436 |
| Deferred tax asset | - | - | - | - | - | 349 740 | - | 349 740 |
| Other assets | - | - | - | - | - | 362 183 | - | 362 183 |
| Goodwill | - | - | - | - | - | 407 478 | - | 407 478 |
| **Total assets** | **893 403** | **1 827 426** | **6 640 547** | **15 305 402** | **2 653 865** | **5 813 974** | **1 023 437** | **34 158 054** |

| | Less than 1 month RUR'000 | 1 to 3 months RUR'000 | 3 months to 1 year RUR'000 | 1 to 5 years RUR'000 | More than 5 years RUR'000 | Non-interest bearing RUR'000 | Overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Current accounts and deposits from customers | 2 912 331 | 2 504 128 | 6 339 200 | 6 118 204 | 8 005 | 4 108 109 | - | 21 989 977 |
| Deposits and balances from banks | 4 889 553 | 2 503 428 | 109 006 | 2 903 | - | 22 021 | - | 7 526 911 |
| Subordinated debt | - | 756 957 | - | - | - | - | - | 756 957 |
| Promissory notes | 284 713 | 7 120 | 338 761 | 15 392 | 1 340 | - | - | 647 326 |
| Other liabilities | - | - | - | - | - | 229 028 | - | 229 028 |
| Deferred tax liability | - | - | - | - | - | 128 531 | - | 128 531 |
| **Total liabilities** | **8 086 597** | **5 771 633** | **6 786 967** | **6 136 499** | **9 345** | **4 487 689** | **-** | **31 278 730** |
| **Net position as at 31 December 2009** | **(7 193 194)** | **(3 944 207)** | **(146 420)** | **9 168 903** | **2 644 520** | **1 326 285** | **1 023 437** | **2 879 324** |
| **Net position as at 31 December 2008 (restated)** | **(4 066 068)** | **(2 452 025)** | **1 898 833** | **761 533** | **340 418** | **4 782 198** | **1 069 816** | **2 334 705** |

## Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to note 35. The Group's policy requires that total currency risk exposure should not exceed 10% of equity.

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 5% appreciation of USD against RUR | (1 815) | (1 815) | (7 950) | (7 950) |
| 5% depreciation of USD against RUR | 1 815 | 1 815 | 7 950 | 7 950 |
| 5% appreciation of EUR against RUR | (822) | (822) | (4 166) | (4 166) |
| 5% depreciation of EUR against RUR | 822 | 822 | 4 166 | 4 166 |

## Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss for the year and equity to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in all securities prices is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 5% increase in securities prices | 661 662 | 938 | 25 434 | 72 317 |
| 5% decrease in securities prices | (661 662) | (938) | (25 434) | (72 317) |

## Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of different kinds of credit products
- methodology for the credit assessment of lessees under leasing contracts

- methodology for the credit assessment of borrowers (commercial and retail)
- methodology for the credit assessment of issuers and insurance companies
- methodology for the evaluation and monitoring of collateral
- procedures for the ongoing monitoring of loans and other credit exposures
- procedures for collections of different borrowers and lessees.

The relevant client manager produces the commercial loan credit application which is then passed on to the Loans Department. The latter is responsible for the commercial loans portflio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and Economical Security Department. A second opinion is given accompanied by a check that credit policy requirements have been met. The credit application should be approved by the appropriate Credit Committee depending on the exposure and the borrower. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal Department and pending final approval of the Credit Committee.

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

Retail loan credit applications are reviewed by the Retail Lending Division through behavioural checks and application data verification procedures developed together with the Risk Department. Some retail loans are subject to additional verification conducted by the Economic Security Department. All underwriting procedures are approved by the Risk Committee.

The retail loan portfolio is subject to continuous monitoring by the Risk Management Department. Portfolio quality analysis and fraud prevention procedures are conducted on a regular basis.

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

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

## Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized loan commitments on the basis of the earlier of the contractual or expected maturity. The total gross inflow and outflow disclosed in the tables is the contractual or expected, undiscounted cash flow on the financial asset, liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognized loan commitments can vary significantly from this analysis.

The below table shows financial assets and liabilities by their remaining contractual maturity as at 31 December 2009 and 2008, with the exception of securities included into financial instruments at fair value through profit or loss and financial assets available for sale as at 31 December 2009 and 2008. As at 31 December 2009 and 2008 securities included into financial instruments at fair value through profit or loss and financial assets available for sale are shown in the category “Less than 1 month”, unless pledged under repurchase agreements or other loans with a maturity greater than 1 month. Because as at that date management believed that all of those financial instruments not already pledged with a maturity greater than 1 month, could be sold within one month in the normal course of business or were able to be used as collateral for loans from the CBRF or other banks.

The position as at 31 December 2009 is as follows:

| | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total gross amount | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 3 400 616 | - | - | - | - | 3 400 616 | 3 400 616 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 53 831 | 19 208 | 48 620 | 46 917 | 67 | 168 643 | 168 643 |
| Placements with banks | - | - | - | 38 671 | - | 38 671 | 35 000 |
| Financial instruments at fair value through profit or loss | | | | | | | |
| - Held by the Group | 4 579 362 | - | - | - | - | 4 579 362 | 4 579 362 |
| - Pledged under sale and repurchase agreements | 5 898 256 | 3 056 529 | - | - | - | 8 954 785 | 8 954 785 |
| Loans to customers | 2 070 770 | 2 178 584 | 7 229 434 | 7 250 803 | 401 525 | 19 131 116 | 14 744 207 |
| Available-for-sale assets | | | | | | | |
| - Held by the Group | 10 259 | - | - | - | - | 10 259 | 10 259 |
| - Pledged under sale and repurchase agreements | 8 644 | - | - | - | - | 8 644 | 8 644 |
| Other assets | 254 716 | 2 681 | 56 272 | - | - | 313 669 | 313 669 |
| **Total assets** | **16 276 454** | **5 257 002** | **7 334 326** | **7 336 391** | **401 592** | **36 605 765** | **32 215 185** |
| **Liabilities** | | | | | | | |
| Current accounts and deposits from customers | 6 850 239 | 2 549 992 | 7 046 832 | 7 875 617 | 10 483 | 24 333 163 | 21 989 977 |
| Deposits and balances from banks | 4 979 779 | 2 520 994 | 48 072 | 3 091 | | 7 551 936 | 7 526 911 |
| Subordinated debt | - | 8 912 | 27 230 | 144 567 | 900 983 | 1 081 692 | 756 957 |
| Promissory notes | 285 604 | 7 273 | 357 952 | 18 182 | 2 873 | 671 884 | 647 326 |
| Other liabilities | 25 288 | 58 272 | 65 787 | - | 79 681 | 229 028 | 229 028 |
| **Total liabilities** | **12 140 910** | **5 145 443** | **7 545 873** | **8 041 457** | **994 020** | **33 867 703** | **31 150 199** |
| **Credit related commitments** | **1 036 731** | **-** | **-** | **-** | **-** | **-** | **1 036 731** |

The position as at 31 December 2008 is as follows:

| | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Total gross amount | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 4 022 423 | - | - | - | - | 4 022 423 | 4 022 423 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 25 856 | - | - | - | - | 25 856 | 25 856 |
| Placements with banks | | - | 1 547 | - | - | 1 547 | 1 500 |
| Financial instruments at fair value through profit or loss | | | | | | | |
| - Held by the Group | 585 183 | - | - | - | - | 585 183 | 585 183 |
| - Pledged under sale and repurchase agreements | 50 669 | - | - | - | - | 50 669 | 50 669 |
| Loans to customers | 3 154 396 | 2 039 138 | 7 065 184 | 6 981 245 | 424 619 | 19 664 582 | 14 941 459 |
| Available-for-sale assets | | | | | | | |
| - Held by the Group | 439 156 | - | - | - | - | 439 156 | 439 156 |
| - Pledged under sale and repurchase agreements | 732 928 | - | - | - | - | 732 928 | 732 928 |
| Held-to-maturity investments | | | | | | | - |
| - Held by the Group | - | 150 775 | 724 294 | 614 374 | - | 1 489 443 | 1 321 531 |
| - Pledged under sale and repurchase agreements | - | - | 774 118 | - | - | 774 118 | 755 689 |
| Other assets | 469 391 | - | 9 176 | - | - | 478 567 | 478 567 |
| **Total assets** | **9 480 002** | **2 189 913** | **8 574 319** | **7 595 619** | **424 619** | **28 264 472** | **23 354 961** |
| **Liabilities** | | | | | | | |
| Current accounts and deposits from customers | 4 241 095 | 2 607 850 | 5 848 521 | 6 288 777 | 8 885 | 18 995 128 | 16 794 814 |
| Deposits and balances from banks | 2 620 808 | 884 842 | 226 078 | 1 964 420 | - | 5 696 148 | 4 566 513 |
| Subordinated debt | - | - | - | 375 460 | 667 236 | 1 042 696 | 609 385 |
| Promissory notes | 232 228 | 49 053 | 164 873 | 25 564 | 3 000 | 474 718 | 455 845 |
| Other liabilities | 434 236 | - | - | - | - | 434 236 | 434 236 |
| **Total liabilities** | **7 528 367** | **3 541 745** | **6 239 472** | **8 654 221** | **679 121** | **26 642 926** | **22 860 793** |
| **Credit related commitments** | **745 959** | **-** | **-** | **-** | **-** | **-** | **745 959** |

For further information on the exposure to liquidity risk at year end refer to note 34.

# 27 Capital management

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

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As 31 December 2009, this minimum level is 10%. The Bank complied with the statutory capital ratio during the years ended 31 December 2009 and 2008. The statutory capital ratio as at 31 December 2009 was 11.4% (2008: 12.7%).

The Group has attracted subordinated loans that have capital based covenant requirements that are based on certain Basel II requirements. The Group has to maintain a ratio of capital to risk weighted assets above the prescribed minimum level of 10%. The Group complied with the capital to risk weighted assets requirements during the years ended 31 December 2009 and 2008. The ratio of capital to risk weighted assets as at 31 December 2009 was 13.0% (2008: 15.4%).

Management regularly monitors compliance with the above capital requirements. Management has plans and the ability to take measures to maintain and strengthen its capital ratios. Such plans and measures include a budgeted profit for the 2010 year and the ability to change the composition of assets to reduce risk weighted assets if required.

# 28 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

| | **2009** | **2008** |
|---|---|---|
| **Contracted amount** | **RUR’000** | **RUR’000** |
| Guarantees | 613 102 | 150 663 |
| Loan and credit line commitments | 400 539 | 566 296 |
| Letters of credit | 23 090 | 29 000 |
| | **1 036 731** | **745 959** |

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Group does not have any non-cancellable operating leases as of 31 December 2009 (31 December 2008: nil).

# 29 Contingencies

## Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

## Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations of the Group.

## Taxation contingencies

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

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

# 30 Custody activities

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

# 31 Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by International Financial Reporting Standard IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (refer note 9):

| | 2009 | 2008 |
|---|---|---|
| | **RUR'000** | **RUR'000** |
| Members of the Board of Directors | 43 140 | 40 002 |
| Other key management personnel | 44 594 | 58 412 |
| | **87 734** | **98 414** |

The outstanding balances as at 31 December 2009 with related parties are as follows:

| | **Participants** | | **Key management personnel** | | **Other** | | **Total** |
|---|---|---|---|---|---|---|---|
| | **RUR'000** | **Average interest rate** | **RUR'000** | **Average interest rate** | **RUR'000** | **Average interest rate** | **RUR'000** |
| Loans to customers (gross) | 363 066 | 8,25% | 14 757 | 18,21% | 82 756 | 12,00% | 460 579 |
| Impairment allowance | - | - | (211) | - | (993) | - | (1 204) |
| Current accounts and deposits from customers | 151 | 0% | 133 968 | 6,61% | 220 575 | 7,87% | 354 694 |
| Guarantees received | - | - | 391 039 | - | - | - | 391 039 |

The outstanding balances as at 31 December 2008 with related parties are as follows:

| | **Participants** | | **Key management personnel** | | **Other** | | **Total** |
|---|---|---|---|---|---|---|---|
| | **RUR'000** | **Average Interest Rate** | **RUR'000** | **Average Interest Rate** | **RUR'000** | **Average Interest Rate** | **RUR'000** |
| Loans to customers (gross) | 123 932 | 15,50% | 6 138 | 15,21% | 235 518 | 14,20% | 365 588 |
| Impairment allowance | (4 957) | - | (319) | - | (9 421) | - | (14 697) |
| Current accounts and deposits from customers | 131 888 | 0% | 165 683 | 10,86% | 43 864 | 0,35% | 341 435 |
| Other liabilities | - | - | 11 | - | 3 745 | - | 3 756 |
| Subordinated debt | 242 185 | 11,00% | - | - | - | - | 242 185 |
| Guarantees received | - | - | 100 143 | - | - | - | 100 143 |

Amounts included in the consolidated profit or loss for the year ended 31 December 2009 in relation to transactions with the related parties are as follows:

| | Participants | Key management personnel | Other | Total |
|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | RUR'000 |
| Interest income | 32 552 | 2 149 | 20 637 | 55 338 |
| Interest expense | - | (3 759) | (9 234) | (12 993) |
| Fee and commission income | 48 | 890 | 221 | 1 159 |
| Net foreign exchange income (loss) | 7 019 | (477) | (942) | 5 600 |
| General administrative expenses | - | (734) | (53) | (787) |

Amounts included in the consolidated profit or loss for the year ended 31 December 2008 in relation to transactions with the related parties are as follows:

| | Participants | Key management personnel | Other | Total |
|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | RUR'000 |
| Interest income | 101 | 2 630 | 53 941 | 56 672 |
| Interest expense | (16 049) | (1 144) | (14 952) | (32 145) |
| Fee and commission income | 43 | 351 | 6 753 | 7 147 |
| Other income | - | 436 | 34 | 470 |
| General administrative expenses | - | (3 941) | (159) | (4 100) |

# 32 Fair value of financial instruments

The estimated fair value of financial assets and liabilities, as required to be disclosed by IFRS 7, is as follows:

The estimated fair values of the Group's financial instruments at fair value through profit or loss, available-for-sale assets and held-to-maturity investments are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using pricing models and discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

| | 2009 RUR'000 Carrying Value | 2009 RUR'000 Fair Value | 2008 (restated) RUR'000 Carrying Value | 2008 (restate) RUR'000 Fair Value |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 3 400 616 | 3 400 616 | 4 022 423 | 4 022 423 |
| Mandatory reserves with the Central Bank of the Russian Federation | 168 643 | 168 643 | 25 856 | 25 856 |
| Placements with banks | 35 000 | 35 000 | 1 500 | 1 500 |
| Financial instruments at fair value through profit or loss | 13 512 701 | 13 512 701 | 635 852 | 635 852 |
| Derivative financial instruments | 21 446 | 21 446 | - | - |
| Loans to customers | 14 744 207 | 14 643 732 | 14 941 459 | 14 738 621 |
| Available-for-sale assets | 18 903 | 18 903 | 1 172 084 | 1 172 084 |
| Held-to-maturity investments | - | - | 2 077 220 | 2 108 251 |
| Other assets | 313 669 | 313 669 | 478 567 | 478 567 |
| **LIABILITIES** | | | | |
| Current accounts and deposits from customers | 21 989 977 | 22 038 446 | 16 794 814 | 16 712 977 |
| Deposits and balances from banks | 7 526 911 | 7 526 911 | 4 566 513 | 4 566 513 |
| Subordinated debt | 756 957 | 756 957 | 609 385 | 609 385 |
| Promissory notes | 647 326 | 647 326 | 455 845 | 455 845 |
| Other liabilities | 229 028 | 229 028 | 434 246 | 434 246 |

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

| | Quoted market prices RUR'000 | Valuation techniques based on market observable inputs RUR'000 | Total RUR'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Financial instruments at fair value through profit or loss | | | |
| -Held by the Group | 3 931 734 | 626 182 | 4 557 916 |
| -Pledged under sale and repurchase agreements | 8 354 055 | 600 730 | 8 954 785 |
| -Derivative financial instruments | | 21 446 | 21 446 |
| Available-for-sale assets | | | |
| -Held by the Group | 10 259 | - | 10 259 |
| -Pledged under sale and repurchase agreements | 8 644 | - | 8 644 |

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2008:

| | Quoted market prices RUR'000 | Valuation techniques based on market observable inputs RUR'000 | Total RUR'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Financial instruments at fair value through profit or loss | | | |
| -Held by the Group | 585 183 | - | 585 183 |
| -Pledged under sale and repurchase agreements | 50 669 | - | 50 669 |
| Available-for-sale assets | | | |
| -Held by the Group | 439 156 | - | 439 156 |
| -Pledged under sale and repurchase agreements | 732 928 | - | 732 928 |

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

# 33 Average effective interest rates

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Value RUR'000 | Average Effective Interest Rate | Value RUR'000 | Average Effective Interest Rate |
| **Interest Bearing Assets** | | | | |
| **Cash and cash equivalents** | | | | |
| *Cash equivalents* | | | | |
| - RUR | 33 269 | 4,59% | 220 219 | 6,33% |
| - USD | - | - | 433 263 | 1,19% |
| - EUR | - | - | 174 679 | 2,90% |
| **Placements with banks** | | | | |
| - RUR | 35 000 | 6,00% | 1 500 | 10,00% |
| **Financial instruments at fair value through profit or loss** | | | | |
| - RUR | 12 911 210 | 13,18% | 237 683 | 8,52% |
| - USD | 484 548 | 8,65% | 331 165 | 7,33% |
| - Other | 116 943 | 8,30% | 67 004 | 6,70% |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Value RUR'000** | **Average Effective Interest Rate** | **Value RUR'000** | **Average Effective Interest Rate** |
| **Loans to individuals** | | | | |
| *Consumer loans* | | | | |
| - RUR | 8 716 888 | 48,53% | 9 622 166 | 41,64% |
| *Mortgage loans* | | | | |
| - RUR | 870 584 | 15,88% | 932 708 | 17,82% |
| *Car loans* | | | | |
| - RUR | 234 316 | 19,07% | 470 607 | 19,95% |
| *Other* | | | | |
| - RUR | 532 429 | 17,44% | 555 721 | 17,30% |
| - USD | 81 478 | 15,72% | 23 988 | 19,07% |
| - EUR | 41 670 | 17,00% | - | - |
| **Loans to corporate entities** | | | | |
| - RUR | 4 519 905 | 17,84% | 3 312 598 | 19,56% |
| - USD | 1 211 432 | 14,04% | 884 213 | 17,18% |
| - EUR | 353 738 | 8,45% | 105 139 | 18,10% |
| **Available-for-sale assets** | | | | |
| - RUR | 18 903 | 8,11% | 1 172 084 | 8,48% |
| **Held-to-maturity investments** | | | | |
| - RUR | - | - | 772 808 | 8,64% |
| - USD | - | - | 784 067 | 10,18% |
| - EUR | - | - | 520 345 | 7,80% |
| **Finance lease receivables** | | | | |
| - RUR | 461 137 | 24,45% | 753 264 | 23,88% |
| **Interest Bearing Liabilities** | | | | |
| **Current accounts and deposits from customers** | | | | |
| *Current accounts and demand deposits* | | | | |
| - RUR | 1 028 759 | 2,28% | 2 010 907 | 1,64% |
| - USD | 484 434 | 0,17% | 584 721 | 0,03% |
| - EUR | 35 971 | 0,02% | 285 351 | 0,01% |
| *Term deposits* | | | | |
| - RUR | 12 904 356 | 14,59% | 10 217 334 | 13,21% |
| - USD | 1 990 353 | 10,73% | 2 652 546 | 11,37% |
| - EUR | 1 437 995 | 8,19% | 1 043 955 | 9,61% |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Value RUR'000** | **Average Effective Interest Rate** | **Value RUR'000** | **Average Effective Interest Rate** |
| **Deposits and balances from banks** | | | | |
| *Deposits from banks obtained by credit agencies for consumer lending* | | | | |
| - RUR | - | - | 49 209 | 19,03% |
| *Deposits from banks obtained for main banking activities* | | | | |
| - RUR | 7 423 650 | 7,40% | 4 517 288 | 14,79% |
| - USD | 1 939 | 0,00% | - | - |
| - EUR | 54 308 | 5,75% | - | - |
| *Deposits from banks obtained for leasing activities* | | | | |
| - RUR | 47 007 | 18% | - | - |
| *Vostro accounts* | | | | |
| - RUR | 3 | - | 14 | - |
| - USD | 2 | - | - | - |
| - EUR | 2 | - | 2 | - |
| | | | | |
| **Subordinated debt** | | | | |
| - USD | 756 957 | 4,78% | 478 846 | 9,38% |
| - EUR | - | - | 130 539 | 11,00% |
| | | | | |
| **Promissory notes** | | | | |
| - RUR | 196 796 | 12,66% | 96 771 | 11,69% |
| - USD | 240 410 | 7,05% | 306 097 | 11,13% |
| - EUR | 210 120 | 5,76% | 52 977 | 9,32% |

# 34 Maturity analysis

The following table shows assets and liabilities by earlier of contractual or expected maturity dates as at 31 December 2009.

| | Less than 1 month RUR'000 | 1 to 3 months RUR'000 | 3 months to 1 year RUR'000 | 1 to 5 years RUR'000 | More than 5 years RUR'000 | No maturity and overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 3 400 616 | - | - | - | - | - | 3 400 616 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 53 831 | 19 208 | 48 620 | 46 917 | 67 | - | 168 643 |
| Placements with banks | - | - | - | 35 000 | - | - | 35 000 |
| Financial instruments at fair value through profit or loss | | | | | | | |
| -Held by the Group | 4 579 362 | - | - | - | - | - | 4 579 362 |
| -Pledged under sale and repurchase agreements | 5 898 256 | 3 056 529 | - | - | - | - | 8 954 785 |
| Loans to customers | 860 134 | 1 685 329 | 5 656 345 | 5 173 037 | 345 925 | 1 023 437 | 14 744 207 |
| Available-for-sale assets | | | | | | | |
| -Held by the Group | 10 259 | - | - | - | - | - | 10 259 |
| -Pledged under sale and repurchase agreements | 8 644 | - | - | - | - | - | 8 644 |
| Investment property | - | - | - | - | - | 120 701 | 120 701 |
| Property, equipment and intangible assets | - | - | - | - | - | 1 016 436 | 1 016 436 |
| Deferred tax asset | - | - | - | - | - | 349 740 | 349 740 |
| Other assets | 303 230 | 2 681 | 56 272 | - | - | - | 362 183 |
| Goodwill | - | - | - | - | - | 407 478 | 407 478 |
| **Total assets** | **15 114 332** | **4 763 747** | **5 761 237** | **5 254 954** | **345 992** | **2 917 792** | **34 158 054** |

| | Less than 1 month RUR'000 | 1 to 3 months RUR'000 | 3 months to 1 year RUR'000 | 1 to 5 years RUR'000 | More than 5 years RUR'000 | No maturity and overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Current accounts and deposits from customers | 7 020 440 | 2 504 128 | 6 339 200 | 6 118 204 | 8 005 | - | 21 989 977 |
| Deposits and balances from banks | 4 911 574 | 2 503 428 | 109 006 | 2 903 | - | - | 7 526 911 |
| Subordinated debt | - | - | - | - | 756 957 | - | 756 957 |
| Promissory notes | 284 713 | 7 120 | 338 761 | 15 392 | 1 340 | - | 647 326 |
| Other liabilities | 25 288 | 58 272 | 65 787 | - | - | 79 681 | 229 028 |
| Deferred tax liability | - | - | - | - | - | 128 531 | 128 531 |
| **Total liabilities** | **12 242 015** | **5 072 948** | **6 852 754** | **6 136 499** | **766 302** | **208 212** | **31 278 730** |
| **Net position as at 31 December 2009** | **2 872 317** | **(309 201)** | **(1 091 517)** | **(881 545)** | **(420 310)** | **2 709 580** | **2 879 324** |
| **Cumulative gap as at 31 December 2009** | **2 872 317** | **2 563 116** | **1 471 599** | **590 054** | **169 744** | **2 879 324** | **-** |
| **Net position as at 31 December 2008 (restated)** | **241 754** | **(1 674 721)** | **1 309 937** | **(851 214)** | **(17 855)** | **3 326 804** | **2 334 705** |
| **Cumulative gap as at 31 December 2008 (restated)** | **241 754** | **(1 432 967)** | **(123 030)** | **(974 244)** | **(992 099)** | **2 334 705** | **-** |

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The previous table shows assets and liabilities by their remaining contractual maturity as at 31 December 2009 and 2008, with the exception of securities included into financial instruments at fair value through profit or loss and financial assets available for sale as at 31 December 2009 and 2008. As at 31 December 2009 and 2008 securities included into financial instruments at fair value through profit or loss and financial assets available for sale are shown in the category “Less than 1 month”, unless pledged under repurchase agreements or other loans with a maturity greater than 1 month. Because as at that date management believed that all of those financial instruments not already pledged with a maturity greater than 1 month, could be sold within one month in the normal course of business or were able to be used as collateral for loans from the CBRF or other banks. The following table shows financial instruments at fair value through profit or loss and available for sale assets by their remaining contractual maturity as at 31 December 2009.

| | **Less than 1 month RUR’000** | **1 to 3 months RUR’000** | **3 months to 1 year RUR’000** | **1 to 5 years RUR’000** | **More than 5 years RUR’000** | **No maturity and overdue RUR’000** | **Total RUR’000** |
|---|---|---|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | | | | | | | |
| -Held by the Group | 21 446 | 118 780 | 984 202 | 2 863 395 | 591 539 | - | 4 579 362 |
| -Pledged under sale and repurchase agreements | - | 23 317 | - | 7 225 717 | 1 705 751 | - | 8 954 785 |
| Available-for-sale assets | | | | | | | |
| -Held by the Group | - | - | - | 8 253 | 2 006 | - | 10 259 |
| -Pledged under sale and repurchase agreements | - | - | - | - | 8 644 | - | 8 644 |

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

# 35 Currency analysis

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

| | RUR RUR'000 | USD RUR'000 | EUR RUR'000 | Total RUR'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1 950 418 | 511 076 | 939 122 | 3 400 616 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 168 643 | - | - | 168 643 |
| Placements with banks | 35 000 | - | - | 35 000 |
| Financial instruments at fair value through profit or loss | | | | |
| -Held by the Group | 3 977 871 | 484 548 | 116 943 | 4 579 362 |
| -Pledged under sale and repurchase agreements | 8 954 785 | - | - | 8 954 785 |
| Loans to customers | 13 081 949 | 1 268 640 | 393 618 | 14 744 207 |
| Available-for-sale assets | | | | |
| -Held by the Group | 10 259 | - | - | 10 259 |
| -Pledged under sale and repurchase agreements | 8 644 | - | - | 8 644 |
| Investment property | 120 701 | - | - | 120 701 |
| Property, equipment and intangible assets | 1 016 436 | - | - | 1 016 436 |
| Deferred tax asset | 349 740 | - | - | 349 740 |
| Other assets | 306 684 | 48 132 | 7 367 | 362 183 |
| Goodwill | 407 478 | - | - | 407 478 |
| **Total assets** | **30 388 608** | **2 312 396** | **1 457 050** | **34 158 054** |
| **Liabilities** | | | | |
| Current accounts and deposits from customers | 17 263 186 | 2 504 927 | 2 221 864 | 21 989 977 |
| Deposits and balances from banks | 7 470 660 | 1 941 | 54 310 | 7 526 911 |
| Subordinated debt | - | 756 957 | - | 756 957 |
| Promissory notes | 196 796 | 240 410 | 210 120 | 647 326 |
| Other liabilities | 228 870 | 62 | 96 | 229 028 |
| Deferred tax liability | 128 531 | - | - | 128 531 |
| **Total liabilities** | **25 288 043** | **3 504 297** | **2 486 390** | **31 278 730** |
| **Net position as at 31 December 2009** | **5 100 565** | **(1 191 901)** | **(1 029 340)** | **2 879 324** |
| **Net off-balance position as at 31 December 2009** | **(2 155 305)** | **1 146 527** | **1 008 778** | **-** |
| **Net position as at 31 December 2009** | **2 945 260** | **(45 374)** | **(20 562)** | **2 879 324** |
| **Net position as at 31 December 2008 (restated)** | **2 636 470** | **(198 751)** | **(103 014)** | **2 334 705** |

# 36 Events subsequent to the reporting date

At the time these financial statements have been prepared no events subsequent to the reporting date have been identified.

# 37 Business combinations and disposals of subsidiaries

### *Acquisition of LLC Credit Island "Primorye"*

At the end of March 2008 the Group acquired 100% of LLC Credit Island "Primorye" for a total cash consideration of RUR 65 000 thousand with transaction costs of RUR 6 000 thousand incurred. Extended distribution network and customer base were the main reasons for purchase.

The acquisition of the LLC Credit Island "Primorye" had the following effect on assets and liabilities at the date of acquisition:

| | **Recognised fair value on acquisition RUR'000** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 15 605 |
| Loans to customers | 658 064 |
| Property, equipment and intangible assets | 7 509 |
| Other assets | 31 376 |
| **Total assets** | **712 554** |
| **Liabilities** | |
| Deposits and balances from banks | 811 041 |
| Other liabilities | 26 064 |
| Deferred tax liabilities | 6 527 |
| **Total liabilities** | **843 632** |
| **Net identifiable assets and liabilities** | **(131 078)** |
| Goodwill | 202 078 |
| Consideration paid | 71 000 |
| Cash and cash equivalents acquired | (15 605) |
| **Net cash outflow** | **55 395** |

If the acquisition had occurred on 1 January 2008 the net loss for the year would have been RUR 735 907 thousand. In determining the figures it was assumed that the fair value adjustments at 1 January 2008 would have been the same as the fair value adjustments that arose on the date of acquisition.

### *Acquisition of LLC "Nika"*

At the end of June 2008 the Group acquired 100% of LLC "Nika" for a total cash consideration of RUR 161 645 thousand, this amount being contingent upon the level of loan losses. Extended distribution network and customer base were the main reasons for purchase.

The acquisition of LLC "Nika" had the following effect on assets and liabilities at the date of acquisition:

| | Recognised fair value on acquisition RUR'000 |
|---|---|
| **Assets** | |
| Loans to customers | 138 012 |
| **Total assets** | **138 012** |
| **Liabilities** | |
| Provisions for guarantees issued | 66 367 |
| **Total liabilities** | **66 367** |
| **Net identifiable assets and liabilities** | **71 645** |
| Goodwill | 90 000 |
| | **161 645** |
| Consideration paid | (120 000) |
| **Net cash outflow** | **(120 000)** |
| **Deferred consideration** | **(41 645)** |

The final consideration to be paid in respect of the LLC "Nika" acquisition is contingent on the level of bad debts as at 31 December 2008 in the respect of the loans acquired and guaranteed. The final consideration to be paid was expected to be agreed by June 30, 2009, but it has not yet been agreed and accordingly the deferred consideration is still recognised as a liability as at 31 December 2009.

If the acquisition had occurred on 1 January 2008 Group net income for the year would not have been materially different. In determining the figures it was assumed that the fair value adjustments at 1 January 2008 would have been the same as the fair value adjustments that arose on the date of acquisition.

### *Acquisition of LLC “BKA”*

At the end of December 2008 the Group acquired 100% of *LLC “BKA”* for a total cash consideration of RUR 28 625 thousand.

| | **Recognised fair value on acquisition RUR’000** |
|---|---|
| **Total assets** | **37 508** |
| **Total liabilities** | **8 883** |
| **Net identifiable assets and liabilities** | **28 625** |
| Consideration to be paid | **28 625** |
| **Net expected cash outflow** | **28 625** |

### *Disposal of Bank “Regionalniy Kredit”and Insurance company “ARKA-Strahovanie”*

In July 2009 the Group sold its 100% stake in ARKA-Strakhovanie and Bank Regionalniy Kredit to a third party for RUR 1 093 544 thousand.

The disposal of the subsidiaries had the following effect on assets and liabilities at the date of disposal:

| **RUR’000** | **Carrying amount at date of disposal** | **Assets repurchased** | **Net amounts disposed** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 1 223 081 | - | 1 223 081 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 5 968 | - | 5 968 |
| Financial instruments at fair value through profit or loss | 2 523 739 | - | 2 523 739 |
| Loans | 370 484 | 370 484 | - |
| Property, equipment and intangible assets | 420 341 | 390 140 | 30 201 |
| Other assets | 156 409 | 43 459 | 112 950 |
| **Total assets** | **4 700 022** | **804 083** | **3 895 939** |
| **LIABILITIES** | | | |
| Current accounts and deposits from customers | 2 066 335 | - | 2 066 335 |
| Deposits and balances from banks | 1 351 833 | - | 1 351 833 |
| Promissory notes | 6 379 | - | 6 379 |
| Other liabilities | 192 396 | - | 192 396 |
| Deferred tax liability | 15 215 | - | 15 215 |
| **Total liabilities** | **3 632 158** | **-** | **3 632 158** |
| **Net identifiable assets and liabilities** | **1 067 864** | **804 083** | **263 781** |

| **RUR'000** | **Consideration received** | **Cash (outflow) inflow** |
|---|---|---|
| Cash and cash equivalents | - | (1 223 081) |
| Cash received | 261 796 | 261 796 |
| Consideration receivable | 27 665 | - |
| Loans repurchased | 370 484 | - |
| Property, equipment and intangible assets repurchased | 390 140 | - |
| Other assets repurchased | 43 459 | - |
| **Total assets** | **1 093 544** | **(961 285)** |

# 38 Goodwill

Movements in goodwill for the year ended 31 December 2009 are as follows:

| | **Arka Group RUR'000** | **Credit Island Primorye RUR'000** | **Nika RUR'000** | **Total RUR'000** |
|---|---|---|---|---|
| Goodwill as at 31 December 2008 | 115 035 | 202 443 | 90 000 | 407 478 |
| Acquired in business combination | - | - | - | - |
| Other adjustments | - | - | - | - |
| **Goodwill as at 31 December 2009** | **115 035** | **202 443** | **90 000** | **407 478** |

Movements in goodwill for the year ended 31 December 2008 are as follows:

| | **Arka Group RUR'000** | **Credit Island Primorye RUR'000** | **Nika RUR'000** | **Total RUR'000** |
|---|---|---|---|---|
| Goodwill as at 31 December 2007 | 113 905 | - | - | 113 905 |
| Acquired in business combination | - | 202 078 | 90 000 | 292 078 |
| Other adjustments | 1 130 | 365 | - | 1 495 |
| **Goodwill as at 31 December 2008** | **115 035** | **202 443** | **90 000** | **407 478** |

The retail business is considered as the cash generating unit and all goodwill is allocated to this unit. Management performed an impairment assessment in respect of the goodwill and concluded there was no impairment. A value in use assessment was performed by management to assess for impairment. Projected cash flows are based on management approved budgets over a three year period and a 20% discount rate is used.

# 39 Principal consolidated subsidiaries

Included in the table below is the list of the principal consolidated subsidiaries of the Group as at 31 December 2009:

| | | Voting rights/ Equity owned | |
|---|---|---|---|
| | **Principal activity** | **31 December 2009** | **31 December 2008** |
| **Leasing** | | | |
| LLC "Leasing Company Razvitie" | Leasing | 100.00% | 100.00% |
| LLC "Regionalnaya Lisingovaya Compania" | Leasing | 100.00% | 100.00% |
| **Retail lending** | | | |
| LLC "ARKA" | Retail lending | 100.00% | 99.9974% |
| LLC "BKA" | Retail lending | 100.00% | 99.9974% |
| LLC "Kreditniy Ostrov "Primorye" | Retail lending | 100.00% | 99.9974% |
| LLC "Kuzbasskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Enisseyskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Khakasskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Barnaulskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Kreditnoe agentstvo "Region" | Retail lending | - | 99.9974% |
| LLC "Gorno-Altayskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Yuzhno-Uralskoe kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Kreditnoe agentstvo" | Retail lending | - | 99.9974% |
| LLC "Nika" | Retail lending | - | 99.9974% |
| **Banking and financial services** | | | |
| OJSC Commercial Bank "Regionalniy Kredit" | Banking | - | 99.6645% |
| LLC Insurance company "ARKA-Strahovanie" | Insurance | - | 100.00% |

During 2009 the Group continued a reorganisation of the Group's structure by merging non-banking credit agencies focused on retail lending with LLC "ARKA".