

**PROMSVYAZBANK**

Consolidated financial statements  
for the year ended  
31 December 2009

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## Independent Auditors' Report

To the Council of OAO "Promsvyazbank"

### Report on the Consolidated Financial Statements

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

#### *Management's Responsibility for the Consolidated Financial Statements*

Management 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  
14 April 2010

**Promsvyazbank**  
**Consolidated Statement of Financial Position as at 31 December 2009**  
*(expressed in thousands of Russian Roubles – refer to Note 2)*

	Notes	2009	2008
<b>ASSETS</b>			
Cash and cash equivalents	4	108 322 648	105 723 210
Obligatory reserves with central banks	5	3 149 729	992 510
Placements with banks and other financial institutions	6	5 075 800	2 426 852
Financial assets at fair value through profit or loss	7	41 751 838	14 408 817
-Unpledged		41 688 033	13 524 941
-Pledged under sale and repurchase agreements		63 805	883 876
Amounts receivable under reverse repurchase agreements	8	10 080 301	4 574 084
Loans to customers	9	266 421 579	300 413 049
Investments available for sale	10	35 083	158 714
Investments held to maturity	11	7 204 938	8 880 051
Assets held for sale	12	2 600 001	-
Other assets	13	2 100 315	1 517 540
Current income tax prepayments		660 877	1 292 982
Deferred tax asset	22	600 326	-
Property and equipment	14	23 207 942	21 413 219
<b>TOTAL ASSETS</b>		<b>471 211 377</b>	<b>461 801 028</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss	15	1 252 225	614 859
Deposits and balances from banks and other financial institutions	16	64 780 390	111 275 357
Amounts payable under repurchase agreements	17	60 697	855 837
Current accounts and deposits from customers	18	289 548 839	229 610 958
Own securities issued	19	43 654 712	39 368 440
Other borrowed funds	20	13 819 410	24 010 262
Other liabilities	21	1 800 988	2 672 979
Current income tax payable		27 341	48 002
Deferred tax liability	22	313 033	776 151
Subordinated borrowings	23	17 748 361	12 593 599
<b>TOTAL LIABILITIES</b>		<b>433 005 996</b>	<b>421 826 444</b>
<b>EQUITY</b>			
Share capital	24	10 062 544	10 062 544
Share premium		13 319 695	13 319 695
Additional paid-in-capital		1 056 102	1 167 515
Revaluation reserve for property and equipment		2 353 907	3 192 346
Revaluation reserve for investments available for sale		160	(66 641)
Retained earnings		11 147 632	11 773 411
<b>Total equity attributable to equity holders of the parent</b>		<b>37 940 040</b>	<b>39 448 870</b>
<b>Minority interest</b>		<b>265 341</b>	<b>525 714</b>
<b>TOTAL EQUITY</b>		<b>38 205 381</b>	<b>39 974 584</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>471 211 377</b>	<b>461 801 028</b>

Commitments and Contingencies

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Approved by the Management Board on 14 April 2010.

Levkovskiy A.A.  
 President



Volchenko A.U.  
 Senior Vice-president, CFO

**Promsvyazbank**  
**Consolidated Income Statement for the year ended 31 December 2009**  
*(expressed in thousands of Russian Roubles – refer to note 2)*

	Notes	<u>2009</u>	<u>2008</u>
Interest income		54 599 926	42 781 988
Interest expense		<u>(28 998 318)</u>	<u>(20 812 220)</u>
<b>Net interest income</b>	25	<b>25 601 608</b>	<b>21 969 768</b>
Fee and commission income	26	7 012 078	5 780 146
Fee and commission expense	27	<u>(1 406 846)</u>	<u>(1 055 809)</u>
<b>Net fee and commission income</b>		<b>5 605 232</b>	<b>4 724 337</b>
Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	28	1 114 182	(1 842 840)
Net foreign exchange gain		375 892	2 142 569
Net loss on sale of minority interest of subsidiaries		-	(21 942)
Net gain on purchase of interest in subsidiaries		149 023	456 625
Income on early redemption of other financial liabilities		127 358	177 098
Other income	29	<u>1 096 694</u>	<u>643 805</u>
<b>Operating income</b>		<b>34 069 989</b>	<b>28 249 420</b>
Loan impairment charge	9	(20 841 815)	(13 245 407)
Other impairment charge		(93 531)	(20 754)
Loss on revaluation of fixed assets	14	(457 918)	(456 100)
Administrative expenses	30	(12 928 022)	(11 952 858)
General expenses	30	<u>(374 308)</u>	<u>(431 997)</u>
		<u><b>(34 695 594)</b></u>	<u><b>(26 107 116)</b></u>
<b>(Loss)/profit before tax</b>		<b>(625 605)</b>	<b>2 142 304</b>
Income tax expense	31	<u>(248)</u>	<u>(580 649)</u>
<b>(Loss)/profit after tax</b>		<u><b>(625 853)</b></u>	<u><b>1 561 655</b></u>
<b>(Loss)/profit attributable to:</b>			
Shareholders of the parent		(625 853)	1 561 655
Minority interest		-	-

**Promsvyazbank****Consolidated Statement of Comprehensive Income for the year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

	Notes	<u>2009</u>	<u>2008</u>
<b>(Loss)/profit after tax</b>		<b>(625 853)</b>	<b>1 561 655</b>
<b>Other comprehensive income</b>			
Revaluation of property and equipment, net of deferred tax	14	(820 024)	796 649
Revaluation of investments available for sale, net of deferred tax		66 801	(66 641)
Disposal of property and equipment, net of deferred tax		-	(76 885)
Effect of change in income tax rates	22	-	120 048
<b>Other comprehensive (loss)/income, net of tax</b>		<b>(753 223)</b>	<b>773 171</b>
<b>Total comprehensive (loss)/income</b>		<b>(1 379 076)</b>	<b>2 334 826</b>
<b>Total comprehensive (loss)/income attributable to:</b>			
Shareholders of the parent		(1 386 139)	2 329 602
Minority interest		7 063	5 224

**Promsvyazbank**

**Consolidated Statement of Cash Flows for the year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

	Notes	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		51 387 452	46 337 270
Interest and fee and commission payments		(30 680 957)	(19 337 376)
Net receipts/(payments) from financial instruments at fair value through profit or loss		386 230	(840 816)
Net (payments)/receipts from foreign exchange transactions		(246 298)	861 540
Other income received		1 008 358	800 112
General and administrative expenses paid		(12 636 205)	(11 413 160)
		<b>9 218 580</b>	<b>16 407 570</b>
<b>(Increase)/decrease in operating assets</b>			
Obligatory reserves with central banks		(2 157 588)	2 450 860
Placements with banks and other financial institutions		(2 688 024)	(3 162 995)
Financial assets at fair value through profit or loss		(27 635 262)	3 922 129
Amounts receivable under reverse repurchase agreements		(5 504 956)	(1 294 669)
Loans to customers		31 858 934	(65 571 667)
Other assets		(147 960)	(93 537)
<b>Increase/(decrease) in operating liabilities</b>			
Financial liabilities at fair value through profit or loss		358 461	-
Deposits and balances from banks and other financial institutions		(50 920 850)	50 864 167
Amounts payable under repurchase agreements		(792 440)	(1 320 304)
Current accounts and deposits from customers		57 040 884	65 395 352
Promissory notes and certificates of deposit		8 617 354	(11 134 034)
Other liabilities		(58 136)	232 858
		<b>17 188 997</b>	<b>56 695 730</b>
Net cash from operating activities before taxes paid		<b>17 188 997</b>	<b>56 695 730</b>
Taxes paid		(261 880)	(2 249 633)
		<b>16 927 117</b>	<b>54 446 097</b>
<b>Cash flows from operations</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Disposal of subsidiaries		-	12 976
Acquisition of subsidiaries		(624 038)	3 799 193
Disposal of investments available for sale		239 086	5 560
Purchases of investments available for sale		(31 845)	(59 804)
Purchases of investments held to maturity		(1 490 779)	(1 884 722)
Redemption of investments held to maturity		2 951 181	-
Purchases of property and equipment		(4 349 348)	(7 896 050)
Disposals of property and equipment		57 974	72 481
Purchases of assets held for sale		(2 600 001)	-
		<b>(5 847 770)</b>	<b>(5 950 366)</b>
<b>Cash flows used in investing activities</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of senior loan participation notes and domestic bonds		10 494 962	9 039 065
Repayment of senior loan participation notes and domestic bonds		(15 179 518)	-
Repayment of other borrowed funds		(15 514 855)	(13 807 539)
Proceeds from other borrowed funds		3 592 575	12 977 111
Repayment of subordinated borrowings		(1 217 756)	-
Proceeds from subordinated borrowings		5 775 020	1 010 760
Proceeds from issuance of share capital		-	6 370 000
		<b>(12 049 572)</b>	<b>15 589 397</b>
<b>Cash flows (used in)/from financing activities</b>			
		<b>(970 225)</b>	<b>64 085 128</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Effect of changes in exchange rates on cash and cash equivalents		3 569 663	3 549 739
Cash and cash equivalents at the beginning of the year		105 723 210	38 088 343
<b>Cash and cash equivalents at the end of the year</b>	4	<b>108 322 648</b>	<b>105 723 210</b>

**Promsvyazbank**

**Consolidated Statement of Changes in Equity for the year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

	Attributable to equity holders of the parent							Minority interest	Total equity
	Share capital	Share premium	Additional paid-in-capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings	Total		
<b>Balance at 1 January 2009</b>	<b>10 062 544</b>	<b>13 319 695</b>	<b>1 167 515</b>	<b>3 192 346</b>	<b>(66 641)</b>	<b>11 773 411</b>	<b>39 448 870</b>	<b>525 714</b>	<b>39 974 584</b>
<b>Total comprehensive income/(loss)</b>									
Loss after tax	-	-	-	-	-	(625 853)	(625 853)	-	(625 853)
<b>Other comprehensive income/(loss)</b>									
Revaluation of property and equipment, net of deferred tax of RUB 205 006 thousand	-	-	-	(827 087)	-	-	(827 087)	7 063	(820 024)
Revaluation of investments available for sale, net of deferred tax of RUB 16 702 thousand	-	-	-	-	66 801	-	66 801	-	66 801
Total other comprehensive income/(loss)	-	-	-	(827 087)	66 801	-	(760 286)	7 063	(753 223)
<b>Total comprehensive income/(loss) for the year ended 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(827 087)</b>	<b>66 801</b>	<b>(625 853)</b>	<b>(1 386 139)</b>	<b>7 063</b>	<b>(1 379 076)</b>
Acquisition of subsidiary (Note 43)	-	-	-	-	-	(8 253)	(8 253)	-	(8 253)
Purchase of minority interest of subsidiaries	-	-	-	-	-	-	-	(390 792)	(390 792)
Sale of minority interest of subsidiary	-	-	(111 413)	(11 352)	-	8 327	(114 438)	123 356	8 918
<b>Balance at 31 December 2009</b>	<b>10 062 544</b>	<b>13 319 695</b>	<b>1 056 102</b>	<b>2 353 907</b>	<b>160</b>	<b>11 147 632</b>	<b>37 940 040</b>	<b>265 341</b>	<b>38 205 381</b>

**Promsvyazbank**

**Consolidated Statement of Changes in Equity for the year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

	Attributable to equity holders of the parent							Minority interest	Total equity
	Share capital	Share premium	Additional paid-in-capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings	Total		
<b>Balance at 1 January 2008</b>	<b>7 468 794</b>	<b>7 613 445</b>	<b>30 496</b>	<b>2 357 758</b>	-	<b>10 211 756</b>	<b>27 682 249</b>	-	<b>27 682 249</b>
<b>Total comprehensive income</b>									
Profit after tax	-	-	-	-	-	1 561 655	1 561 655	-	1 561 655
<b>Other comprehensive income</b>									
Revaluation of property and equipment, net of deferred tax of RUB 199 162 thousand	-	-	-	791 425	-	-	791 425	5 224	796 649
Disposal of property and equipment, net of deferred tax of RUB 24 280 thousand	-	-	-	(76 885)	-	-	(76 885)	-	(76 885)
Revaluation of investments available for sale, net of deferred tax of RUB 16 660 thousand	-	-	-	-	(66 641)	-	(66 641)	-	(66 641)
Effect of change in income tax rates	-	-	-	120 048	-	-	120 048	-	120 048
Total other comprehensive income	-	-	-	834 588	(66 641)	-	767 947	5 224	773 171
<b>Total comprehensive income for the year ended 31 December 2008</b>	-	-	-	<b>834 588</b>	<b>(66 641)</b>	<b>1 561 655</b>	<b>2 329 602</b>	<b>5 224</b>	<b>2 334 826</b>
Share issue	2 593 750	5 706 250	-	-	-	-	8 300 000	-	8 300 000
Acquisition of subsidiaries	-	-	1 085 596	-	-	-	1 085 596	520 490	1 606 086
Disposal of subsidiaries	-	-	51 423	-	-	-	51 423	-	51 423
<b>Balance at 31 December 2008</b>	<b>10 062 544</b>	<b>13 319 695</b>	<b>1 167 515</b>	<b>3 192 346</b>	<b>(66 641)</b>	<b>11 773 411</b>	<b>39 448 870</b>	<b>525 714</b>	<b>39 974 584</b>

## 1 Background

### Principal activities

Promsvyazbank Group (the “Group” or “Promsvyazbank”) consists of various legal entities formed under the laws of the Russian Federation (the “RF”) and other countries (Refer to note 2 for the list of subsidiaries). OAO Promsvyazbank (the “Bank”), which is the parent company of the Group, was initially established in the Russian Federation as a limited liability company converting subsequently to a closed joint-stock company in July 2001 and finally to an open joint-stock company in September 2007. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include transactions with all types of foreign currencies and transactions with individuals in foreign currencies on 30 December 1996 and 31 December 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the state deposit insurance system. In addition, the Group holds licenses from the Federal Service for Financial Markets (the “FSFM”) to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the FSFM as a commodities exchange broker to trade futures and options.

The Group’s principal activities are currently in commercial banking. These activities consist of corporate, small and medium entities (“SME”) and retail banking. Corporate banking includes deposit taking and lending to corporate borrowers, factoring, settlements and cash operations. Corporate banking services also include trade and project finance. SME banking includes deposit taking and lending to small and medium entities, settlements and cash operations. Retail banking includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals.

The Group also offers investment banking services, including corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.

The table below summarises information about the branch network.

	<u>2009</u>	<u>2008</u>
Branches	49	48
Full-service sub-branches	114	127
Retail and SME sub-branches	72	77
Representative offices	4	5
<b>Total number of offices</b>	<b><u>239</u></b>	<b><u>257</u></b>

As at 31 December 2009 the Bank operated 48 branches (2008: 47 branches) located within the Russian Federation and a branch located in Limassol (Cyprus). As at 31 December 2009 representative offices are located in the Russian Federation, China, India and Ukraine.

The Bank’s head office is registered at the following address: 109052, Smirnovskaya 10, Moscow, Russian Federation.

## Shareholders as at 31 December 2009

	<b>% Ownership/ % Votes</b>
<i>Promsvyaz Capital B. V.*</i>	84.68%
<i>Commerzbank Auslandsbanken Holding AG</i>	15.32%
	<b>100.00%</b>

\* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

## Russian business environment

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and risks that typically do not exist in other markets. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. In addition, the contraction in the capital and credit markets during the second half of 2008 and the first half of 2009 has further increased the level of economic uncertainty in the environment. The second half of 2009 showed a tendency of economic stabilisation of the market which slightly reduced the level of economic uncertainty. The consolidated 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 and available for sale investments for which fair value can be reliably measured are stated at fair value, and buildings are revalued periodically.

### Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). The functional currency for each group company is determined as the currency of the primary economic environment in which the company operates. Management determined the RUB as the functional currency for the Bank, group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, because it reflects the economic substance of the underlying events and circumstances. The RUB is also the presentation currency for the purpose of these consolidated financial statements.

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

### Consolidated companies

The consolidated financial statements include the following principal subsidiaries of the Bank:

Name	Country of Incorporation	Main Activity	% Consolidated as at 31 December 2009	% Consolidated as at 31 December 2008
Promsvyaz Finance PLC	Ireland	Financial Activity	100%	100%
PSB Finance S.A.	Luxembourg	Financial Activity	100%	100%
OOO “UK Promsvyaz”	Russian Federation	Financial Activity	100%	100%
OOO “Open Leasing Company”	Russian Federation	Leasing	100%	100%
OAO “Volgoprombank”	Russian Federation	Banking Activity	100%	95.5%
OAO “Nizhny Novgorod Bank”	Russian Federation	Banking Activity	100%	85.1%
OAO “Yarsotsbank”	Russian Federation	Banking Activity	61.9%	51.3%
OOO “Promsvyazfactoring”	Russian Federation	Financial Activity	100%	-

*Promsvyaz Finance PLC* and *PSB Finance S.A.* are special purpose entities established to facilitate issues of debt securities (refer to notes 19 and 23). The entities are not owned by the Group and the control arises through the predetermination of the entities’ activities.

#### *OOO “UK Promsvyaz”*

The principal activity of OOO “UK Promsvyaz” is asset management. The Group directly controls 100% of this entity.

*OOO “Open Leasing Company”* was established by the Group in July 2007. The Group controls 100% of OOO “Open Leasing Company”.

#### *OAO “Volgoprombank”*

The Group obtained control over OAO “Volgoprombank” on 23 June 2008 through the granting of a call option by Promsvyaz Capital B.V. (parent company of the Bank). This call option gave the Bank the right to acquire 95.5% of the share in OAO “Volgoprombank” from 23 June 2008 for a year. Also, from this date more than half of the members of the Board of Directors of OAO “Volgoprombank” were nominated by the Bank. In April 2009 Promsvyaz Capital B.V. sold 9.8% of OAO “Volgoprombank” shares to third parties. The conditions of the option agreement were amended accordingly and furthermore the option period prolonged until the end of 2010. In September 2009 the Group acquired from third parties 14.3% of the share capital in OAO “Volgoprombank” in addition to the 85.7% share held under the option agreement.

#### *OAO “Yarsotsbank” and OAO “Nizhny Novgorod Bank”*

At the end of December 2008 the Group purchased 51.3% of the share capital of OAO “Yarsotsbank” and 85.1% of the share capital of OAO “Nizhny Novgorod Bank”. The acquisitions were made to assist in the stabilization of the banking sector in Russia and to expand the Group’s regional network. During the year ended 31 December 2009 the Group purchased an additional 10.6% of the share capital of OAO “Yarsotsbank”. In June 2009 the Group purchased an additional 14.1% of the share capital of OAO “Nizhny Novgorod Bank” and in August 2009 the Group purchased the remaining 0.8% share.

### *OOO “Promsvyazfactoring”*

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Under the terms of this agreement the Group has the unconditional right to buy 100% of the share capital in OOO “PSF” for cash of RUB 5 500 thousand for a period of 5 years starting from the date of the option agreement (refer to note 43).

### **Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in these consolidated financial statements include:

- Loan impairment estimates - note 9;
- Building revaluation estimates - note 14.

### **3 Significant accounting policies**

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

#### **Basis of consolidation**

##### ***Subsidiaries***

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group 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.

##### ***Special purpose entities***

The Group has established a number of special purpose entities (“SPE”) to facilitate the Group’s issue of debt securities. The Group does not have any direct or indirect shareholdings in these entities and control arises through the predetermination of the entities’ activities.

##### ***Acquisitions and disposals of subsidiaries***

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Where the cost of acquisition is below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) the difference is credited to profit or loss in the period of acquisition. The minority interest is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

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

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

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on the date of disposal.

##### ***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.

##### ***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/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

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 and is carried at cost less accumulated impairment losses. 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 and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

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

**Foreign currency transactions**

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss.

	<u>31 December 2009</u>	<u>31 December 2008</u>
1 USD/RUB	30.2442	29.3804
1 EUR/RUB	43.3883	41.4411

**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, liabilities and equity 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 considers cash and nostro accounts with the CBR, as well as nostro accounts and placements with banks and other financial institutions with an original maturity less than one month to be cash and cash equivalents. The minimum reserve deposits with central banks are not considered to be a cash equivalent due to restrictions on their 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;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through the profit or loss.

The Group designates 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 an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*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;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available for sale; or
- the Group 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.

### ***Recognition***

Financial assets and liabilities are recognised in the 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 amortised cost using the effective interest method;
- held to maturity investments which are measured at amortised 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 cannot 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 amortised cost. Amortised 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 amortised 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. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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.

### ***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 recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available for sale financial asset is recognised directly in equity through the consolidated statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest income on available for sale debt securities is recognised as earned in profit or loss and calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised 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 of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised 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 statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised 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. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

### ***Spot and derivative financial instruments***

Derivative financial instruments include swaps, forward transactions in foreign exchange and precious metals.

Spot and derivative financial instruments are initially recognised at fair value on the date on which a spot or derivative contract is entered into and are subsequently remeasured at fair value. All spot and derivative financial instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of spot and derivative financial instruments are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

### ***Offsetting***

Financial assets and liabilities are offset and the net amount reported in the 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 and equipment**

#### ***Owned assets***

Items of property and equipment 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 an 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 subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the 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 an item of buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised 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 lives 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	50 years
Fixtures and fittings	7 years
Office equipment	6 years
Vehicles	5 years
Leasehold improvements	5 years
Computers	4 years
Other	5 years

## Intangible assets

Intangible assets, which 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.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for computer software is 4 years.

## Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

## Impairment

### *Financial assets carried at amortised cost*

Financial assets carried at amortised cost consist principally of loans, other receivables, unquoted promissory notes, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements and investments held to maturity ("loans and receivables"). The Group reviews its financial assets carried at amortised cost to assess impairment on a regular basis. Financial assets carried at amortised cost are 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 financial assets carried at amortised cost and that event (or events) has had an impact on the estimated future cash flows of the asset 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 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 judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised 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 recognised in profit or loss and can not be reversed.

#### ***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 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 recognised 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 commitments are included within other liabilities.

## **Share capital**

### ***Share premium***

Share premium represents the excess of consideration received for an issue of the Bank's shares over the nominal value of shares issued.

### ***Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

### ***Dividends***

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

## **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 recognised directly in equity, in which case it is recognised in 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, providing 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, respectively.

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 direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

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

### **Changes in accounting policies**

Starting from 1 January 2009 the Group adopted the revised version of *IAS 1 “Presentation of Financial Statements”* (effective for annual periods beginning on or after 1 January 2009). As a result, in addition to the consolidated income statement the Group discloses a statement of comprehensive income that includes all non-owner changes in equity, such as the revaluation of available for sale assets and revaluation of property and equipment. The balance sheet is renamed the statement of financial position and the cash flow statement is renamed 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.

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

## **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 have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following may 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 new standards 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"* (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

*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 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.

Various “Improvements to IFRS” have been dealt with on a standard-by-standard basis. All amendments which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

#### 4 Cash and cash equivalents

	<u>2009</u>	<u>2008</u>
Cash	9 735 375	12 794 122
Due from the Central Bank of the RF – nostro accounts	27 121 926	52 777 350
Deposits with the Central Bank of the RF	10 000 000	24 224 331
<b>Placements with banks and other financial institutions with an original maturity less than one month</b>		
Rated AAA	1 814 663	-
Rated from AA- to AA+	19 565 699	281 870
Rated A- to A+	34 165 625	10 433 710
Rated BBB	1 670 158	151 819
Rated from BB- to BB+	-	410 711
Rated from B- to B+	114 072	33 200
Rated below B-	-	104
Not rated	4 135 130	4 615 993
<b>Total cash and cash equivalents</b>	<b><u>108 322 648</u></b>	<b><u>105 723 210</u></b>

Maturity, currency and interest rate analyses of cash and cash equivalents are disclosed in notes 33 and 41.

## 5 Obligatory reserves with central banks

	<u>2009</u>	<u>2008</u>
Minimum reserve deposit with the Central Bank of the RF	2 671 991	516 292
Minimum reserve deposit with the Central Bank of Cyprus	<u>477 738</u>	<u>476 218</u>
<b>Total obligatory reserves with central banks</b>	<b><u>3 149 729</u></b>	<b><u>992 510</u></b>

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit.

Maturity, currency and interest rate analyses of obligatory reserves with central banks are disclosed in notes 33 and 41.

## 6 Placements with banks and other financial institutions

	<u>2009</u>	<u>2008</u>
Rated BBB	1 524	-
Rated from B- to B+	5 059 987	2 005 410
Not rated	<u>14 289</u>	<u>421 442</u>
<b>Total placements with banks and other financial institutions</b>	<b><u>5 075 800</u></b>	<b><u>2 426 852</u></b>

Maturity, currency and interest rate analyses of placements with banks are disclosed in notes 33 and 41.

### Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 2008, placements with banks, which individually comprised more than 10% of total placements with banks, are as follows:

	<u>2009</u>	<u>2008</u>
Bank 1	4 782 787	-
Bank 2	-	2 005 410
Bank 3	<u>-</u>	<u>331 979</u>
	<b><u>4 782 787</u></b>	<b><u>2 337 389</u></b>

## 7 Financial assets at fair value through profit or loss

	<u>2009</u>	<u>2008</u>
<i>Unpledged</i>		
<b>Financial assets held for trading</b>		
<i>Debt and other fixed-income instruments</i>		
Corporate bonds	12 724 861	6 344 647
Corporate Eurobonds	11 595 073	2 157 558
Promissory notes	6 580 385	773 014
Russian Government Federal bonds (OFZ)	5 239 011	1 420 994
Russian municipal and regional bonds	3 621 501	2 449 878
Central Bank of the Russian Federation bonds (OBR)	1 701 823	-
Russian Federation Eurobonds	6 289	-
<i>Equity investments</i>		
Corporate shares	6	4 738
<b>Spot and derivative financial instruments</b>		
Foreign currency and precious metals contracts	75 288	343 456
<b>Designated at fair value through profit or loss</b>		
Corporate shares - listed	143 796	30 656
<b>Total unpledged financial assets at fair value through profit or loss</b>	<b><u>41 688 033</u></b>	<b><u>13 524 941</u></b>
<i>Pledged under sale and repurchase agreements</i>		
<b>Financial assets held for trading</b>		
Corporate bonds - listed	61 837	-
Russian Government Federal bonds (OFZ)	1 968	50 118
Promissory notes	-	833 758
<b>Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements</b>	<b><u>63 805</u></b>	<b><u>883 876</u></b>
<b>Total financial assets at fair value through profit or loss</b>	<b><u><u>41 751 838</u></u></b>	<b><u><u>14 408 817</u></u></b>

Corporate bonds are securities issued by medium and large Russian companies and banks denominated in Russian Roubles.

Corporate Eurobonds are interest-bearing securities denominated in U.S. Dollars and Euros and issued primarily by large Russian and foreign companies and banks.

Promissory notes represent debt securities denominated in Russian Roubles issued by Russian banks and companies.

Russian Government Federal bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian municipal and regional bonds are interest-bearing securities issued by Russian municipal and regional authorities denominated in Russian Roubles.

Central Bank of the Russian Federation bonds (OBR) are Russian Rouble denominated securities issued by the Central Bank of the Russian Federation.

The following table provides details of debt trading securities as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	January 2010	November 2019	7.10%	19.00%	1.60%	17.41%
Corporate Eurobonds	January 2010	June 2035	1.18%	13.50%	1.47%	130.48%
Promissory notes	January 2010	December 2010	-*	-*	0%	38.58%
Russian Government Federal bonds (OFZ)	January 2010	February 2036	5.80 %	12.00%	3.67%	9.16%
Russian municipal and regional bonds	March 2010	September 2016	7.00%	16.00%	6.09%	10.07%
Central Bank of the Russian Federation bonds (OBR)	March 2010	March 2010	-*	-*	7.70%	7.70%
Russian Federation Eurobonds	March 2030	March 2030	7.50%	7.50%	6.47%	6.47%

\* - discount-bearing securities

The following table provides details of debt trading securities as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	February 2009	June 2018	7.30%	15.00%	6.23%	39.89%
Corporate Eurobonds	January 2009	January 2011	7.13%	13.50%	9.79%	52.91%
Promissory notes	on demand	October 2010	-*	-*	0%	35.75%
Russian municipal and regional bonds	April 2009	June 2013	8.00%	11.00%	6.75%	33.96%
Russian Government Federal bonds (OFZ)	March 2009	February 2036	5.80%	10.00%	6.13%	11.69%

\* - discount-bearing securities

The following table presents an analysis by rating agency designation of debt securities. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	<b>2009</b>	<b>2008</b>
Rated from BBB- to BBB+	28 486 896	6 935 703
Rated from BB- to BB+	4 168 839	612 898
Rated from B- to B+	4 400 515	3 885 479
Rated below B-	-	40 004
Not rated	4 476 498	2 555 883
<b>Total debt securities</b>	<b>41 532 748</b>	<b>14 029 967</b>

Equity instruments represent ordinary shares issued primarily by large Russian companies.

The Group designates equity shares of Centertelecom that are not part of its trading book, as at fair value through profit or loss. These securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of these investments based on their fair values in accordance with a documented policy.

For information on spot and derivative financial instruments refer to note 35.

Maturity, currency and interest rate analyses of financial assets at fair value through profit or loss are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

## **8 Amounts receivable under reverse repurchase agreements**

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to banks and customers. As at 31 December 2009 and 2008, amounts lent to banks and customers were as follows:

	<b>2009</b>	<b>2008</b>
<b>Amounts receivable from banks and other financial institutions</b>		
Rated from BB- to BB+	500 057	-
Rated from B- to B+	971 488	449 255
Not rated	5 293 888	3 544 396
<b>Total amounts receivable from banks and other financial institutions</b>	<b>6 765 433</b>	<b>3 993 651</b>
<b>Amounts receivable from customers</b>		
Rated from B- to B+	299 099	-
Not rated	3 015 769	580 433
<b>Total amounts receivable from customers</b>	<b>3 314 868</b>	<b>580 433</b>
<b>Total amounts receivable under reverse repurchase agreements</b>	<b>10 080 301</b>	<b>4 574 084</b>

Maturity, currency and interest rate analyses of amounts receivable under reverse repurchase agreements are disclosed in notes 33 and 41.

**Collateral**

As of 31 December 2009 and 2008, amounts receivable under reverse repurchase agreements are collateralised by the following securities:

	<b>Fair value 2009</b>	<b>Fair value 2008</b>
Russian corporate bonds	5 249 210	110 591
Russian Government Federal bonds (OFZ)	2 980 383	3 846 240
Russian municipal and regional bonds	1 732 058	-
Promissory notes issued by Russian banks	805 375	771 666
Russian corporate shares	320 760	12 880
	<b>11 087 786</b>	<b>4 741 377</b>

**9 Loans to customers**

	<b>2009</b>	<b>2008</b>
<b>Commercial loans</b>		
Loans to corporate clients not involved in international business	183 239 909	177 713 858
Loans to corporate clients involved in international business	31 944 501	50 091 131
Factoring loans	26 845 661	22 437 118
Loans to small and medium enterprises	22 533 997	18 886 308
<b>Total commercial loans</b>	<b>264 564 068</b>	<b>269 128 415</b>
<b>Loans to individuals</b>		
Consumer loans	23 192 571	28 225 420
Auto loans	11 320 973	14 437 107
Credit cards	3 124 578	3 168 271
Mortgage loans	1 982 384	2 268 748
Express-loans	693 504	1 173 008
Loans to VIP clients	389 304	522 220
<b>Total loans to individuals</b>	<b>40 703 314</b>	<b>49 794 774</b>
<b>Gross loans to customers</b>	<b>305 267 382</b>	<b>318 923 189</b>
Impairment allowance	(38 845 803)	(18 510 140)
<b>Net loans to customers</b>	<b>266 421 579</b>	<b>300 413 049</b>

Movements in the loan impairment allowance for the years ended 31 December 2009 and 2008 were as follows:

	<b>2009</b>	<b>2008</b>
Balance at the beginning of the year	18 510 140	5 137 563
Net charge for the year	20 841 815	13 245 407
Acquisition of subsidiaries	117 745	657 566
Disposal of subsidiaries	-	(1 692)
Write-offs	(623 897)	(528 704)
<b>Balance at the end of the year</b>	<b>38 845 803</b>	<b>18 510 140</b>

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

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As at 31 December 2009 interest accrued on impaired loans net of impairment allowance amounts to RUB 3 281 712 thousand (2008: RUB 647 261 thousand).

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days (except for loans to individuals and SME for which partial repayment of overdue principal or/and interest took place during last quarter of the year ended 31 December 2009) and loans restructured as a result of the borrowers' inability to repay. The analysis of non-performing loans as at 31 December by loan groups is presented below:

	<u>2009</u>	<u>2008</u>
Loans to corporate clients	23 249 326	3 238 613
Loans to small and medium enterprises	3 028 160	357 131
Loans to individuals	11 278 485	5 283 805
<b>Total non-performing loans</b>	<b><u>37 555 971</u></b>	<b><u>8 879 549</u></b>

## Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
<b>Loans to corporate clients not involved in international business</b>				
Total loans for which no impairment has been identified	136 877 719	(2 872 388)	134 005 331	2.10%
Impaired loans:				
- Impaired, but not overdue	27 101 631	(2 955 689)	24 145 942	10.91%
- Overdue less than 30 days	2 520 984	(427 913)	2 093 071	16.97%
- Overdue 30-89 days	1 709 995	(750 137)	959 858	43.87%
- Overdue 90-179 days	5 311 534	(2 387 213)	2 924 321	44.94%
- Overdue 180-360 days	3 953 221	(2 660 406)	1 292 815	67.30%
- Overdue more than 360 days	5 764 825	(4 041 577)	1 723 248	70.11%
Total impaired loans	46 362 190	(13 222 935)	33 139 255	28.52%
<b>Total loans to corporate clients not involved in international business</b>	<b>183 239 909</b>	<b>(16 095 323)</b>	<b>167 144 586</b>	<b>8.78%</b>
<b>Loans to corporate clients involved in international business</b>				
Total loans for which no impairment has been identified	25 608 857	(561 859)	25 046 998	2.19%
Impaired loans:				
- Impaired, but not overdue	4 059 891	(410 267)	3 649 624	10.11%
- Overdue less than 30 days	52 870	(5 181)	47 689	9.80%
- Overdue less than 30-89 days	112 869	(43 509)	69 360	38.55%
- Overdue 90-179 days	1 502 227	(582 254)	919 973	38.76%
- Overdue 180-360 days	231 689	(28 750)	202 939	12.41%
- Overdue more than 360 days	376 098	(329 252)	46 846	87.54%
Total impaired loans	6 335 644	(1 399 213)	4 936 431	22.08%
<b>Total loans to corporate clients involved in international business</b>	<b>31 944 501</b>	<b>(1 961 072)</b>	<b>29 983 429</b>	<b>6.14%</b>
<b>Factoring loans</b>				
Total loans for which no impairment has been identified	19 081 324	(986 309)	18 095 015	5.17%
Impaired loans:				
- Impaired, but not overdue	2 105 490	(269 231)	1 836 259	12.79%
- Overdue less than 30 days	136 584	(55 078)	81 506	40.33%
- Overdue 30-89 days	268 711	(87 016)	181 695	32.38%
- Overdue 90-179 days	637 575	(410 110)	227 465	64.32%
- Overdue 180-360 days	2 187 967	(1 812 662)	375 305	82.85%
- Overdue more than 360 days	2 428 010	(2 039 068)	388 942	83.98%
Total impaired loans	7 764 337	(4 673 165)	3 091 172	60.19%
<b>Total factoring loans</b>	<b>26 845 661</b>	<b>(5 659 474)</b>	<b>21 186 187</b>	<b>21.08%</b>
<b>Loans to small and medium enterprises</b>				
Total loans for which no impairment has been identified	18 069 355	(313 541)	17 755 814	1.74%
Impaired loans:				
- Overdue less than 30 days	163 905	(31 416)	132 489	19.17%
- Overdue 30-89 days	444 958	(316 546)	128 412	71.14%
- Overdue 90-179 days	860 091	(774 073)	86 018	90.00%
- Overdue 180-360 days	1 643 872	(1 459 717)	184 155	88.80%
- Overdue more than 360 days	1 351 816	(1 183 781)	168 035	87.57%
Total impaired loans	4 464 642	(3 765 533)	699 109	84.34%
<b>Total loans to small and medium enterprises</b>	<b>22 533 997</b>	<b>(4 079 074)</b>	<b>18 454 923</b>	<b>18.10%</b>
<b>Total commercial loans</b>	<b>264 564 068</b>	<b>(27 794 943)</b>	<b>236 769 125</b>	<b>10.51%</b>

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
<b>Loans to corporate clients not involved in international business</b>				
Total loans for which no impairment has been identified	159 914 710	(1 963 896)	157 950 814	1.23%
Impaired loans:				
- Impaired, but not overdue	10 477 520	(1 982 101)	8 495 419	18.92%
- Overdue less than 30 days	2 612 276	(845 625)	1 766 651	32.37%
- Overdue 30-89 days	2 689 147	(1 121 016)	1 568 131	41.69%
- Overdue 90-179 days	650 222	(227 574)	422 648	35.00%
- Overdue 180-360 days	902 422	(602 759)	299 663	66.79%
- Overdue more than 360 days	467 561	(403 751)	63 810	86.35%
Total impaired loans	<u>17 799 148</u>	<u>(5 182 826)</u>	<u>12 616 322</u>	<u>29.12%</u>
<b>Total loans to corporate clients not involved in international business</b>	<b><u>177 713 858</u></b>	<b><u>(7 146 722)</u></b>	<b><u>170 567 136</u></b>	<b><u>4.02%</u></b>
<b>Loans to corporate clients involved in international business</b>				
Total loans for which no impairment has been identified	48 041 801	(789 230)	47 252 571	1.64%
Impaired loans:				
- Impaired, but not overdue	971 652	(233 236)	738 416	24.00%
- Overdue less than 30 days	398 517	(113 499)	285 018	28.48%
- Overdue 30-89 days	107 365	(36 406)	70 959	33.91%
- Overdue 180-360 days	334 975	(313 505)	21 470	93.59%
- Overdue more than 360 days	236 821	(189 621)	47 200	80.07%
Total impaired loans	<u>2 049 330</u>	<u>(886 267)</u>	<u>1 163 063</u>	<u>43.25%</u>
<b>Total loans to corporate clients involved in international business</b>	<b><u>50 091 131</u></b>	<b><u>(1 675 497)</u></b>	<b><u>48 415 634</u></b>	<b><u>3.34%</u></b>
<b>Factoring loans</b>				
Total loans for which no impairment has been identified	20 146 739	(436 664)	19 710 075	2.17%
Impaired loans:				
- Impaired, but not overdue	576 910	(378 430)	198 480	65.60%
- Overdue less than 30 days	619 412	(401 344)	218 068	64.79%
- Overdue 30-89 days	447 445	(322 124)	125 321	71.99%
- Overdue 90-179 days	327 446	(259 868)	67 578	79.36%
- Overdue 180-360 days	275 231	(259 453)	15 778	94.27%
- Overdue more than 360 days	43 935	(38 122)	5 813	86.77%
Total impaired loans	<u>2 290 379</u>	<u>(1 659 341)</u>	<u>631 038</u>	<u>72.45%</u>
<b>Total factoring loans</b>	<b><u>22 437 118</u></b>	<b><u>(2 096 005)</u></b>	<b><u>20 341 113</u></b>	<b><u>9.34%</u></b>
<b>Loans to small and medium enterprises</b>				
Total loans for which no impairment has been identified	16 848 467	(443 465)	16 405 002	2.63%
Impaired loans:				
- Impaired, but not overdue	468 658	(165 411)	303 247	35.29%
- Overdue less than 30 days	506 580	(233 950)	272 630	46.18%
- Overdue 30-89 days	705 472	(344 591)	360 881	48.85%
- Overdue 90-179 days	98 364	(33 980)	64 384	34.55%
- Overdue 180-360 days	243 664	(148 418)	95 246	60.91%
- Overdue more than 360 days	15 103	(13 399)	1 704	88.72%
Total impaired loans	<u>2 037 841</u>	<u>(939 749)</u>	<u>1 098 092</u>	<u>46.11%</u>
<b>Total loans to small and medium enterprises</b>	<b><u>18 886 308</u></b>	<b><u>(1 383 214)</u></b>	<b><u>17 503 094</u></b>	<b><u>7.32%</u></b>
<b>Total commercial loans</b>	<b><u>269 128 415</u></b>	<b><u>(12 301 438)</u></b>	<b><u>256 826 977</u></b>	<b><u>4.57%</u></b>

The credit quality of loans for which no impairment has been identified is not homogeneous due to the variety of industry risks and financial conditions associated with the borrowers.

The Group estimates loan impairment for the commercial loan portfolio for which no impairment has been identified based on the past loss experience and factoring in the current economic conditions.

In many cases the Group estimates loan impairment for the commercial loans for which impairment is identified based on the discounted cash flows that could be received from sale of different types of collateral. To estimate the realizable value of the collateral (taking into account the costs of sale) the Group uses different discount rates applied to the fair value of collateral as at 31 December 2009: real estate – 20%-30%, automobiles – 50%, equipment – 50%-75%, inventory – 90%.

As at 31 December 2009 30% of impaired loans are secured by property, 5% are secured by equipment and vehicles and 65% are secured by other collateral or were uncollateralised.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment allowance on commercial loans as of 31 December 2009 would be RUB 2 367 691 thousand lower/higher (2008: RUB 2 568 270 thousand).

During the year ended 31 December 2009 the Group renegotiated commercial loans that would otherwise be past due of RUB 11 347 505 thousand (2008: RUB 6 161 480 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in loans for which no impairment has been identified unless the borrower does not comply with the renegotiated terms.

### ***Analysis of collateral***

There is a special Collateral Department which is responsible for managing all types of collateral accepted by the Group for the commercial loan portfolio. The policies and procedures for valuing and managing collateral comprise two stages.

The first stage is related to the decision-making process about the granting of a loan or acquisition of a financial asset, which are subject to credit risk. At this stage, the Collateral Department performs an examination of proposed collateral, which includes preparation of a package of documents related to collateral, physical inspection of collateral, verification of any encumbrances, assessment of fair value of collateral and forecasting of possible changes in the fair value of collateral.

The second stage is related to monitoring and managing of collateral that has already been accepted by the Group. This stage includes regular monitoring of the collateral and reassessment of its fair value.

Principal types of collateral accepted for commercial loans are pledges over real estate, securities, property rights, motor vehicles, equipment, debt claims and inventories or guarantees and sureties.

Impaired commercial loans with a gross value of RUB 51 506 399 thousand (2008: RUB 12 371 967 thousand) are secured by real estate, automobiles, equipment and inventory with a fair value of RUB 19 151 809 thousand (2008: RUB 9 555 414 thousand). For the remaining impaired loans of RUB 13 420 414 thousand (2008: RUB 11 804 731 thousand) there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2008 the Group obtained assets by taking control of collateral with fair value of RUB 50 625 thousand (2008: nil).

***Analysis of movements in the impairment allowance***

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

	<b>Loans to corporate clients not involved in international business</b>	<b>Loans to corporate clients involved in international business</b>	<b>Factoring loans</b>	<b>Loans to small and medium enterprises</b>	<b>Total</b>
<b>Loan impairment allowance as at 1 January</b>	<b>7 146 722</b>	<b>1 675 497</b>	<b>2 096 005</b>	<b>1 383 214</b>	<b>12 301 438</b>
Loan impairment charge	9 267 600	510 157	3 460 526	2 760 987	15 999 270
Acquisition of subsidiaries	-	-	117 745	-	117 745
Loans written off as uncollectible	(318 999)	(224 582)	(14 802)	(65 127)	(623 510)
<b>Loan impairment allowance as at 31 December</b>	<b>16 095 323</b>	<b>1 961 072</b>	<b>5 659 474</b>	<b>4 079 074</b>	<b>27 794 943</b>

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

	<b>Loans to corporate clients not involved in international business</b>	<b>Loans to corporate clients involved in international business</b>	<b>Factoring loans</b>	<b>Loans to small and medium enterprises</b>	<b>Total</b>
<b>Loan impairment allowance as at 1 January</b>	<b>2 516 571</b>	<b>810 388</b>	<b>311 414</b>	<b>146 383</b>	<b>3 784 756</b>
Loan impairment charge	4 106 604	865 109	1 775 209	1 210 563	7 957 485
Acquisition of subsidiaries	549 192	-	15 049	31 721	595 962
Disposal of subsidiaries	(1 692)	-	-	-	(1 692)
Loans written off as uncollectible	(23 953)	-	(5 667)	(5 453)	(35 073)
<b>Loan impairment allowance as at 31 December</b>	<b>7 146 722</b>	<b>1 675 497</b>	<b>2 096 005</b>	<b>1 383 214</b>	<b>12 301 438</b>

## Credit quality of loans to individuals

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
<b>Consumer loans</b>				
- Not past due	14 079 159	(57 482)	14 021 677	0.41%
- Overdue less than 30 days	545 235	(47 158)	498 077	8.65%
- Overdue 30-89 days	742 761	(208 853)	533 908	28.12%
- Overdue 90-179 days	849 149	(452 946)	396 203	53.34%
- Overdue 180-360 days	2 075 014	(1 627 019)	447 995	78.41%
- Overdue more than 360 days	4 901 253	(4 714 150)	187 103	96.18%
<b>Total consumer loans</b>	<b>23 192 571</b>	<b>(7 107 608)</b>	<b>16 084 963</b>	<b>30.65%</b>
<b>Auto loans</b>				
- Not past due	7 113 148	(11 240)	7 101 908	0.16%
- Overdue less than 30 days	201 471	(7 195)	194 276	3.57%
- Overdue 30-89 days	255 019	(33 969)	221 050	13.32%
- Overdue 90-179 days	378 809	(100 985)	277 824	26.66%
- Overdue 180-360 days	1 124 027	(539 844)	584 183	48.03%
- Overdue more than 360 days	2 248 499	(1 457 421)	791 078	64.82%
<b>Total auto loans</b>	<b>11 320 973</b>	<b>(2 150 654)</b>	<b>9 170 319</b>	<b>19.00%</b>
<b>Credit cards</b>				
- Not past due	1 671 136	(14 621)	1 656 515	0.87%
- Overdue less than 30 days	129 746	(19 126)	110 620	14.74%
- Overdue 30-89 days	85 652	(35 013)	50 639	40.88%
- Overdue 90-179 days	92 728	(65 449)	27 279	70.58%
- Overdue 180-360 days	386 027	(352 615)	33 412	91.34%
- Overdue more than 360 days	759 289	(752 064)	7 225	99.05%
<b>Total credit cards</b>	<b>3 124 578</b>	<b>(1 238 888)</b>	<b>1 885 690</b>	<b>39.65%</b>
<b>Mortgage loans</b>				
- Not past due	1 499 778	(14)	1 499 764	0.00%
- Overdue less than 30 days	41 266	(23)	41 243	0.06%
- Overdue 30-89 days	68 511	(102)	68 409	0.15%
- Overdue 90-179 days	64 248	(238)	64 010	0.37%
- Overdue 180-360 days	146 168	(5 271)	140 897	3.61%
- Overdue more than 360 days	162 413	(21 511)	140 902	13.24%
<b>Total mortgage loans</b>	<b>1 982 384</b>	<b>(27 159)</b>	<b>1 955 225</b>	<b>1.37%</b>
<b>Express-loans</b>				
- Not past due	125 237	(1 363)	123 874	1.09%
- Overdue less than 30 days	5 352	(816)	4 536	15.25%
- Overdue 30-89 days	8 840	(3 911)	4 929	44.24%
- Overdue 90-179 days	14 449	(9 905)	4 544	68.55%
- Overdue 180-360 days	112 061	(99 096)	12 965	88.43%
- Overdue more than 360 days	427 565	(411 460)	16 105	96.23%
<b>Total express-loans</b>	<b>693 504</b>	<b>(526 551)</b>	<b>166 953</b>	<b>75.93%</b>
<b>Loans to VIP clients</b>				
- Not past due	389 304	-	389 304	0.00%
<b>Total loans to VIP clients</b>	<b>389 304</b>	<b>-</b>	<b>389 304</b>	<b>0.00%</b>
<b>Total loans to individuals</b>	<b>40 703 314</b>	<b>(11 050 860)</b>	<b>29 652 454</b>	<b>27.15%</b>

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
<b>Consumer loans</b>				
- Not past due	22 383 235	(235 112)	22 148 123	1.05%
- Overdue less than 30 days	1 101 449	(271 741)	829 708	24.67%
- Overdue 30-89 days	1 660 542	(786 404)	874 138	47.36%
- Overdue 90-179 days	1 214 069	(783 126)	430 943	64.50%
- Overdue 180-360 days	1 283 581	(1 105 236)	178 345	86.11%
- Overdue more than 360 days	582 544	(582 544)	-	100.00%
<b>Total consumer loans</b>	<b>28 225 420</b>	<b>(3 764 163)</b>	<b>24 461 257</b>	<b>13.34%</b>
<b>Auto loans</b>				
- Not past due	11 258 185	(99 881)	11 158 304	0.89%
- Overdue less than 30 days	758 116	(136 647)	621 469	18.02%
- Overdue 30-89 days	938 213	(344 800)	593 413	36.75%
- Overdue 90-179 days	618 404	(348 818)	269 586	56.41%
- Overdue 180-360 days	634 164	(516 705)	117 459	81.48%
- Overdue more than 360 days	230 025	(230 025)	-	100.00%
<b>Total auto loans</b>	<b>14 437 107</b>	<b>(1 676 876)</b>	<b>12 760 231</b>	<b>11.62%</b>
<b>Credit cards</b>				
- Not past due	2 376 695	(97 006)	2 279 689	4.08%
- Overdue less than 30 days	153 457	(22 754)	130 703	14.83%
- Overdue 30-89 days	287 657	(115 192)	172 465	40.04%
- Overdue 90-179 days	208 851	(100 692)	108 159	48.21%
- Overdue 180-360 days	114 129	(73 508)	40 621	64.41%
- Overdue more than 360 days	27 482	(27 482)	-	100.00%
<b>Total credit cards</b>	<b>3 168 271</b>	<b>(436 634)</b>	<b>2 731 637</b>	<b>13.78%</b>
<b>Mortgage loans</b>				
- Not past due	2 013 125	(195)	2 012 930	0.01%
- Overdue less than 30 days	88 059	(470)	87 589	0.53%
- Overdue 30-89 days	95 169	(6 977)	88 192	7.33%
- Overdue 90-179 days	46 881	(3 859)	43 022	8.23%
- Overdue 180-360 days	22 070	(3 907)	18 163	17.70%
- Overdue more than 360 days	3 444	(3 444)	-	100.00%
<b>Total mortgage loans</b>	<b>2 268 748</b>	<b>(18 852)</b>	<b>2 249 896</b>	<b>0.83%</b>
<b>Express-loans</b>				
- Not past due	735 732	(15 509)	720 223	2.11%
- Overdue less than 30 days	46 177	(12 385)	33 792	26.82%
- Overdue 30-89 days	92 938	(44 203)	48 735	47.56%
- Overdue 90-179 days	99 229	(59 074)	40 155	59.53%
- Overdue 180-360 days	116 567	(97 891)	18 676	83.98%
- Overdue more than 360 days	82 365	(82 365)	-	100.00%
<b>Total express-loans</b>	<b>1 173 008</b>	<b>(311 427)</b>	<b>861 581</b>	<b>26.55%</b>
<b>Loans to VIP clients</b>				
- Not past due	522 220	(750)	521 470	0.14%
<b>Total loans to VIP clients</b>	<b>522 220</b>	<b>(750)</b>	<b>521 470</b>	<b>0.14%</b>
<b>Total loans to individuals</b>	<b>49 794 774</b>	<b>(6 208 702)</b>	<b>43 586 072</b>	<b>12.47%</b>

The Group estimates loan impairment based on its past historical loss experience on these types of loans. Management estimates losses based on historic loss migration pattern for the past 24 months and adjusts such statistics to reflect the current market environment.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on retail loans as of 31 December 2009 would be RUB 296 525 thousand lower/higher (2008: RUB 435 861 thousand).

### ***Analysis of collateral***

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying car. Certain consumer loans and loans to VIP clients are secured by third party sureties although the majority of consumer loans and loans to VIP clients are not secured. Credit cards and express loans are not secured.

Management believes that it is impracticable to estimate the fair value of collateral held in respect of impaired loans to individuals.

### ***Analysis of movements in the impairment allowance***

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

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express-loans	Loans to VIP clients	Total
<b>Loan impairment allowance as at 1 January</b>	<b>3 764 163</b>	<b>1 676 876</b>	<b>436 634</b>	<b>18 852</b>	<b>311 427</b>	<b>750</b>	<b>6 208 702</b>
Loan impairment charge	3 343 832	473 778	802 254	8 307	215 124	(750)	4 842 545
Loans written off as uncollectible	(387)	-	-	-	-	-	(387)
<b>Loan impairment allowance as at 31 December</b>	<b><u>7 107 608</u></b>	<b><u>2 150 654</u></b>	<b><u>1 238 888</u></b>	<b><u>27 159</u></b>	<b><u>526 551</u></b>	<b><u>-</u></b>	<b><u>11 050 860</u></b>

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

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express- loans	Loans to VIP clients	Total
<b>Loan impairment allowance as at 1 January</b>	<b>816 756</b>	<b>370 481</b>	<b>4 402</b>	<b>6 386</b>	<b>154 752</b>	<b>30</b>	<b>1 352 807</b>
Loan impairment charge	3 191 933	1 410 597	434 789	12 458	237 425	720	5 287 922
Acquisition of subsidiaries	58 706	1 144	-	8	1 746	-	61 604
Loans written off as uncollectible	(303 232)	(105 346)	(2 557)	-	(82 496)	-	(493 631)
<b>Loan impairment allowance as at 31 December</b>	<b><u>3 764 163</u></b>	<b><u>1 676 876</u></b>	<b><u>436 634</u></b>	<b><u>18 852</u></b>	<b><u>311 427</u></b>	<b><u>750</u></b>	<b><u>6 208 702</u></b>

**Industry and geographical analysis of the loan portfolio**

Loans to customers as at 31 December are issued to customers operating in the following economic sectors:

	2009		2008	
<b>Loans to individuals</b>	40 703 314	13.33%	49 794 774	15.61%
<b>Commercial loans</b>				
Wholesale trade	37 050 255	12.14%	42 472 388	13.32%
Real estate investment and development	26 069 566	8.54%	29 727 241	9.32%
Food production	22 639 651	7.42%	21 601 883	6.77%
Finance and leasing	18 787 534	6.15%	15 739 153	4.94%
Retail trade	16 572 447	5.43%	15 597 357	4.89%
Wood processing	15 128 070	4.95%	9 975 322	3.13%
Agriculture	14 131 045	4.63%	15 520 858	4.87%
Construction	13 661 905	4.48%	20 251 845	6.35%
Services	11 545 671	3.78%	11 983 575	3.76%
Information technology	8 845 936	2.90%	6 002 662	1.88%
Construction materials	8 725 239	2.86%	6 274 517	1.97%
Transport	8 574 388	2.81%	12 838 179	4.03%
Automobile trading and production	8 531 897	2.79%	11 095 210	3.48%
Chemical production	7 267 218	2.38%	7 730 051	2.42%
Metallurgy	6 673 931	2.19%	8 107 508	2.54%
Machinery	6 531 133	2.14%	6 833 484	2.14%
Energy	6 388 759	2.09%	7 335 291	2.30%
Telecommunications	5 172 721	1.69%	3 671 450	1.15%
Pharmaceutical	4 328 171	1.42%	3 372 384	1.06%
Light industry	3 081 466	1.01%	1 354 512	0.42%
Media	2 779 999	0.91%	2 621 801	0.82%
State and local authorities	2 205 077	0.72%	393 176	0.12%
Mineral resources	1 467 835	0.48%	1 048 884	0.33%
Aircraft industry	387 012	0.13%	387 765	0.12%
Other	8 017 142	2.63%	7 191 919	2.26%
	<b>305 267 382</b>	<b>100.00%</b>	<b>318 923 189</b>	<b>100.00%</b>
Impairment allowance	(38 845 803)		(18 510 140)	
<b>Total loans to customers</b>	<b>266 421 579</b>		<b>300 413 049</b>	

Loans as at 31 December are granted to customers in the following geographical areas:

	<u>2009</u>	<u>2008</u>
<b>Russian Federation</b>		
Moscow and Moscow region	165 554 801	159 795 925
Siberia	41 613 796	45 969 296
Central Chernozem and Central region	30 654 427	38 045 721
Volgo-Viatskiy and Volga region	20 259 448	21 027 088
South region	19 889 554	21 332 058
North-Western and North region	15 958 471	20 792 352
Far East	5 969 792	6 234 478
Urals	5 367 093	5 713 839
<b>Customers outside the Russian Federation</b>	<u>-</u>	<u>12 432</u>
	<b>305 267 382</b>	<b>318 923 189</b>
Impairment allowance	<u>(38 845 803)</u>	<u>(18 510 140)</u>
<b>Total loans to customers</b>	<u><b>266 421 579</b></u>	<u><b>300 413 049</b></u>

### Significant credit exposures

As at 31 December 2009 and 2008 the Group had 9 and 8 borrowers or groups of related borrowers, respectively, whose loan balances exceed 10% of equity. The gross value of exposures as of 31 December 2009 and 2008 are RUB 49 360 423 thousand and RUB 48 440 626 thousand, respectively, or 16.2% and 15.2% of gross loans to customers.

### Loan maturities

The maturity of the loan portfolio is presented in note 33, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Maturity, currency and interest rate analyses of loans to customers are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

**Net investment in leases**

Included within loans to customers as of 31 December 2009 and 2008 are net investment in leases. As of 31 December 2009 and 2008, the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	<u>2009</u>	<u>2008</u>
Gross investment in leases	1 102 693	1 770 545
Unearned finance income	(443 266)	(599 074)
<b>Net investment in leases</b>	<b>659 427</b>	<b>1 171 471</b>
Impairment allowance	(27 478)	(29 941)
<b>Net investment in leases less impairment allowance</b>	<b>631 949</b>	<b>1 141 530</b>

The contractual maturity of the net investment in leases as of 31 December 2009 is as follows:

	<u>Gross lease receivable</u>	<u>Unearned income</u>	<u>Impairment allowance</u>	<u>Net investment in leases</u>
Less than one year	505 447	(223 111)	(9 146)	273 190
One year to five years	597 246	(220 155)	(18 332)	358 759
	<b>1 102 693</b>	<b>(443 266)</b>	<b>(27 478)</b>	<b>631 949</b>

The contractual maturity of the net investment in leases as of 31 December 2008 is as follows:

	<u>Gross lease receivable</u>	<u>Unearned income</u>	<u>Impairment allowance</u>	<u>Net investment in leases</u>
Less than one year	706 768	(279 454)	(9 692)	417 622
One year to five years	1 063 777	(319 620)	(20 249)	723 908
	<b>1 770 545</b>	<b>(599 074)</b>	<b>(29 941)</b>	<b>1 141 530</b>

## 10 Investments available for sale

	<u>2009</u>	<u>2008</u>
Closed unit investment fund	29 140	-
<b>Equity investments</b>		
Corporate shares	5 943	158 514
Other	3 109	3 309
Impairment allowance	<u>(3 109)</u>	<u>(3 109)</u>
<b>Total investments available for sale</b>	<b><u>35 083</u></b>	<b><u>158 714</u></b>

Closed unit investment fund mainly invests in corporate bonds that are securities issued by Russian companies denominated in Russian Roubles.

The equity instruments are unlisted and stated at cost less impairment allowance. As at 31 December 2008 investment in shares of a medium-sized regional bank was evaluated using a valuation technique. This investment was acquired in November 2007 for RUB 178 810 thousand and a further stake was acquired in September 2008 for RUB 59 804 thousand. As at 31 December 2008 the estimated fair value of the investment was RUB 155 313 thousand. These shares were sold during 2009 at a value equal to acquisition cost.

Maturity and currency analyses of investments available for sale are disclosed in note 33. The information on related party balances is disclosed in note 42.

### Analysis of movements in the impairment allowance

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	3 109	10 891
Write-off	-	<u>(7 782)</u>
Balance at the end of the year	<b><u>3 109</u></b>	<b><u>3 109</u></b>

## 11 Investments held to maturity

	<u>2009</u>	<u>2008</u>
<i>Debt and other fixed-income instruments</i>		
Russian Government Federal bonds (OFZ)	5 992 075	5 327 720
Corporate bonds	1 181 844	3 172 611
Corporate Eurobonds	148 112	387 710
Impairment allowance	<u>(117 093)</u>	<u>(7 990)</u>
<b>Total investments held to maturity</b>	<b><u>7 204 938</u></b>	<b><u>8 880 051</u></b>

**Analysis of movements in the impairment allowance**

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	7 990	-
Impairment charge	109 103	7 990
Balance at the end of the year	<u>117 093</u>	<u>7 990</u>

In 2008 the Group reclassified certain trading securities with effect from 31 July 2008 to investments held to maturity following amendments to IAS 39. 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 trading securities identified for reclassification, the Group determined that the fundamental change in the securities markets constituted rare circumstances that permit reclassification out of the trading category.

The disclosures below detail the impact of the reclassifications on the consolidated financial statements:

	<u>31 December 2009</u>		<u>31 December 2008</u>		<u>31 July 2008</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Trading securities reclassified to investments held to maturity	5 405 149	5 254 709	5 546 292	5 130 952	5 450 071	5 450 071

The table above includes amounts related to financial instruments held by the Group as at 31 December 2009.

The tables below set out the amounts actually recognised in profit or loss during 2009 and 2008 in respect of trading securities reclassified out of financial assets at fair value through profit or loss:

	<u>2009</u>		<u>2008</u>	
	<u>Recognised for reclassified assets</u>	<u>Would have been recognized if the reclassifications were not made</u>	<u>Recognised for reclassified assets</u>	<u>Would have been recognized if the reclassifications were not made</u>
Interest income	431 153	489 036	339 916	321 339
Net gain/(loss) on debt securities - trading	-	253 147	38 515	(528 648)
Impairment losses for investments held to maturity	(107 567)	-	(7 990)	-
<b>Total result recognised in profit or loss for the period (before tax)</b>	<u>323 586</u>	<u>742 183</u>	<u>370 441</u>	<u>(207 309)</u>

The following table provides details of debt investments held to maturity as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	10.93%
Corporate bonds	January 2010	June 2012	7.55%	18.00%	9.04%	16.57%
Corporate Eurobonds	March 2010	March 2012	6.13%	13.75%	9.55%	14.14%

The following table provides details of debt investments held to maturity as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	6.82%
Corporate bonds	April 2009	June 2012	7.55%	15.00%	7.78%	27.41%
Corporate Eurobonds	March 2009	July 2011	6.13%	13.75%	9.55%	16.29%

The following table presents an analysis by rating agency designation of debt investments held to maturity as at 31 December. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	2009	2008
Rated from BBB- to BBB+	6 020 895	5 647 699
Rated from BB- to BB+	150 696	274 097
Rated from B- to B+	673 690	1 453 583
Rated below B-	-	148 432
Not rated	359 657	1 356 240
<b>Total investments held to maturity</b>	<b>7 204 938</b>	<b>8 880 051</b>

Maturity, currency and interest rate analyses of investments held to maturity are disclosed in notes 33 and 41.

## 12 Assets held for sale

In December 2009 the Group acquired two items of property that are classified as assets held for sale as management is planning to sell these assets during 2010 and is actively marketing the assets. The Group entered into an agency agreement with a real estate management company to find investors. As of 31 December 2009 assets held for sale are comprised of:

	<u>2009</u>	<u>2008</u>
Land, St.-Petersburg region	1 500 000	-
Office building, Moscow	1 100 001	-
<b>Total assets held for sale</b>	<b><u>2 600 001</u></b>	<b><u>-</u></b>

Assets held for sale are measured at the lower of cost or fair value less costs to sell.

Assets held for sale are included in the International business, investments and financial markets operating segment.

Maturity and currency analyses of assets held for sale are disclosed in note 33.

## 13 Other assets

	<u>2009</u>	<u>2008</u>
Advances and prepayments	680 954	695 346
Securities lending operations	429 359	-
Equipment purchased for leases	409 476	57 522
Deferred expenses	203 967	367 990
Value added tax (VAT)	188 185	287 696
Other	188 374	108 986
<b>Total other assets</b>	<b><u>2 100 315</u></b>	<b><u>1 517 540</u></b>

Maturity and currency analyses of other assets are disclosed in note 33. The information on related party balances is disclosed in note 42.

## 14 Property and equipment

	Land and Buildings	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
<b>Cost/Revalued amount</b>									
At 1 January 2009	12 751 260	1 031 295	1 583 180	308 242	273 926	762 172	7 795	6 443 053	23 160 923
Additions and transfers	443 502	702 198	364 189	13 662	49 200	79 276	278	2 897 664	4 549 969
Disposals and transfers	(6 751)	(21 258)	(50 061)	(18 059)	(12 042)	(30 105)	(1 245)	(200 622)	(340 143)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
Revaluation	(1 482 948)	-	-	-	-	-	-	-	(1 482 948)
<b>At 31 December 2009</b>	<b>11 423 166</b>	<b>1 712 235</b>	<b>1 897 308</b>	<b>303 845</b>	<b>311 084</b>	<b>811 343</b>	<b>6 828</b>	<b>9 140 095</b>	<b>25 605 904</b>
<b>Depreciation and amortisation</b>									
At 1 January 2009	-	520 857	601 014	123 128	94 128	405 136	3 441	-	1 747 704
Depreciation charge (note 30)	282 022	253 495	259 662	57 087	37 912	127 933	1 260	-	1 019 371
Disposals	(125)	(20 090)	(37 164)	(14 787)	(7 628)	(6 696)	(726)	-	(87 216)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
<b>At 31 December 2009</b>	<b>-</b>	<b>754 262</b>	<b>823 512</b>	<b>165 428</b>	<b>124 412</b>	<b>526 373</b>	<b>3 975</b>	<b>-</b>	<b>2 397 962</b>
<b>Carrying value at 31 December 2009</b>	<b>11 423 166</b>	<b>957 973</b>	<b>1 073 796</b>	<b>138 417</b>	<b>186 672</b>	<b>284 970</b>	<b>2 853</b>	<b>9 140 095</b>	<b>23 207 942</b>

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

	<b>Land and Buildings</b>	<b>Computers and software</b>	<b>Office equipment</b>	<b>Vehicles</b>	<b>Furniture fixtures and fittings</b>	<b>Leasehold improvements</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost/Revalued amount</b>									
At 1 January 2008	8 159 791	595 564	997 633	187 358	161 078	583 400	6 014	1 622 005	12 312 843
Acquisition of subsidiaries	2 059 403	56 350	140 371	45 207	19 968	-	1 916	270 275	2 593 490
Additions and transfers	2 344 800	386 120	469 308	81 891	97 845	179 460	1 723	6 154 534	9 715 681
Disposals and transfers	(138 844)	(6 739)	(24 132)	(6 214)	(4 965)	(688)	(1 858)	(1 603 761)	(1 787 201)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
Revaluation	539 711	-	-	-	-	-	-	-	539 711
<b>At 31 December 2008</b>	<b>12 751 260</b>	<b>1 031 295</b>	<b>1 583 180</b>	<b>308 242</b>	<b>273 926</b>	<b>762 172</b>	<b>7 795</b>	<b>6 443 053</b>	<b>23 160 923</b>
<b>Depreciation and amortisation</b>									
At 1 January 2008	-	305 088	366 000	63 968	64 515	289 648	1 409	-	1 090 628
Acquisition of subsidiaries	10 390	39 762	69 960	19 699	6 601	-	1 458	-	147 870
Depreciation charge (note 30)	205 155	182 376	178 720	44 818	25 365	115 654	1 305	-	753 393
Disposals	(1 944)	(6 369)	(13 666)	(5 357)	(2 353)	(166)	(731)	-	(30 586)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
<b>At 31 December 2008</b>	<b>-</b>	<b>520 857</b>	<b>601 014</b>	<b>123 128</b>	<b>94 128</b>	<b>405 136</b>	<b>3 441</b>	<b>-</b>	<b>1 747 704</b>
<b>Carrying value</b>									
<b>at 31 December 2008</b>	<b>12 751 260</b>	<b>510 438</b>	<b>982 166</b>	<b>185 114</b>	<b>179 798</b>	<b>357 036</b>	<b>4 354</b>	<b>6 443 053</b>	<b>21 413 219</b>

During 2008 the Group acquired the investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2009 is RUB 8 244 504 thousand (2008: RUB 5 506 180 thousand) and the Group has capital commitments in respect of this construction in the amount of USD 42 million payable in 2010-2011.

At 31 December 2009 included in office equipment, computer software and vehicles are assets held under finance leases at carrying amount of RUB 234 775 thousand (2008: RUB 313 297 thousand).

### Revalued assets

Buildings were independently valued at 31 December 2009. The valuation was carried out by two independent firms of appraisers, Centr nezavisimoy expertizi OOO “Invest Proect” and OOO “Otsenchnaya kompaniya “Nizhegorodsky Capital”, which hold recognised and relevant professional qualifications and which have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the market approach, based upon an analysis of the results of comparable sales and/or offer of similar buildings.

Included in the above table is RUB 1 482 948 thousand representing the overall decrease in market values during 2009 relating to these buildings. Negative revaluation of RUB 1 025 030 thousand is recorded in other comprehensive income, and negative revaluation of RUB 457 918 thousand is recognized in profit or loss.

Included in the above table is RUB 539 711 thousand representing the revaluation surplus during 2008 relating to these buildings. Positive revaluation of RUB 995 811 thousand was recorded in other comprehensive income, and negative revaluation of RUB 456 100 thousand was recognized in profit or loss.

The appraisers apply various adjustment factors to market prices of similar buildings to make them comparable with the Groups’ buildings. These adjustments could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2009 would be RUB 1 137 365 thousand (2008: RUB 1 270 239 thousand) higher/lower.

The carrying value of land and buildings as of 31 December 2009, if the buildings would not have been revalued, would be RUB 9 436 013 thousand (2008: RUB 9 220 870 thousand).

## 15 Financial liabilities at fair value through profit or loss

	<u>2009</u>	<u>2008</u>
Spot and derivative financial instruments	893 764	614 859
Trading liabilities	358 461	-
<b>Total financial liabilities at fair value through profit or loss</b>	<b><u>1 252 225</u></b>	<b><u>614 859</u></b>

For information on the spot and derivative financial instruments refer to note 35.

Trading liabilities represent short position on Russian Federation Eurobonds.

Maturity and currency analyses of financial liabilities at fair value through profit or loss are disclosed in note 33.

## 16 Deposits and balances from banks and other financial institutions

	<u>2009</u>	<u>2008</u>
Term deposits from foreign banks	21 299 320	10 167 919
Long-term finance	14 768 138	16 346 508
Trade finance	13 114 615	26 545 890
Vostro accounts	8 339 427	5 841 481
Term deposits from the CBR	5 856 656	51 527 551
Term deposits from local banks	<u>1 402 234</u>	<u>846 008</u>
<b>Total deposits and balances from banks and other financial institutions</b>	<b><u>64 780 390</u></b>	<b><u>111 275 357</u></b>

Trade finance and long-term finance represent funds to be used in documentary credit transactions. Trade finance is used for financing working capital of clients through documentary letters of credit. Long-term finance is used to finance targeted assets of clients through documentary letters of credit.

Maturity, currency and interest rate analyses of deposits and balances from banks and other financial institutions are disclosed in notes 33 and 41.

### Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2009 the ten largest aggregate balances of deposits and balances from banks and other financial institutions (except for term deposits from the CBR) amount to RUB 29 625 653 thousand or 50.3% of total deposits and balances from banks and other financial institutions excluding term deposits from the CBR (2008: RUB 25 254 376 thousand or 42.3%).

## 17 Amounts payable under repurchase agreements

	<u>2009</u>	<u>2008</u>
Amounts payable to banks and other financial institutions	17 659	855 837
Amounts payable to customers	43 038	-
<b>Total amounts payable under repurchase agreements</b>	<b><u>60 697</u></b>	<b><u>855 837</u></b>

Maturity, currency and interest rate analyses of amounts payable under repurchase agreements are disclosed in notes 33 and 41.

### Securities pledged

As at 31 December 2009 and 2008, the Group pledged certain securities as collateral under repurchase agreements (refer to note 7).

## 18 Current accounts and deposits from customers

	<u>2009</u>	<u>2008</u>
<b>Current accounts and demand deposits</b>		
- Corporate	55 365 566	59 566 765
- Retail	11 029 832	8 304 238
<b>Term deposits</b>		
- Corporate	114 735 483	82 111 910
- Retail	85 000 038	45 086 652
- State and local authorities and public organisations	23 417 920	34 541 393
<b>Total current accounts and deposits from customers</b>	<b><u>289 548 839</u></b>	<b><u>229 610 958</u></b>

Maturity, currency and interest rate analyses of current accounts and deposits from customers are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

### Blocked accounts

As at 31 December 2009, the Group maintained customer deposit balances of RUB 3 806 545 thousand (2008: RUB 1 530 911 thousand) that are blocked as collateral for loans and off-balance sheet credit instruments.

### Concentrations of current accounts and deposits from customers

As at 31 December 2009 the ten largest aggregate balances of current account and deposits from customers amount to RUB 92 453 053 thousand or 31.9% of total current accounts and deposits from customers (2008: RUB 87 979 495 thousand or 38.3% of total current accounts and deposits from customers).

Funds were attracted from the customers operating in the following economic sectors as at 31 December:

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Retail</b>	96 029 870	33.17%	53 390 890	23.25%
<b>Corporate customers, state and local authorities and public organisations</b>				
Energy and mineral resources	44 078 110	15.22%	32 065 542	13.97%
Development and construction	26 445 668	9.13%	9 443 967	4.11%
Finance and investment	26 135 255	9.03%	40 462 509	17.62%
State and local authorities and public organisations	23 417 920	8.09%	34 541 393	15.04%
Trade and commerce	22 998 156	7.94%	24 474 567	10.66%
Manufacturing	18 934 164	6.54%	6 741 460	2.94%
Transport and other services	9 863 415	3.41%	6 691 556	2.91%
Media and telecommunications	9 358 854	3.23%	12 037 492	5.24%
IT and science	5 481 419	1.89%	4 570 000	1.99%
Food production and agriculture	828 632	0.29%	1 003 841	0.44%
Other	5 977 376	2.06%	4 187 741	1.83%
<b>Total current accounts and deposits from customers</b>	<b><u>289 548 839</u></b>	<b><u>100.00%</u></b>	<b><u>229 610 958</u></b>	<b><u>100.00%</u></b>

## 19 Own securities issued

	<u>2009</u>	<u>2008</u>
Promissory notes	20 986 966	11 676 688
Senior loan participation notes	16 423 635	17 889 524
Domestic bonds	6 229 540	9 541 000
Certificates of deposit	14 571	261 228
<b>Total own securities issued</b>	<b><u>43 654 712</u></b>	<b><u>39 368 440</u></b>

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rates from 0.1% p.a. to 16.0% p.a. and maturity dates from January 2010 to September 2015.

Loan participation notes comprise notes issued through Promsvyaz Finance PLC and PSB Finance S.A. (refer to note 2).

The table below provides a summary of all senior loan participation notes issued as at 31 December:

Special purpose entity used for issue	Principal amount		Issue date	Maturity date	Coupon rate	Commentary	2009	2008
	2009	2008					2009	2008
PSB Finance S.A.	USD 214 mln	USD 225 mln	October 2006 and March 2007	October 2011	8.75%	Non-subordinated	6 360 433	6 696 386
Promsvyaz Finance PLC	USD 192 mln	USD 200 mln	October 2005	October 2010	8.75%	Non-subordinated	5 881 808	5 952 241
PSB Finance S.A.	USD 137 mln	USD 150 mln	July 2008	July 2013	10.75%	Non-subordinated	4 181 394	4 590 498
PSB Finance S.A.	-	EUR 15 mln	July 2008	April 2009	9.625%	Non-subordinated	-	650 399
<b>Total senior loan participation notes</b>							<b><u>16 423 635</u></b>	<b><u>17 889 524</u></b>

During the year ended 31 December 2009 the Group purchased from the market senior loan participation notes amounting to USD 204 462 thousand. The gain on the repurchase of these senior loan participation notes is RUB 755 417 thousand (refer to note 28).

During the year ended 31 December 2009 the Group sold senior loan participation notes amounting to USD 172 790 thousand.

The table below provides a summary of domestic bonds issued as at 31 December:

Principal amount	Issue date	Offer date	Maturity date	Current coupon rate	2009	2008
4 500 000	May 2007	May 2010	May 2012	16.00%	4 575 562	4 532 406
5 000 000	June 2008	December 2010	June 2013	14.75%	1 653 978	5 008 594
<b>Total domestic bonds</b>					<b><u>6 229 540</u></b>	<b><u>9 541 000</u></b>

In May 2009 the Group redeemed at nominal value 45.7% of the RUB 4.5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 100% of such bonds.

In June 2009 the Group redeemed at nominal value 70.6% of the RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 100% of such bonds.

In December 2009 the Group redeemed at nominal value 69.9% of the same RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 4.1% of such bonds.

Maturity, currency and interest rate analyses of own securities issued are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

## 20 Other borrowed funds

	<u>2009</u>	<u>2008</u>
Syndicated loans	8 966 992	22 196 034
Other borrowed funds	4 852 418	1 814 228
<b>Total other borrowed funds</b>	<b><u>13 819 410</u></b>	<b><u>24 010 262</u></b>

In September 2009 the Group received the first tranche of a loan agreement with EBRD amounting to USD 30 000 thousand. The loan bears an interest rate of LIBOR plus 4.5% per annum.

In October and December 2009 the Group borrowed RUB 776 000 thousand and RUB 1 000 000 thousand from The Russian Bank for Development to re-lend to the small and medium size enterprises segment. The loans mature in October and November 2012 and bear an interest rate of 10.5% per annum payable on a monthly basis.

In December 2009 the Group borrowed USD 30 000 thousand from Kreditanstalt für Wiederaufbau to re-lend to the small and medium size enterprises segment. The loan bears an interest rate of LIBOR plus 2.8% per annum.

In March 2009 the Group repaid in advance a syndicated loan amounting to USD 175 000 thousand, received in May 2008 from a group of banks from Europe and the United States of America.

In July 2009 the Group repaid in advance a syndicated loan amounting to USD 280 000 thousand, received in August 2008 from a group of banks from Russia, Europe and the United States of America.

Maturity, currency and interest rate analyses of other borrowed funds are disclosed in notes 33 and 41.

## 21 Other liabilities

	<u>2009</u>	<u>2008</u>
Financial guarantee liabilities	629 821	710 254
Employee compensation payable	371 064	484 001
Taxes payable	329 572	377 952
Payables and advances received	239 967	177 344
Obligations under option agreements (refer to note 2)	83 477	86 895
Payables on factoring deals	49 345	74 283
Liability to purchase leasing equipment	9 050	20 422
Deferred subsidiary purchase consideration	-	640 231
Other	88 692	101 597
<b>Total other liabilities</b>	<b><u>1 800 988</u></b>	<b><u>2 672 979</u></b>

Maturity and currency analyses of other liabilities are disclosed in note 33. The information on related party balances is disclosed in note 42.

## 22 Deferred tax asset/liability

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 and liabilities as of 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	
	2009	2008	2009	2008	2009	2008
Financial assets at fair value through profit or loss	216 121	195 397	(13 056)	-	203 065	195 397
Amounts receivable under reverse repurchase agreements	-	-	(713)	(927)	(713)	(927)
Loans to customers	480 791	293 061	(37 605)	(325 126)	443 186	(32 065)
Investments available for sale	560	17 251	-	-	560	17 251
Investments held to maturity	-	-	(6 443)	(38 228)	(6 443)	(38 228)
Other assets	31 009	67 638	(3 722)	(686)	27 287	66 952
Property and equipment	-	-	(538 650)	(1 074 475)	(538 650)	(1 074 475)
Financial liabilities at fair value through profit or loss	65 906	-	-	(23 918)	65 906	(23 918)
Deposits and balances from banks and other financial institutions	-	-	(18 584)	(11 687)	(18 584)	(11 687)
Amounts payable under repurchase agreements	-	556	(191)	-	(191)	556
Own securities issued	-	-	(41 118)	(37 975)	(41 118)	(37 975)
Other borrowed funds	-	-	(39 128)	(36 358)	(39 128)	(36 358)
Other liabilities	192 116	199 326	-	-	192 116	199 326
<b>Net tax asset/(liability)</b>	<b>986 503</b>	<b>773 229</b>	<b>(699 210)</b>	<b>(1 549 380)</b>	<b>287 293</b>	<b>(776 151)</b>
Comprising of:						
Deferred tax asset					600 326	-
Deferred tax liability					(313 033)	(776 151)

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

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

	<b>Balance as at 1 January 2009</b>	<b>Recognised in profit or loss</b>	<b>Recognised in equity</b>	<b>Acquisition of subsidiaries</b>	<b>Balance as at 31 December 2009</b>
Financial assets at fair value through profit or loss	195 397	7 668	-	-	203 065
Amounts receivable under reverse repurchase agreements	(927)	214	-	-	(713)
Loans to customers	(32 065)	468 241	-	7 010	443 186
Investments available for sale	17 251	11	(16 702)	-	560
Investments held to maturity	(38 228)	31 785	-	-	(6 443)
Other assets	66 952	(39 665)	-	-	27 287
Property and equipment	(1 074 475)	330 819	205 006	-	(538 650)
Financial liabilities at fair value through profit or loss	(23 918)	89 824	-	-	65 906
Deposits and balances from banks and other financial institutions	(11 687)	(6 897)	-	-	(18 584)
Amounts payable under repurchase agreements	556	(747)	-	-	(191)
Own securities issued	(37 975)	(3 143)	-	-	(41 118)
Other borrowed funds	(36 358)	(2 770)	-	-	(39 128)
Other liabilities	199 326	(7 210)	-	-	192 116
	<b>(776 151)</b>	<b>868 130</b>	<b>188 304</b>	<b>7 010</b>	<b>287 293</b>

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

	Balance as at 1 January 2008	Recognised in profit or loss	Recognised in equity	Changes in income tax rates in income	Changes in income tax rates in equity	Acquisition of subsidiaries	Balance as at 31 December 2008
Placements with banks and other financial institutions	(1 378)	1 378	-	-	-	-	-
Financial assets at fair value through profit or loss	184 837	51 454	-	(40 912)	-	18	195 397
Amounts receivable under reverse repurchase agreements	(1 029)	(83)	-	185	-	-	(927)
Loans to customers	(356 034)	285 040	-	17 214	-	21 715	(32 065)
Investments available for sale	713	(4)	16 660	(118)	-	-	17 251
Investments held to maturity	-	(45 874)	-	7 646	-	-	(38 228)
Other assets	68 805	12 361	-	(13 528)	-	(686)	66 952
Property and equipment	(1 086 093)	280 879	(174 882)	32 163	120 048	(246 590)	(1 074 475)
Financial liabilities at fair value through profit or loss	(34 328)	5 626	-	4 784	-	-	(23 918)
Deposits and balances from banks and other financial institutions	(28 650)	14 626	-	2 337	-	-	(11 687)
Amounts payable under repurchase agreements	582	85	-	(111)	-	-	556
Own securities issued	(46 549)	979	-	7 595	-	-	(37 975)
Other borrowed funds	(29 971)	(13 659)	-	7 272	-	-	(36 358)
Other liabilities	136 063	103 129	-	(39 866)	-	-	199 326
	<b>(1 193 032)</b>	<b>695 937</b>	<b>(158 222)</b>	<b>(15 339)</b>	<b>120 048</b>	<b>(225 543)</b>	<b>(776 151)</b>

## 23 Subordinated borrowings

	2009	2008
Subordinated loan participation notes	15 286 818	8 953 887
Subordinated loan from European Bank of Reconstruction and Development	1 551 047	1 574 010
Subordinated loan from Reserve Invest Limited	910 496	887 396
Subordinated loan from Promsvyaz Capital B.V.	-	1 178 306
<b>Total other borrowed funds</b>	<b>17 748 361</b>	<b>12 593 599</b>

In November 2009 the Group issued subordinated loan participation notes with a nominal value of USD 200 000 thousand which mature in 2015 and bear interest at 12.75% per annum.

In December 2009 the Group repaid in advance the subordinated loan from Promsvyaz Capital B.V.

Maturity, currency and interest rate analyses of subordinated borrowings are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

## 24 Share capital

### Issued capital

	<b>Balance as at 1 January 2009</b>
Number of ordinary shares	179 890
Nominal amount per share, RUB	50 000
Nominal amount, RUB thousand	8 994 500
Inflation adjusted amount	10 062 544

On 16 March 2009 the shareholders decided to split the ordinary shares which have a nominal value of RUB 50,000 each into 5,000,000 ordinary shares with a nominal value of RUB 0.01 each.

	<b>Balance as at 31 December 2009</b>
Number of ordinary shares	899 450 000 000
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	8 994 500
Inflation adjusted amount	10 062 544

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the shareholders.

### Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUB 6 409 305 thousand (2008: RUB 8 178 280 thousand).

No dividends were declared or paid during the years ended 31 December 2009 and 2008.

## 25 Net interest income

	<b>2009</b>	<b>2008</b>
<b>Interest income</b>		
Loans to customers	50 401 496	39 557 566
Financial assets at fair value through profit or loss	2 481 705	1 440 239
Investments held to maturity	656 434	293 702
Placements with banks and other financial institutions and cash and cash equivalents	541 021	870 826
Reverse repurchase agreements	519 270	619 655
<b>Total interest income</b>	<b>54 599 926</b>	<b>42 781 988</b>

	<b>2009</b>	<b>2008</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	16 572 417	9 733 398
Deposits and balances from banks and other financial institutions	5 442 845	5 227 360
Own securities issued	4 264 295	3 222 197
Subordinated borrowings	1 625 715	1 197 211
Other borrowed funds	884 046	1 273 804
Repurchase agreements	209 000	158 250
<b>Total interest expense</b>	<b>28 998 318</b>	<b>20 812 220</b>
<b>Net interest income</b>	<b>25 601 608</b>	<b>21 969 768</b>

## 26 Fee and commission income

	<b>2009</b>	<b>2008</b>
Commission on documentary operations	2 037 213	1 331 953
Money transfer fees	1 235 835	1 080 417
Commission for servicing plastic cards	1 182 891	945 511
Commission on foreign currency operations	1 019 587	674 521
Commission for operations with cash	756 987	651 601
Commission on banknote operations	220 729	337 312
Securities trading fees	137 212	63 512
Commission on undrawn loan commitments	104 115	215 758
Investment banking fees	100 848	211 975
Cash collection fees	97 541	82 875
Agent fees	48 415	113 385
Other	70 705	71 326
<b>Total fee and commission income</b>	<b>7 012 078</b>	<b>5 780 146</b>

## 27 Fee and commission expense

	<b>2009</b>	<b>2008</b>
Commission on documentary operations	386 762	259 449
Commission for servicing plastic cards	309 125	248 488
Money transfer fees	236 457	233 445
Commission on foreign currency operations	154 812	30 096
Agent fees	124 694	75 086
Commission on banknote operations	94 371	72 642
Cash collection fees	71 547	102 898
Securities trading fees	26 725	32 187
Other	2 353	1 518
<b>Total fee and commission expense</b>	<b>1 406 846</b>	<b>1 055 809</b>

## 28 Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes

	<u>2009</u>	<u>2008</u>
Net gain on early redemption of senior loan participation notes (note 19)	755 417	-
Net gain/(loss) on debt securities - trading	368 436	(1 481 344)
Net gain/(loss) on equity securities - trading	19 787	(39 413)
Net gain/(loss) on equity instruments - designated upon initial recognition as at fair value through profit or loss	113 140	(141 301)
Net loss on interest rate swaps	(142 598)	(180 782)
<b>Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes</b>	<b><u>1 114 182</u></b>	<b><u>(1 842 840)</u></b>

Interest income on debt instruments is included in interest income on financial assets at fair value through profit or loss (refer to note 25).

## 29 Other income

	<u>2009</u>	<u>2008</u>
Fines and penalties received	857 516	485 659
Income from sale of property	13 830	20 791
Dividend income	1 943	3 181
Other	223 405	134 174
<b>Total other income</b>	<b><u>1 096 694</u></b>	<b><u>643 805</u></b>

## 30 General and administrative expenses

	<u>2009</u>	<u>2008</u>
<b>Administrative expenses</b>		
Employee compensation	7 577 385	6 512 920
Depreciation (note 14)	1 019 371	753 393
Occupancy (note 37)	796 951	769 425
Taxes other than income tax	689 394	732 615
Communications and information services	570 848	563 744
Insurance	503 975	401 586
Office repairs, maintenance and supply	461 270	534 606
Advertising and marketing	392 408	710 459
Security	335 231	262 768
Transportation	179 147	206 119
Buildings repairs and maintenance	132 029	215 468
Professional services	64 154	114 952
Other	205 859	174 803
<b>Total administrative expenses</b>	<b><u>12 928 022</u></b>	<b><u>11 952 858</u></b>
<b>General expenses</b>		
Contributions under obligatory deposit insurance	239 651	202 484
Charity and sponsorship	134 657	229 513
<b>Total general expenses</b>	<b><u>374 308</u></b>	<b><u>431 997</u></b>

Charity and sponsorship expenses include grants to the Russian Society of Invalids, hospices, hospitals, culture institutions and to the Russian Orthodox Church.

### 31 Income tax expense

	<u>2009</u>	<u>2008</u>
<b>Current tax expense</b>		
Current year	(868 378)	(1 261 247)
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences (note 22)	868 130	680 598
<b>Total income tax expense</b>	<u>(248)</u>	<u>(580 649)</u>

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

Reconciliation of effective tax rate:

	<u>2009</u>	<u>%</u>	<u>2008</u>	<u>%</u>
<b>(Loss)/profit before tax</b>	<u>(625 605)</u>		<u>2 142 304</u>	
Theoretical income tax (benefit)/expense at the statutory	(125 120)	20%	514 153	24%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Non deductible expenses including charity expenses	104 776	(17%)	133 967	6%
- Income on government securities taxed at different rates	(36 559)	6%	(70 453)	(3%)
- Loss incurred in tax free jurisdictions	-	-	13 579	1%
- Effect of income earned by the branch in Cyprus	52 663	(8%)	73 529	3%
- Effect of acquisition of subsidiaries	(29 805)	5%	(109 590)	(5%)
- Provision for deferred tax asset	34 293	(6%)	10 125	0%
- Effect of change in income tax rates	-	-	15 339	1%
<b>Income tax expense</b>	<u>248</u>	<u>0%</u>	<u>580 649</u>	<u>27%</u>

### 32 Analysis by segment

The Group is organized into four main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. Internal management reports are reviewed by the Board of Directors on a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking – this operating segment includes the following services provided to legal entities (excluding small and medium size enterprises): settlements and money transfer; deposit taking; issuance of promissory notes and certificates of deposit; trade and long-term finance; commercial lending; overdraft lending; factoring; leasing; letters of credit; guarantees; foreign exchange services; cash collection; currency conversion; all transactions with precious metals.
- Retail banking – this operating segment includes the following services provided to retail customers: settlements and money transfer; deposit taking and lending to individuals (excluding VIP clients); foreign exchange services; banking card products; settlement and cash services.

- International business, investments and financial markets – this operating segment includes the following services provided to banks and other financial institutions, state and local authorities, VIP clients (individuals): deposit taking; borrowings from banks and other financial institutions; issuance of domestic bonds, loan participation notes and promissory notes on the market; repo transactions; interbank lending; syndicated and subordinated borrowings; lending to state and local authorities and VIP clients (individuals); trading and brokerage in securities; foreign exchange (except currency conversion for clients); trading in derivatives; export letters of credit; guarantees; banknote operations; depositary services; settlements and money transfer.
- Small and medium size enterprises - this operating segment includes the following services provided to small and medium size enterprises: commercial lending; deposit taking; issuance of promissory notes; money transfer; guarantees; brokerage in securities; foreign exchange services.

The Group does not allocate equity between segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

The intersegment income and expenses related to exchange of the resources between segments are calculated on the basis of a transfer pricing system, in accordance with which the prices of the internal placement/funding depend on the currency and term of placement/funding.

The Group does not allocate net book value of property and equipment, and current and deferred tax assets and liabilities between the segments to determine segment assets/liabilities. These captions are included in “Unallocated” category in the reconciliation of the total segment assets/liabilities to total assets/liabilities of the Group. Other assets and liabilities are included in “Unallocated” category when they cannot reasonably be distributed among the segments.

General and administrative expenses are allocated between the segments on the basis of an activity-based costing model that identifies activities and assigns the cost of each activity’s resources to all products and services according to their actual consumption.

The Group allocates income tax benefit/expense using the financial result of each segment and the overall effective tax rate.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

Segment breakdown of assets and liabilities as at 31 December 2009 is set out below:

	<b>Corporate banking</b>	<b>Retail banking</b>	<b>International business, investments and financial markets</b>	<b>Small and medium size enterprises</b>	<b>Unallo- cated</b>	<b>Total</b>
Cash and cash equivalents	310 690	3 165 183	104 846 775	-	-	108 322 648
Obligatory reserves with central banks	-	-	-	-	3 149 729	3 149 729
Placements with banks and other financial institutions	-	-	5 075 800	-	-	5 075 800
Financial assets at fair value through profit or loss	-	-	41 751 838	-	-	41 751 838
Amounts receivable under reverse repurchase agreements	-	-	10 080 301	-	-	10 080 301
Loans to customers	215 838 586	29 263 150	2 864 920	18 454 923	-	266 421 579
Investments available for sale	35 083	-	-	-	-	35 083
Investments held to maturity	-	-	7 204 938	-	-	7 204 938
Assets held for sale	-	-	2 600 001	-	-	2 600 001
Other assets	50 305	39 096	456 545	-	1 554 369	2 100 315
Current income tax prepayments	-	-	-	-	660 877	660 877
Deferred tax asset	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	23 207 942	23 207 942
<b>Total assets</b>	<b>216 234 664</b>	<b>32 467 429</b>	<b>174 881 118</b>	<b>18 454 923</b>	<b>29 173 243</b>	<b>471 211 377</b>
Financial liabilities at fair value through profit or loss	-	-	1 252 225	-	-	1 252 225
Deposits and balances from banks and other financial institutions	31 931 655	287 892	32 560 843	-	-	64 780 390
Amounts payable under repurchase agreements	-	-	60 697	-	-	60 697
Current accounts and deposits from customers	151 215 991	60 094 772	61 110 538	17 127 538	-	289 548 839
Own securities issued	7 581 954	-	35 755 011	317 747	-	43 654 712
Other borrowed funds	-	-	13 819 410	-	-	13 819 410
Other liabilities	350 842	-	205 307	5 132	1 239 707	1 800 988
Current income tax payable	-	-	-	-	27 341	27 341
Deferred tax liability	-	-	-	-	313 033	313 033
Subordinated borrowings	-	-	17 748 361	-	-	17 748 361
<b>Total liabilities</b>	<b>191 080 442</b>	<b>60 382 664</b>	<b>162 512 392</b>	<b>17 450 417</b>	<b>1 580 081</b>	<b>433 005 996</b>

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

Segment breakdown of assets and liabilities as at 31 December 2008 is set out below:

	<b>Corporate banking</b>	<b>Retail banking</b>	<b>International business, investments and financial markets</b>	<b>Small and medium size enterprises</b>	<b>Unallo- cated</b>	<b>Total</b>
Cash and cash equivalents	181 698	3 237 769	102 303 743	-	-	105 723 210
Obligatory reserves with central banks	-	-	-	-	992 510	992 510
Placements with banks and other financial institutions	-	-	2 426 852	-	-	2 426 852
Financial assets at fair value through profit or loss	-	-	14 408 817	-	-	14 408 817
Amounts receivable under reverse repurchase agreements	-	-	4 574 084	-	-	4 574 084
Loans to customers	237 286 654	43 064 602	2 558 699	17 503 094	-	300 413 049
Investments available for sale	158 714	-	-	-	-	158 714
Investments held to maturity	-	-	8 880 051	-	-	8 880 051
Other assets	-	17 564	169 249	-	1 330 727	1 517 540
Current income tax prepayments	-	-	-	-	1 292 982	1 292 982
Property and equipment	-	-	-	-	21 413 219	21 413 219
<b>Total assets</b>	<b>237 627 066</b>	<b>46 319 935</b>	<b>135 321 495</b>	<b>17 503 094</b>	<b>25 029 438</b>	<b>461 801 028</b>
Financial liabilities at fair value through profit or loss	-	-	614 859	-	-	614 859
Deposits and balances from banks and other financial institutions	25 758 838	204 497	85 312 022	-	-	111 275 357
Amounts payable under repurchase agreements	-	-	855 837	-	-	855 837
Current accounts and deposits from customers	148 544 930	33 861 904	44 172 528	3 031 596	-	229 610 958
Own securities issued	6 419 686	-	32 785 700	163 054	-	39 368 440
Other borrowed funds	-	-	24 010 262	-	-	24 010 262
Other liabilities	-	-	533 208	-	2 139 771	2 672 979
Current income tax payable	-	-	-	-	48 002	48 002
Deferred tax liability	-	-	-	-	776 151	776 151
Subordinated borrowings	-	-	11 415 293	-	1 178 306	12 593 599
<b>Total liabilities</b>	<b>180 723 454</b>	<b>34 066 401</b>	<b>199 699 709</b>	<b>3 194 650</b>	<b>4 142 230</b>	<b>421 826 444</b>

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

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

	<b>Corporate banking</b>	<b>Retail banking</b>	<b>International business, investments and financial markets</b>	<b>Small and medium size enterprises</b>	<b>Unallo- cated</b>	<b>Total</b>
Interest income	38 334 765	7 500 357	4 675 116	4 089 688	-	54 599 926
Interest expense	(10 206 964)	(3 825 953)	(14 584 448)	(210 384)	(170 569)	(28 998 318)
<b>Net interest income</b>	<b>28 127 801</b>	<b>3 674 404</b>	<b>(9 909 332)</b>	<b>3 879 304</b>	<b>(170 569)</b>	<b>25 601 608</b>
Net revenue from other segments	(13 539 017)	(1 406 685)	12 425 163	(1 756 713)	4 277 252	-
Fee and commission income	3 229 695	2 378 826	648 477	684 521	70 559	7 012 078
Fee and commission expense	(445 815)	(512 315)	(430 796)	(15 704)	(2 216)	(1 406 846)
<b>Net fee and commission income</b>	<b>2 783 880</b>	<b>1 866 511</b>	<b>217 681</b>	<b>668 817</b>	<b>68 343</b>	<b>5 605 232</b>
Net gain on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	20 221	-	1 093 961	-	-	1 114 182
Net foreign exchange gain	336 390	-	39 502	-	-	375 892
Net gain on purchase of minority interest of subsidiaries	149 023	-	-	-	-	149 023
Income on early redemption of other financial liabilities	52 894	72 589	-	1 875	-	127 358
Other income	414 378	343 609	-	135 316	203 391	1 096 694
<b>Operating income of the segment</b>	<b>18 345 570</b>	<b>4 550 428</b>	<b>3 866 975</b>	<b>2 928 599</b>	<b>4 378 417</b>	<b>34 069 989</b>
Loan impairment charge	(12 987 450)	(4 843 295)	(250 083)	(2 760 987)	-	(20 841 815)
Other impairment charge	(16 170)	-	(90 502)	(3)	13 144	(93 531)
Loss on revaluation of fixed assets	-	-	-	-	(457 918)	(457 918)
Administrative expenses	(3 370 019)	(5 117 964)	(989 121)	(1 883 466)	(1 567 452)	(12 928 022)
General expenses	(7)	(172 854)	(63 317)	(97)	(138 033)	(374 308)
<b>Operating expenses</b>	<b>(16 373 646)</b>	<b>(10 134 113)</b>	<b>(1 393 023)</b>	<b>(4 644 553)</b>	<b>(2 150 259)</b>	<b>(34 695 594)</b>
<b>Profit/(loss) before tax</b>	<b>1 971 924</b>	<b>(5 583 685)</b>	<b>2 473 952</b>	<b>(1 715 954)</b>	<b>2 228 158</b>	<b>(625 605)</b>
Income tax charge/(benefit)	(200 006)	410 306	(134 882)	160 276	(235 942)	(248)
<b>Profit/(loss) for the year after tax</b>	<b>1 771 918</b>	<b>(5 173 379)</b>	<b>2 339 070</b>	<b>(1 555 678)</b>	<b>1 992 216</b>	<b>(625 853)</b>
<b>Revenue of the segment</b>	<b>28 998 349</b>	<b>8 888 696</b>	<b>18 882 219</b>	<b>3 154 687</b>	<b>4 551 202</b>	<b>64 475 153</b>

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

Segment information for the reportable business segments for the year ended 31 December 2008 is set out below:

	<b>Corporate banking</b>	<b>Retail banking</b>	<b>International business, investments and financial markets</b>	<b>Small and medium size enterprises</b>	<b>Unallo- cated</b>	<b>Total</b>
Interest income	29 214 709	7 617 430	3 478 641	2 471 208	-	42 781 988
Interest expense	(6 905 887)	(2 734 409)	(11 027 557)	(18 936)	(125 431)	(20 812 220)
<b>Net interest income</b>	<b>22 308 822</b>	<b>4 883 021</b>	<b>(7 548 916)</b>	<b>2 452 272</b>	<b>(125 431)</b>	<b>21 969 768</b>
Net revenue from other segments	(10 330 014)	(1 512 424)	8 972 570	(1 629 669)	4 499 537	-
Fee and commission income	3 034 991	1 848 267	785 557	40 005	71 326	5 780 146
Fee and commission expense	(352 990)	(343 543)	(359 066)	-	(210)	(1 055 809)
<b>Net fee and commission income</b>	<b>2 682 001</b>	<b>1 504 724</b>	<b>426 491</b>	<b>40 005</b>	<b>71 116</b>	<b>4 724 337</b>
Net loss on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	44 648	-	(1 887 488)	-	-	(1 842 840)
Net foreign exchange gain	54 650	-	2 087 919	-	-	2 142 569
Net loss on sale of minority interest of subsidiaries	(21 942)	-	-	-	-	(21 942)
Net gain on purchase of minority interest of subsidiaries	456 625	-	-	-	-	456 625
Income on early redemption of other financial liabilities	163 861	13 237	-	-	-	177 098
Other income	293 764	180 710	-	30 474	138 857	643 805
<b>Operating income of the segment</b>	<b>15 652 415</b>	<b>5 069 268</b>	<b>2 050 576</b>	<b>893 082</b>	<b>4 584 079</b>	<b>28 249 420</b>
Loan impairment charge	(6 748 261)	(5 287 202)	619	(1 210 563)	-	(13 245 407)
Other losses charge	11 262	-	(42 728)	-	10 712	(20 754)
Loss on revaluation of fixed assets	-	-	-	-	(456 100)	(456 100)
Administrative expenses	(3 059 617)	(5 609 852)	(683 140)	(974 416)	(1 625 833)	(11 952 858)
General expenses	-	(202 484)	-	-	(229 513)	(431 997)
<b>Operating expenses</b>	<b>(9 796 616)</b>	<b>(11 099 538)</b>	<b>(725 249)</b>	<b>(2 184 979)</b>	<b>(2 300 734)</b>	<b>(26 107 116)</b>
<b>Profit/(loss) before tax</b>	<b>5 855 799</b>	<b>(6 030 270)</b>	<b>1 325 327</b>	<b>(1 291 897)</b>	<b>2 283 344</b>	<b>2 142 304</b>
Income tax expense	(1 787 285)	1 938 651	(423 793)	414 304	(722 526)	(580 649)
<b>Profit/(loss) for the year after tax</b>	<b>4 068 514</b>	<b>(4 091 619)</b>	<b>901 534</b>	<b>(877 593)</b>	<b>1 560 818</b>	<b>1 561 655</b>
<b>Revenue of the segment</b>	<b>22 933 234</b>	<b>8 147 220</b>	<b>13 437 199</b>	<b>912 018</b>	<b>4 709 720</b>	<b>50 139 391</b>

### Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

Assets and liabilities are classified depending on the country in which the counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the caption Russian Federation. Cash and property and equipment are allocated based on the country in which they are physically held. Own securities issued are allocated based on the country of the first holder.

The geographical concentration of assets and liabilities as of 31 December 2009 is as follows:

	<b>Russian Federation</b>	<b>Non-OECD countries</b>	<b>OECD countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	51 118 441	1 467 009	55 737 198	108 322 648
Obligatory reserves with central banks	2 671 991	477 738	-	3 149 729
Placements with banks and other financial institutions	-	5 075 800	-	5 075 800
Financial assets at fair value through profit or loss	41 715 323	23 281	13 234	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	10 080 301
Loans to customers	266 421 579	-	-	266 421 579
Investments available for sale	29 167	-	5 916	35 083
Investments held to maturity	7 204 938	-	-	7 204 938
Assets held for sale	2 600 001	-	-	2 600 001
Other assets	1 670 956	-	429 359	2 100 315
Current income tax prepayments	660 877	-	-	660 877
Deferred tax asset	600 326	-	-	600 326
Property and equipment	23 207 942	-	-	23 207 942
<b>Total assets</b>	<b>407 981 842</b>	<b>7 043 828</b>	<b>56 185 707</b>	<b>471 211 377</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	247 562	35 317	969 346	1 252 225
Deposits and balances from banks and other financial institutions	11 695 090	13 983 848	39 101 452	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	60 697
Current accounts and deposits from customers	269 796 214	15 522 244	4 230 381	289 548 839
Own securities issued	29 887 019	4 665 480	9 102 213	43 654 712
Other borrowed funds	1 776 309	-	12 043 101	13 819 410
Other liabilities	1 800 988	-	-	1 800 988
Current income tax payable	18 062	9 279	-	27 341
Deferred tax liability	276 790	36 243	-	313 033
Subordinated borrowings	3 639 344	1 547 768	12 561 249	17 748 361
<b>Total liabilities</b>	<b>319 198 075</b>	<b>35 800 179</b>	<b>78 007 742</b>	<b>433 005 996</b>
<b>Net position as at 31 December 2009</b>	<b>88 783 767</b>	<b>(28 756 351)</b>	<b>(21 822 035)</b>	<b>38 205 381</b>

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

The geographical concentration of assets and liabilities as of 31 December 2008 was as follows:

	<b>Russian Federation</b>	<b>Non-OECD countries</b>	<b>OECD countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	94 286 238	76 492	11 360 480	105 723 210
Obligatory reserves with central banks	516 292	476 218	-	992 510
Placements with banks and other financial institutions	2 035 409	390 701	742	2 426 852
Financial assets at fair value through profit or loss	14 246 874	99 955	61 988	14 408 817
Amounts receivable under reverse repurchase agreements	4 531 033	43 051	-	4 574 084
Loans to customers	300 402 140	10 909	-	300 413 049
Investments available for sale	155 840	-	2 874	158 714
Investments held to maturity	8 880 051	-	-	8 880 051
Other assets	1 517 540	-	-	1 517 540
Current income tax prepayments	1 292 982	-	-	1 292 982
Property and equipment	21 413 219	-	-	21 413 219
<b>Total assets</b>	<b>449 277 618</b>	<b>1 097 326</b>	<b>11 426 084</b>	<b>461 801 028</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	199 334	74 689	340 836	614 859
Deposits and balances from banks and other financial institutions	55 037 875	6 627 775	49 609 707	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	855 837
Current accounts and deposits from customers	200 997 265	7 686 014	20 927 679	229 610 958
Own securities issued	24 432 900	5 467 220	9 468 320	39 368 440
Other borrowed funds	218 678	583 142	23 208 442	24 010 262
Other liabilities	2 672 979	-	-	2 672 979
Current income tax payable	11 992	36 010	-	48 002
Deferred tax liability	776 151	-	-	776 151
Subordinated borrowings	979 637	1 263 724	10 350 238	12 593 599
<b>Total liabilities</b>	<b>286 182 648</b>	<b>21 738 574</b>	<b>113 905 222</b>	<b>421 826 444</b>
<b>Net position as at 31 December 2008</b>	<b>163 094 970</b>	<b>(20 641 248)</b>	<b>(102 479 138)</b>	<b>39 974 584</b>

### **33 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 credit risk (including country and counterparty risk), market risk, which includes price, interest rate and currency risks, and liquidity risk.

The year 2009 passed with uncertainty and turbulence on currency, equity, debt, commodities and other markets. The significant uncertainty in the development of global markets and the world economy affected the Russian economy and led to stress situations in many areas. The consequence is a strengthening of the risk management role in business processes.

Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department together with other departments quickly reacted to the changing environment in Russia and took measures to maintain acceptable levels of risk and to minimize possible losses.

The Group continues to implement best practices in respect of the culture and principles of risk management and recommendations of the Basel Committee. In response to the global crisis and market situation the Group revised risk methodologies and approaches and developed a number of new risk policies and improved processes.

During 2009 the overall number of specialists dealing with risk management and risk monitoring almost doubled.

#### **Risk management policies and procedures**

The risk management policies aim to identify, analyze 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 Council 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.

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. The Vice-President and Director for Credit Risk Management and the Head of the Financial and Retail Risk Department of the Bank are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the Senior Vice-President of the Bank, responsible for "Finance and Risk Management", and indirectly to the Council.

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.

Both external and internal risk factors are identified and managed throughout the Group's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

## 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 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 President of the Bank. Market risk limits are approved by ALCO based on recommendations of the Financial and Retail Risk Department and Treasury.

The Group manages its market risk by setting open position limits in relation to financial instrument, 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.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include multi risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

***Interest rate risk***

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

Interest rate risk is the risk of incurring losses and/or gains on financial instruments sensitive to interest rate changes due to change in market interest rates. As a result interest payments may substantially exceed interest receipts.

The management of interest rate risk for the banking book is different compared to interest rate management in respect of the trading portfolios. Banking book interest risks covers all balance sheet instruments sensitive to interest rate changes. The trading book includes debt instruments (bonds, Eurobonds, promissory notes etc.) measured at their fair values through profit or loss.

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Financial and Retail Risk Department monitors on a monthly basis and sets limits for the level of mismatch of interest rate repricing that may be undertaken.

The management of interest rate risk for the banking book by monitoring interest rate gaps is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios as well as by monitoring the volatility of the economic value of future cash flows measured by implementing CVaR (Conditional Value-at-Risk).

***Interest rate repricing risk***

An analysis of sensitivity of net (loss)/profit and equity to interest rate repricing risk based on a simplified scenario of a 100 basis points (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (except for current accounts and demand deposits that are considered to have negligible and stable interest rates) existing as at 31 December 2009 and 2008 is as follows:

	<b>2009</b>	<b>2008</b>
100 bp parallel fall	(114 874)	311 248
100 bp parallel rise	367 771	(324 248)

***Fair value interest rate risk***

An analysis of sensitivity of the net (loss)/profit for the year and equity as a result of changes in fair value of debt securities due to changes in the interest rates (also known as present value basis point (“PVBP”)) based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 bp rise in all yield curves is as follows:

	<b>2009</b>	<b>2008</b>
100 bp parallel rise	(472 560)	(125 840)

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

The table below summarizes the exposure to interest rate risk, as at 31 December 2009. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<u>Demand and less than 1 month</u>	<u>From 1 to 6 months</u>	<u>From 6 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
<b>Assets</b>							
Cash and cash equivalents	65 730 554	-	-	-	-	42 592 094	108 322 648
Obligatory reserves with central banks	477 738	-	-	-	-	2 671 991	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	2 450 870	11 595 953	8 762 231	17 261 403	1 462 291	219 090	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	39 014 553	88 410 254	54 797 613	77 041 937	7 157 222	-	266 421 579
Investments available for sale	-	29 140	-	-	-	5 943	35 083
Investments held to maturity	2 343 922	1 614 762	1 045 719	2 200 535	-	-	7 204 938
Assets held for sale	-	-	-	-	-	2 600 001	2 600 001
Other assets	-	-	-	-	-	2 100 315	2 100 315
Current income tax prepayments	-	-	-	-	-	660 877	660 877
Deferred tax asset	-	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	-	23 207 942	23 207 942
<b>Total assets</b>	<b>120 152 378</b>	<b>106 655 313</b>	<b>64 620 459</b>	<b>96 505 135</b>	<b>8 619 513</b>	<b>74 658 579</b>	<b>471 211 377</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 252 225	1 252 225
Deposits and balances from banks and other financial institutions	15 648 355	27 219 386	15 274 644	6 638 005	-	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	96 014 730	97 762 987	82 566 657	13 204 465	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	12 043 101	-	1 770 519	-	-	13 819 410
Other liabilities	-	-	-	-	-	1 800 988	1 800 988
Current income tax payable	-	-	-	-	-	27 341	27 341
Deferred tax liability	-	-	-	-	-	313 033	313 033
Subordinated borrowings	1 108 058	1 680 682	-	6 008 494	8 951 127	-	17 748 361
<b>Total liabilities</b>	<b>116 272 120</b>	<b>157 340 107</b>	<b>107 332 722</b>	<b>39 711 299</b>	<b>8 956 161</b>	<b>3 393 587</b>	<b>433 005 996</b>
<b>Interest rate sensitivity gap</b>	<b>3 880 258</b>	<b>(50 684 794)</b>	<b>(42 712 263)</b>	<b>56 793 836</b>	<b>(336 648)</b>	<b>71 264 992</b>	<b>38 205 381</b>
<b>Net off-balance sheet position on interest bearing assets and liabilities</b>	<b>-</b>	<b>3 024 420</b>	<b>(3 024 420)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net position on interest bearing assets and liabilities</b>	<b>3 880 258</b>	<b>(47 660 374)</b>	<b>(45 736 683)</b>	<b>56 793 836</b>	<b>(336 648)</b>	<b>71 264 992</b>	<b>38 205 381</b>

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to note 2)*

The table below summarizes the exposure to interest rate risk, as at 31 December 2008. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>More than 5 years</b>	<b>Non interest bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	40 151 738	-	-	-	-	65 571 472	105 723 210
Obligatory reserves with central banks	476 218	-	-	-	-	516 292	992 510
Placements with banks and other financial institutions	84 532	2 146 211	195 367	742	-	-	2 426 852
Financial assets at fair value through profit or loss	1 072 387	1 403 708	5 813 286	5 640 158	100 428	378 850	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	-	-	4 574 084
Loans to customers	42 016 777	92 014 229	56 751 044	101 373 307	8 257 692	-	300 413 049
Investments available for sale	-	-	-	-	-	158 714	158 714
Investments held to maturity	111 745	985 607	1 340 478	6 442 221	-	-	8 880 051
Other assets	-	-	-	-	-	1 517 540	1 517 540
Current income tax prepayments	-	-	-	-	-	1 292 982	1 292 982
Property and equipment	-	-	-	-	-	21 413 219	21 413 219
<b>Total assets</b>	<b>88 487 481</b>	<b>96 549 755</b>	<b>64 100 175</b>	<b>113 456 428</b>	<b>8 358 120</b>	<b>90 849 069</b>	<b>461 801 028</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	614 859	614 859
Deposits and balances from banks and other financial institutions	39 083 399	63 864 088	7 966 985	360 885	-	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	855 837
Current accounts and deposits from customers	104 073 609	75 644 410	30 111 184	19 781 755	-	-	229 610 958
Own securities issued	3 878 261	15 660 755	1 996 882	17 832 542	-	-	39 368 440
Other borrowed funds	-	24 010 262	-	-	-	-	24 010 262
Other liabilities	-	-	-	-	-	2 672 979	2 672 979
Current income tax payable	-	-	-	-	-	48 002	48 002
Deferred tax liability	-	-	-	-	-	776 151	776 151
Subordinated borrowings	2 260 641	1 631 703	-	5 821 510	2 879 745	-	12 593 599
<b>Total liabilities</b>	<b>150 151 747</b>	<b>180 811 218</b>	<b>40 075 051</b>	<b>43 796 692</b>	<b>2 879 745</b>	<b>4 111 991</b>	<b>421 826 444</b>
<b>Interest rate sensitivity gap</b>	<b>(61 664 266)</b>	<b>(84 261 463)</b>	<b>24 025 124</b>	<b>69 659 736</b>	<b>5 478 375</b>	<b>86 737 078</b>	<b>39 974 584</b>
<b>Net off-balance sheet position on interest bearing assets and liabilities</b>	<b>-</b>	<b>8 814 120</b>	<b>-</b>	<b>(8 814 120)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net position on interest bearing assets and liabilities</b>	<b>(61 664 266)</b>	<b>(75 447 343)</b>	<b>24 025 124</b>	<b>60 845 616</b>	<b>5 478 375</b>	<b>86 737 078</b>	<b>39 974 584</b>

**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. In addition to the total open foreign exchange position limit, position limits on each currency, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for net off balance sheet foreign exchange positions in order to mitigate market risk for currency trading. Also in crisis market conditions the Group utilizes stress-testing analysis.

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

	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	35 312 781	35 890 076	36 360 605	759 186	108 322 648
Obligatory reserves with central banks	2 671 991	-	477 738	-	3 149 729
Placements with banks and other financial institutions	19 458	4 810 064	246 278	-	5 075 800
Financial assets at fair value through profit or loss	30 080 767	6 643 128	4 779 739	248 204	41 751 838
Amounts receivable under reverse repurchase agreements	10 065 812	14 489	-	-	10 080 301
Loans to customers	135 845 198	106 729 949	23 324 690	521 742	266 421 579
Investments available for sale	29 167	-	5 916	-	35 083
Investments held to maturity	7 071 017	133 921	-	-	7 204 938
Assets held for sale	2 600 001	-	-	-	2 600 001
Other assets	2 038 548	17 692	38 181	5 894	2 100 315
Current income tax prepayments	660 877	-	-	-	660 877
Deferred tax asset	600 326	-	-	-	600 326
Property and equipment	23 207 942	-	-	-	23 207 942
<b>Total assets</b>	<b>250 203 885</b>	<b>154 239 319</b>	<b>65 233 147</b>	<b>1 535 026</b>	<b>471 211 377</b>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	8 896	1 234 478	8 609	242	1 252 225
Deposits and balances from banks and other financial institutions	12 747 135	26 721 540	24 932 757	378 958	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	-	60 697
Current accounts and deposits from customers	174 973 780	64 495 346	49 543 600	536 113	289 548 839
Own securities issued	20 184 568	20 466 409	3 003 735	-	43 654 712
Other borrowed funds	1 776 309	12 043 101	-	-	13 819 410
Other liabilities	1 550 465	161 983	68 486	20 054	1 800 988
Current income tax payable	18 062	-	9 279	-	27 341
Deferred tax liability	313 033	-	-	-	313 033
Subordinated borrowings	1 551 047	16 197 314	-	-	17 748 361
<b>Total liabilities</b>	<b>213 183 992</b>	<b>141 320 171</b>	<b>77 566 466</b>	<b>935 367</b>	<b>433 005 996</b>
<b>Net on balance sheet position as at 31 December 2009</b>	<b>37 019 893</b>	<b>12 919 148</b>	<b>(12 333 319)</b>	<b>599 659</b>	<b>38 205 381</b>
<b>Net off balance sheet position as at 31 December 2009</b>	<b>6 792 278</b>	<b>(16 714 612)</b>	<b>10 577 182</b>	<b>(654 848)</b>	<b>-</b>
<b>Net on and off balance sheet positions as at 31 December 2009</b>	<b>43 812 171</b>	<b>(3 795 464)</b>	<b>(1 756 137)</b>	<b>(55 189)</b>	<b>38 205 381</b>
<b>Guarantees issued as at 31 December 2009</b>	<b>31 808 398</b>	<b>5 082 622</b>	<b>1 546 338</b>	<b>-</b>	<b>38 437 358</b>
<b>Other credit related commitments as at 31 December 2009</b>	<b>18 053 878</b>	<b>12 456 205</b>	<b>2 626 032</b>	<b>-</b>	<b>33 136 115</b>

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to note 2)*

The following table shows the currency structure of assets and liabilities as at 31 December 2008:

	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	59 682 960	20 488 777	25 032 295	519 178	105 723 210
Obligatory reserves with central banks	516 292	-	476 218	-	992 510
Placements with banks and other financial institutions	2 155 070	128 360	143 422	-	2 426 852
Financial assets at fair value through profit or loss	12 010 816	2 318 803	66 534	12 664	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	4 574 084
Loans to customers	149 052 984	125 026 071	25 285 639	1 048 355	300 413 049
Investments available for sale	155 840	-	2 874	-	158 714
Investments held to maturity	8 492 341	387 710	-	-	8 880 051
Other assets	1 431 910	18 969	58 817	7 844	1 517 540
Current income tax prepayments	1 292 982	-	-	-	1 292 982
Property and equipment	21 413 219	-	-	-	21 413 219
<b>Total assets</b>	<b>260 778 498</b>	<b>148 368 690</b>	<b>51 065 799</b>	<b>1 588 041</b>	<b>461 801 028</b>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	52 139	499 368	32 676	30 676	614 859
Deposits and balances from banks and other financial institutions	54 985 752	31 836 064	22 606 730	1 846 811	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	855 837
Current accounts and deposits from customers	142 901 093	54 801 351	30 342 939	1 565 575	229 610 958
Own securities issued	16 926 189	19 799 860	2 642 391	-	39 368 440
Other borrowed funds	-	24 010 262	-	-	24 010 262
Other liabilities	2 383 893	146 023	110 549	32 514	2 672 979
Current income tax payable	11 759	-	36 243	-	48 002
Deferred tax liability	776 151	-	-	-	776 151
Subordinated borrowings	1 574 010	11 019 589	-	-	12 593 599
<b>Total liabilities</b>	<b>220 466 823</b>	<b>142 112 517</b>	<b>55 771 528</b>	<b>3 475 576</b>	<b>421 826 444</b>
<b>Net on balance sheet position as at 31 December 2008</b>	<b>40 311 675</b>	<b>6 256 173</b>	<b>(4 705 729)</b>	<b>(1 887 535)</b>	<b>39 974 584</b>
<b>Net off balance sheet position as at 31 December 2008</b>	<b>5 632 398</b>	<b>(13 985 970)</b>	<b>4 370 617</b>	<b>3 982 955</b>	<b>-</b>
<b>Net on and off balance sheet positions as at 31 December 2008</b>	<b>45 944 073</b>	<b>(7 729 797)</b>	<b>(335 112)</b>	<b>2 095 420</b>	<b>39 974 584</b>
<b>Guarantees issued as at 31 December 2008</b>	<b>26 953 306</b>	<b>8 295 892</b>	<b>3 988 371</b>	<b>-</b>	<b>39 237 569</b>
<b>Other credit related commitments as at 31 December 2008</b>	<b>14 339 230</b>	<b>19 958 603</b>	<b>5 145 357</b>	<b>2 311</b>	<b>39 445 501</b>

The net off-balance sheet position as at 31 December 2008 includes short-term forward deals in the amount of RUB 6 021 100 thousand conducted to hedge investment rights in office building under construction, which were accounted for in USD under local accounting standards.

An analysis of sensitivity of net (loss)/profit 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 3% change in all foreign currencies to Russian Rouble exchange rates is as follows:

	<b>2009</b>	<b>2008</b>
3% appreciation of USD against RUB	(91 091)	(185 515)
3% depreciation of USD against RUB	91 091	185 515
3% appreciation of EUR against RUB	(42 147)	(8 043)
3% depreciation of EUR against RUB	42 147	8 043
3% appreciation of other currencies against RUB	(1 325)	50 290
3% depreciation of other currencies against RUB	1 325	(50 290)

### **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.

In addition to the total equity trading position limit, position limits on each issuer, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for its equity trading portfolio in order to mitigate market risk. Also in crisis market conditions the Group utilizes stress-testing analysis.

An analysis of sensitivity of net (loss)/profit and equity to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 3% increase in all securities prices is as follows:

	<b>2009</b>	<b>2008</b>
Corporate shares at fair value through profit or loss	3 451	849

### **Credit risk**

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty on the obligations to the Group. The Group has policies and procedures for the identification, assessment, control and management of credit risk, and also all necessary related regulations and methodologies, including those in respect of the borrower's financial condition. Governing bodies involved in implementation of the credit policy are the Credit Committee, the Committee on Assets and Liabilities Management and the Management Board. These bodies establish crediting principles, make decisions on specific credit projects, set limits for counterparties, and also determine aggregate limits for instruments exposed to credit risk.

The credit policy establishes:

- principles of arrangement of credit process and types of lending limits;
- basic requirements of the clients;
- lending priorities, including the priority sectors of the economy to be credited;
- risks not accepted by the Group.

### *Corporate*

In 2009 one of the key measures aimed at increase of the efficiency of credit risk management amid the continuing financial and economic crisis, has been a project of large-scale reengineering of the credit process in respect of corporate clients. The reengineering covered all its basic stages - from the analysis of clients and the decision-making on lending to subsequent monitoring and handling of problem loans.

The framework for improvement of the system of credit analysis made by credit subdivisions has been the shift of focus from assessment of the creditworthiness of direct participants of a credit transaction (the borrower, the guarantor, etc.) to the complex and comprehensive analysis of stability and solvency of the business of the whole group of companies including prospective participants in a transaction. Included in this project has been the revision of the internal methodology of credit analysis, including the development and approval of a new form of credit opinion in which a structured approach to the documentation of analysis of results is implemented, including the assessment of qualitative characteristics and financial indices of the client.

Instead of the previous practice of approval of each credit transaction by an authorized body, a principle of establishment of a single lending limit has been introduced that restricts all risks of the client and reflects the conditions on which the Group is ready to bear these risks. Thus the lending limit determines the list of credit products that are authorized to be granted to the client, the conditions for their granting and further support, and also the parameters, frequency and criteria of subsequent monitoring of the established limit. Introduction of limits has allowed the optimization of the process of granting of credit products due to the fact that each transaction with the client does not require an authorized body's decision, and only a check is required that the lending limit established for the client has not been breached.

Prior to approval of a lending limit by the relevant authorized body an independent examination of risks of a credit project should be carried out by the Credit Risk Analysis Department for the purpose of:

- analysis of the risks related to the establishment of the proposed lending limit to a client (including the examination of assessment of the market value of the property to be pledged, carried out by the Pledges Department);
- preparation of recommendations for minimization of the indicated risks.

In 2009 there were changes made to the system of authority to make decisions on corporate clients lending: in order to increase the efficiency of decision-making, a part of the authority of the Credit Committee has been delegated to the Operational Credit Committee. In addition, the Group applies the "four eyes" principle where a decision is made only in case the client's authorized manager and the risk manager have reached an agreement.

The system of monitoring of lending limits established for corporate clients is being transformed with the introduction of a new system aimed at consolidation of all limit information in a specialized subdivision of risk management – Credit Risks Monitoring Department.

Monitoring of the lending limits established for clients is conducted on a continuing basis from the time of approval until the termination of the period of the limit. The purpose of monitoring of lending limits is:

- timely detection of a breach by the client of the conditions of the established lending limit;
- identification of possible increase in the level of credit risk of the client;
- compliance with the regulatory requirements established by the CBR regarding the regular assessment of credit risk.

### ***Small and medium business***

Regarding the lending to clients of small and medium business, decision-making resides with the Credit Committee of Small and Medium Business. Furthermore, employees may be assigned individual lending approval limits depending on the level of the employee's competence.

The duties of the subdivision in-charge of Credit Risk Management for Small and Medium Business includes ongoing review of policies, assessment of products to understand credit risks, review of standard contracts, and also the monitoring of the credit portfolio of small and medium business.

In 2009 the Group reacted in time to the change in market conditions, having adjusted the credit policy for small and medium business. The Group tightened the conditions for issue of credit products, the required financial position of enterprises, the nature and amount of collateral being accepted. Furthermore, the Group determined priority groups of clients and industries most susceptible to the effect of current market conditions. The policy moved to the granting of more profitable products, reduction of weighted average lending periods and reduction of unsecured products.

In order to increase the efficiency of decision-making and minimize losses, the Group introduced risk reporting, regularly presented to management, in respect of the condition of credit portfolio of small and medium business. This includes reporting that reflects the results of analysis of the reasons for defaults and increase in overdue indebtedness. A system of age analysis of overdue indebtedness has also been developed.

### ***Retail***

In the course of examination of retail credit applications, all applications pass, when examined, through a single system in which the information from credit history bureaus in respect of each borrower is automatically requested. In 2009 a system of centralized credit decision-making in respect of applications for retail credits and credit cards was introduced.

For the purpose of reduction of credit risks, and also reduction of possible losses, the Group has moved to a more conservative credit policy for retail credit products. New rules for making a credit decision take into consideration, among others, industry risks of the client's employer, and also require higher levels of solvency.

In order to manage retail credit risks, specific methods of analysis of the ageing of overdues, other statistical analysis methods and regular calibration of existing scoring models on the basis of the data of credit history bureaus and internally accumulated statistics of defaults is performed. A special analytical system has been introduced to increase the efficiency of these processes. The purpose of this system is to reduce risks due to the increase of efficiency and effectiveness of monitoring of dynamics of risk-parameters in the context of products and business units (including in the context of branches and supplementary offices of the network).

Methods of statistical analysis of retail credit portfolios and analysis of efficiency of performance of collections have been introduced. In addition, a special automated analytical system of reporting in respect of collections has started and in the fourth quarter of 2009 a project was launched to further improve the automated system.

### **Portfolio limits**

A system of portfolio limits - large exposures, related parties, industry limits - operates for the purpose of limitation of credit risk concentration. Monitoring of portfolio limits is performed with use of the principle of early notification – when 90% of a limit is reached, the relevant information is brought to the attention of management. This ensures the efficiency of the making of management decisions aimed at limitation of credit risk in respect of the Group as a whole.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to note 9 “Loans to customers”.

### **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, including the Group. 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 debt securities in issue, 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 debt financing plans;
- 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;
- unfavorable situations modeling by using “stress-testing”.

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. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

In 2008 the Group approved a system of limits for liquidity risk that was based on the best work practices and Basel Committee recommendations.

In 2009 the system of limits of liquidity risk was updated and expanded due to the stress situations that occurred in the economy.

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

As at 31 December 2009 and 2008 the contractual maturities of securities included into financial assets at fair value through profit or loss are as follows:

	<b>2009</b>	<b>2008</b>
Less than 1 month	1 359 491	598 863
1 to 6 months	7 388 862	1 523 992
6 months to 1 year	7 359 086	1 890 468
1 year to 5 years	20 718 176	8 315 571
More than 5 years	4 707 133	1 701 073
No maturity	143 802	35 394
	<b>41 676 550</b>	<b>14 065 361</b>

As at 31 December 2009 and 2008 the contractual maturities or offer date of securities included into investments held to maturity were as follows:

	<b>2009</b>	<b>2008</b>
Less than 1 month	2 343 922	111 745
1 to 6 months	1 614 762	985 607
6 months to 1 year	1 045 719	1 340 478
1 year to 5 years	2 200 535	6 442 221
	<b>7 204 938</b>	<b>8 880 051</b>

The maturity table below shows assets and liabilities by their remaining contractual maturity as at 31 December 2009 and 2008, with the exception of securities included into financial assets at fair value through profit or loss and investments held to maturity as at 31 December 2009. Securities approved by the CBR as collateral for its loans are shown in the category “Less than 1 month”, other securities are shown in accordance with their remaining contractual maturity as at 31 December 2009.

Domestic bonds issued are presented in the table below in accordance with their put dates. The contractual maturity dates are presented in note 19.

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.

The Group included part of current accounts from customers amounting to RUB 40 259 596 thousand (31 December 2008: RUB 35 165 827 thousand) in the category “From 1 to 6 months” based on historical experience of stable customer current accounts.

Overdue assets are classified within the “Demand and less than 1 month” column. As at 31 December 2009 overdue assets classified within this category amount to RUB 17 093 554 thousand (2008: RUB 11 038 280 thousand).

The Group includes assets held for sale in the category “From 6 months to 1 year” as management is planning to sell these assets during 2010 and is actively searching for an interested investor.

The closed unit investment fund included in investments available-for-sale is shown in the category “Demand and less than 1 month” as the management believes it can be sold in the near term.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2009:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	108 322 648	-	-	-	-	-	108 322 648
Obligatory reserves with central banks	529 442	1 525 782	842 908	250 342	1 255	-	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	28 291 316	3 013 940	4 855 384	4 583 218	864 178	143 802	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	35 585 134	84 117 954	56 091 715	81 009 658	9 617 118	-	266 421 579
Investments available for sale	29 140	-	-	-	-	5 943	35 083
Investments held to maturity	6 897 006	74 136	31 132	202 664	-	-	7 204 938
Assets held for sale	-	-	2 600 001	-	-	-	2 600 001
Other assets	920 762	679 266	209 926	81 782	4 612	203 967	2 100 315
Current income tax prepayments	660 877	-	-	-	-	-	660 877
Deferred tax asset	-	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	-	23 207 942	23 207 942
<b>Total assets</b>	<b>191 371 066</b>	<b>94 416 282</b>	<b>64 645 962</b>	<b>86 128 924</b>	<b>10 487 163</b>	<b>24 161 980</b>	<b>471 211 377</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	774 416	436 782	41 027	-	-	-	1 252 225
Deposits and balances from banks and other financial institutions	14 537 628	16 120 298	17 911 108	15 128 389	1 082 967	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	54 084 230	138 593 768	83 246 764	13 624 077	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	7 229 831	895 564	5 559 303	128 922	-	13 819 410
Other liabilities	631 423	510 416	180 469	109 261	619	368 800	1 800 988
Current income tax payable	18 062	9 279	-	-	-	-	27 341
Deferred tax liability	-	-	-	-	-	313 033	313 033
Subordinated borrowings	203 249	187 266	-	6 913 303	10 444 543	-	17 748 361
<b>Total liabilities</b>	<b>73 749 985</b>	<b>181 721 591</b>	<b>111 766 353</b>	<b>53 424 149</b>	<b>11 662 085</b>	<b>681 833</b>	<b>433 005 996</b>
<b>Net liquidity position as at 31 December 2009</b>	<b>117 621 081</b>	<b>(87 305 309)</b>	<b>(47 120 391)</b>	<b>32 704 775</b>	<b>(1 174 922)</b>	<b>23 480 147</b>	<b>38 205 381</b>
<b>Cumulative liquidity position as at 31 December 2009</b>	<b>117 621 081</b>	<b>30 315 772</b>	<b>(16 804 619)</b>	<b>15 900 156</b>	<b>14 725 234</b>	<b>38 205 381</b>	

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2008:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	105 723 210	-	-	-	-	-	105 723 210
Obligatory reserves with central banks	211 101	452 949	138 649	176 096	13 715	-	992 510
Placements with banks and other financial institutions	84 532	2 146 211	194 166	1 943	-	-	2 426 852
Financial assets at fair value through profit or loss	9 956 498	1 325 877	1 008 928	2 070 787	11 333	35 394	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	-	-	4 574 084
Loans to customers	36 565 926	89 399 969	57 444 136	107 633 483	9 369 535	-	300 413 049
Investments available for sale	-	-	-	-	-	158 714	158 714
Investments held to maturity	7 091 199	524 590	827 693	436 569	-	-	8 880 051
Other assets	418 141	280 073	272 478	157 173	21 685	367 990	1 517 540
Current income tax prepayments	1 292 982	-	-	-	-	-	1 292 982
Property and equipment	-	-	-	-	-	21 413 219	21 413 219
<b>Total assets</b>	<b>165 917 673</b>	<b>94 129 669</b>	<b>59 886 050</b>	<b>110 476 051</b>	<b>9 416 268</b>	<b>21 975 317</b>	<b>461 801 028</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	148 120	234 213	163 798	68 728	-	-	614 859
Deposits and balances from banks and other financial institutions	36 973 593	49 848 983	10 977 498	11 801 296	1 673 987	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	855 837
Current accounts and deposits from customers	59 795 186	116 636 850	31 984 802	21 194 120	-	-	229 610 958
Own securities issued	3 878 261	15 660 755	1 996 882	17 832 542	-	-	39 368 440
Other borrowed funds	-	5 572 801	8 409 833	10 027 628	-	-	24 010 262
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	297 210	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	48 002
Deferred tax liability	-	-	-	-	-	776 151	776 151
Subordinated borrowings	203 128	82 030	-	6 703 816	5 604 625	-	12 593 599
<b>Total liabilities</b>	<b>103 407 364</b>	<b>188 390 833</b>	<b>53 870 031</b>	<b>67 803 489</b>	<b>7 281 366</b>	<b>1 073 361</b>	<b>421 826 444</b>
<b>Net liquidity position as at 31 December 2008</b>	<b>62 510 309</b>	<b>(94 261 164)</b>	<b>6 016 019</b>	<b>42 672 562</b>	<b>2 134 902</b>	<b>20 901 956</b>	<b>39 974 584</b>
<b>Cumulative liquidity position as at 31 December 2008</b>	<b>62 510 309</b>	<b>(31 750 855)</b>	<b>(25 734 836)</b>	<b>16 937 726</b>	<b>19 072 628</b>	<b>39 974 584</b>	

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

The gross undiscounted cash flows as at 31 December 2009 are as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Total gross amount outflow/ (inflow)</b>	<b>Carrying amount</b>
<b>Non-derivative liabilities</b>								
Deposits and balances from banks and other financial institutions	14 550 988	16 441 693	19 049 348	16 096 936	1 134 559	-	67 273 524	64 780 390
Amounts payable under repurchase agreements	59 132	796	887	-	-	-	60 815	60 697
Current accounts and deposits from customers	95 221 201	103 784 912	87 138 114	14 479 499	-	-	300 623 726	289 548 839
Own securities issued	3 512 860	19 469 109	10 423 033	14 687 479	5 034	-	48 097 515	43 654 712
Other borrowed funds	15 838	7 516 279	1 076 096	6 233 122	133 025	-	14 974 360	13 819 410
Other liabilities	631 423	510 416	180 469	109 261	619	368 800	1 800 988	1 800 988
Current income tax payable	18 062	9 279	-	-	-	-	27 341	27 341
Subordinated borrowings	193 145	799 542	991 746	13 295 560	12 326 498	-	27 606 491	17 748 361
<b>Spot, derivative and trading liabilities</b>								
- Inflow	(40 008 865)	(8 306 418)	(4 740 113)	-	-	-	(53 055 396)	(75 288)
- Outflow	40 721 873	8 659 610	4 090 890	-	-	-	53 472 373	1 252 225
<b>Total</b>	<b>114 915 657</b>	<b>148 885 218</b>	<b>118 210 470</b>	<b>64 901 857</b>	<b>13 599 735</b>	<b>368 800</b>	<b>460 881 737</b>	<b>432 617 675</b>
<b>Credit related commitments</b>	<b>71 573 473</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71 573 473</b>	<b>71 573 473</b>

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The gross undiscounted cash flows as at 31 December 2008 was as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Total gross amount outflow/ (inflow)</b>	<b>Carrying amount</b>
<b>Non-derivative liabilities</b>								
Deposits and balances from banks and other financial institutions	38 365 295	50 248 938	11 855 699	13 122 891	1 859 433	-	115 452 256	111 275 357
Amounts payable under repurchase agreements	859 919	-	-	-	-	-	859 919	855 837
Current accounts and deposits from customers	95 376 370	85 316 436	34 036 165	22 695 206	-	-	237 424 177	229 610 958
Own securities issued	3 918 645	16 374 388	2 947 840	21 617 439	-	-	44 858 312	39 368 440
Other borrowed funds	-	5 943 010	8 860 643	10 600 143	-	-	25 403 796	24 010 262
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	297 210	2 672 979	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	48 002	48 002
Subordinated borrowings	204 109	593 585	790 731	12 099 017	8 555 531	-	22 242 973	12 593 599
<b>Spot and derivative liabilities</b>								
- Inflow	(32 837 593)	(2 398 808)	(991 072)	-	-	-	(36 227 473)	(343 456)
- Outflow	32 283 092	2 511 303	1 094 072	69 246	-	-	35 957 713	614 859
<b>Total</b>	<b>139 723 076</b>	<b>158 944 053</b>	<b>58 931 296</b>	<b>80 379 301</b>	<b>10 417 718</b>	<b>297 210</b>	<b>448 692 654</b>	<b>420 706 837</b>
<b>Credit related commitments</b>	<b>78 683 070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78 683 070</b>	<b>78 683 070</b>

## Operational risk

Operational risk is the risk of losses from inadequacy or failure of internal processes or systems or from external events. The Group's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. Fraud risk forms a separate type of operational risk.

The Group manages its operational and legal risks, fraud risk and reputational risk through internal monitoring and compliance policies.

The Internal Control Department ("ICD") reviews all internal documentation in order to identify potential shortfalls in internal control procedures and business operations, notifies the Management Board of violations and supervises the correction of such violations. The ICD, the Legal Department, Financial and Retail Risk Department together with other divisions monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimize operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The head of the ICD reports directly to the Group's President and Council.

The Group conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place.

The Group has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated. The Group is also in the process of developing internal documents describing all of its business processes in compliance with existing legislation.

The Group applies various kinds of insurance to minimize potential loss from transaction risks, including insurance of cash in transit, other property and obligatory deposit insurance. The Bank has also an insurance policy covering numerous types of operational losses including losses from fraud and crimes committed in the electronic and computer area (Bankers Blanket Bond).

The Operational and Fraud Prevention Division of the Financial and Retail Risk Department is responsible for risks detection and valuation, development of instructions for risks minimization and aggregation of occurred losses database. A separate database exists for registering all known fraud cases as well as databases for legal issues and reputational damages.

The developed approach of determination of key risk indicators allows the Group to monitor the level of operational risk and forecasts the possibility of operational risk events in the future. This will help the Group to move to the advanced approach of risk analysis in accordance with Basel II.

### 34 Capital management

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

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 at 31 December 2009, this minimum level is 10%. The Bank was in compliance with the statutory requirements related to the capital ratio during the years ended 31 December 2009 and 2008.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I. The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2009:

	<b>2009</b>	<b>2008</b>
<b>Tier 1 Capital</b>		
Share capital	10 062 544	10 062 544
Share premium	13 319 695	13 319 695
Additional paid-in-capital	1 056 102	1 167 515
Retained earnings	11 147 632	11 773 411
Minority interest	265 341	525 714
<b>Total tier 1 capital</b>	<b>35 851 314</b>	<b>36 848 879</b>
<b>Tier 2 Capital</b>		
Asset revaluation reserves	2 353 907	3 192 346
Revaluation reserve of investments available for sale	160	(66 641)
Subordinated debt excluding accrued interest	13 612 802	9 917 485
<b>Total Capital</b>	<b>51 818 183</b>	<b>49 892 069</b>
<b>Risk-weighted assets</b>		
Banking book	332 027 436	360 663 445
Trading book	29 913 496	19 139 291
<b>Total Risk-weighted assets</b>	<b>361 940 932</b>	<b>379 802 736</b>
<b>Tier 1 Ratio</b>	<b>9.91%</b>	<b>9.70%</b>
<b>Total Capital Adequacy Ratio</b>	<b>14.32%</b>	<b>13.14%</b>

As at 31 December 2009 included in Tier 2 Capital is RUB 13 612 802 thousand of subordinated debt net of accrued interest, which represent loans and subordinated loan participation notes issued by the Group with the following conditions:

- original maturity is not less than 5 years;
- creditors have no right to claim the deposits before maturity;
- in the event of bankruptcy or default, subordinated deposits and loan participation notes are to be repaid only after the settlement of all other liabilities.

Long-term subordinated debt may not exceed 50% of tier 1 capital.

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

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under syndicated loans and a subordinated loan from EBRD. These covenants prescribe that the Group must maintain a total capital adequacy ratio not less than 12%. The Group complied with all externally imposed capital requirements during the years ended 31 December 2009 and 2008.

### **35 Spot and derivative financial instruments**

Spot and derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recorded in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The spot and derivative financial instruments become favorable (asset) or unfavorable (liability) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of spot and derivative financial instruments held and the aggregate fair values of spot and derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of spot and derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2009 and 2008, respectively.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

	2009			2008		
	Contract/ notional amount	Fair value Assets	Liabilities	Contract/ notional amount	Fair value Assets	Liabilities
<b>Foreign currency spot and derivative contracts</b>						
Foreign currency spot contracts	11 544 717	13 903	(20 184)	2 133 013	8 388	(18 044)
Foreign currency forward contracts	6 927 963	7 998	(37 394)	4 355 063	42 726	(35 958)
Foreign currency swap contracts	30 029 687	32 113	(667 372)	26 403 689	258 815	(330 160)
<b>Precious metals derivative contracts</b>						
Precious metal forward contracts with fixed rates	-	-	-	957 863	226	(79 394)
Precious metal forward contracts with floating rates	4 646 013	21 274	-	2 150 256	10 995	-
<b>Securities derivative contracts</b>						
Securities forward contracts	-	-	-	152 026	22 306	-
<b>Other derivative contracts</b>						
Interest rate swaps	9 073 260	-	(168 814)	8 814 120	-	(151 303)
<b>Total recognised spot and derivative assets/(liabilities)</b>		<b>75 288</b>	<b>(893 764)</b>		<b>343 456</b>	<b>(614 859)</b>

The total positive fair value of spot and derivative financial instruments amounting to RUB 75 288 thousand (2008: RUB 343 456 thousand) is disclosed in note 7, and the total negative fair value amounting to RUB 893 764 thousand (2008: RUB 614 859 thousand) is disclosed in note 15.

## 36 Credit related and capital commitments

### *Credit related commitments*

At any time the Group has outstanding commitments to extend credit. 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 and contingent liabilities as at 31 December 2009 and 2008 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.

	<u>2009</u>	<u>2008</u>
<b>Contracted amount</b>		
Guarantees	38 437 358	39 237 569
Undrawn overdraft facilities	25 159 134	17 384 885
Letters of credit	3 529 135	16 072 268
Undrawn loan facilities	4 447 846	5 988 348

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.

Maturity and currency analyses of credit related commitments are disclosed in note 33. The information on related party balances is disclosed in note 42.

### *Capital commitments*

During 2008 the Group acquired the investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2009 is RUB 8 244 504 thousand (2008: RUB 5 506 180 thousand) and the Group has capital commitments in respect of this construction in the amount of USD 42 million payable in 2010-2011.

## 37 Operating leases

### **Leases as lessee**

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	702 490	710 201
From one to five years	1 344 743	2 118 454
More than five years	367 427	229 444
	<u><b>2 414 660</b></u>	<u><b>3 058 099</b></u>

The Group leases a number of premises under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2009 RUB 796 951 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: RUB 769 425 thousand). Refer to note 30.

## 38 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 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 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 consolidated financial condition or the results of future operations.

### 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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 39 Custody activities

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

## 40 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of *IFRS 7 "Financial Instruments: Disclosures"*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, loan participation notes and domestic bonds are based on quoted market prices at the reporting date without any deduction for transaction costs.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	108 322 648	108 322 648	105 723 210	105 723 210
Placements with banks and other financial institutions	5 075 800	5 075 800	2 426 852	2 426 852
Financial assets at fair value through profit or loss	41 751 838	41 751 838	14 408 817	14 408 817
Amounts receivable under reverse repurchase agreements	10 080 301	10 080 301	4 574 084	4 574 084
Loans to customers	266 421 579	263 009 011	300 413 049	291 354 674
Investments available for sale	35 083	35 083	158 714	158 714
Investments held to maturity	7 204 938	7 075 003	8 880 051	8 144 117
Financial liabilities at fair value through profit or loss	1 252 225	1 252 225	614 859	614 859
Deposits and balances from banks and other financial institutions	64 780 390	64 159 283	111 275 357	108 528 699
Amounts payable under repurchase agreements	60 697	60 697	855 837	855 837
Current accounts and deposits from customers	289 548 839	289 121 742	229 610 958	227 436 302
Own securities issued	43 654 712	44 070 359	39 368 440	30 704 562
Other borrowed funds	13 819 410	14 008 385	24 010 262	24 010 262
Subordinated borrowings	17 748 361	17 755 560	12 593 599	7 610 056

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 as at 31 December 2009:

	Quoted market prices	Valuation techniques based on market observable inputs	Valuation techniques involving the use of non-market observable inputs	Total
<b>Financial assets</b>				
Securities held for trading	38 326 622	2 223 116	983 016	41 532 754
Derivative financial instruments	-	75 288	-	75 288
Other financial instruments at fair value through profit or loss	143 796	-	-	143 796
Investments available for sale	29 140	-	5 943	35 083
<b>Financial liabilities</b>				
Derivative financial instruments	-	1 252 225	-	1 252 225

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 as at 31 December 2008:

	Quoted market prices	Valuation techniques based on market observable inputs	Valuation techniques involving the use of non- market observable inputs	Total
<b>Financial assets</b>				
Securities held for trading	11 079 645	2 905 056	50 004	14 034 705
Derivative financial instruments	-	343 456	-	343 456
Other financial instruments at fair value through profit or loss	30 656	-	-	30 656
Investments available for sale	-	-	158 714	158 714
<b>Financial liabilities</b>				
Derivative financial instruments	-	614 859	-	614 859

Valuation techniques involving the use of non-market observable inputs were based on the analysis of discounted cash flows due from issuers. As at 31 December 2009 a discount rate of 15% is used for discounting future cash flows from corporate bonds in this category.

The estimates of fair value are intended to approximate the amount for which a financial instrument can 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.

The following table shows the movement of financial instruments recorded at fair value whose fair value is based on valuation techniques involving the use of non-market observable inputs for the year ended 31 December 2009:

	Securities held for trading	Investments available for sale
<b>Balance as at 1 January 2009</b>	<b>50 004</b>	<b>158 714</b>
Reclassification from other categories	376 941	-
Net purchase and sale during the year 2009	691 681	(152 771)
Net loss recognised in consolidated income statement	(135 610)	-
<b>Balance as at 31 December 2009</b>	<b>983 016</b>	<b>5 943</b>

## 41 Average effective interest rates

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

	2009 Carrying amount	2009 Average Effective Interest Rate	2008 Carrying amount	2008 Average Effective Interest Rate
<b>Interest bearing assets</b>				
<b>Cash and cash equivalents</b>				
- RUB	10 994 356	5.28%	25 873 661	7.65%
- other currencies	54 736 198	0.17%	14 278 077	1.11%
<b>Obligatory reserves with central banks</b>				
- other currencies	477 738	1.00%	476 218	2.50%
<b>Placements with banks and other financial institutions</b>				
- RUB	19 458	19.19%	2 155 070	8.51%
- other currencies	5 056 342	8.43%	271 782	11.10%
<b>Financial assets at fair value through profit or loss</b>				
- RUB	29 931 387	13.95%	11 872 407	16.97%
- other currencies	11 601 361	16.28%	2 157 560	15.73%
<b>Amount receivable under reverse repurchase agreements</b>				
- RUB	10 065 812	5.97%	4 574 084	10.21%
- other currencies	14 489	23.63%	-	-
<b>Loans to customers</b>				
- RUB	135 845 198	18.28%	149 052 984	16.09%
- other currencies	130 576 381	12.55%	151 360 065	12.59%
<b>Investments held to maturity</b>				
- RUB	7 071 017	7.13%	8 492 341	8.26%
- other currencies	133 921	12.17%	387 710	12.76%
<b>Interest bearing liabilities</b>				
<b>Vostro accounts of banks and other financial institutions</b>				
- RUB	4 639 941	0.37%	3 152 222	11.15%
- other currencies	3 699 486	0.11%	2 689 259	1.01%
<b>Deposits and balances from banks and other financial institutions, other borrowed funds and subordinated borrowings due to banks except for vostro accounts</b>				
- RUB	11 434 550	9.32%	53 407 540	11.32%
- other currencies	59 055 077	5.37%	76 979 618	5.80%
<b>Amounts payable under repurchase agreements</b>				
- RUB	60 697	2.63%	855 837	11.76%
<b>Term deposits from customers, other borrowed funds and subordinated borrowings due to customers</b>				
- RUB	121 471 391	11.52%	85 870 733	9.56%
- other currencies	103 914 338	6.59%	78 565 914	7.62%

	2009	2009	2008	2008
	Carrying	Average	Carrying	Average
	amount	Effective	amount	Effective
	<u>amount</u>	<u>Interest Rate</u>	<u>amount</u>	<u>Interest Rate</u>
<b>Current accounts from customers</b>				
- RUB	53 502 389	0.01%	57 030 360	0.01%
- other currencies	12 893 009	0.01%	10 840 643	0.01%
<b>Loan participation notes including subordinated and domestic bonds</b>				
- RUB	6 229 540	15.10%	9 541 000	9.02%
- other currencies	31 710 453	11.26%	26 843 411	10.29%
<b>Promissory notes and certificates of deposit</b>				
- RUB	13 955 028	12.86%	7 385 189	9.92%
- other currencies	7 046 509	6.42%	4 552 727	5.28%

## 42 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, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The outstanding balances and the related average interest rates as at 31 December 2009 with related parties are as follows:

	<u>Nominal shareholders</u>		<u>Directors and Management Board</u>		<u>Other Related Parties</u>		<u>Total</u>
	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>
<b>Statement of Financial Position</b>							
<b>Assets</b>							
Financial assets at fair value through profit or loss	-	-	-	-	318 076	16.64%	318 076
Loans to customers (gross amount)	-	-	61 152	11.36%	9 783 687	10.63%	9 844 839
less collective impairment allowance	-	-	(535)	-	(49 152)	-	(49 687)
Other assets	-	-	-	-	34 401	-	34 401
<b>Liabilities</b>							
Current accounts and deposits from customers	173 193	1.95%	1 059 890	11.13%	2 822 824	3.86%	4 055 907
Own securities issued	-	-	228	7.07%	63	11.17%	291
Other liabilities	-	-	-	-	30 500	-	30 500
<b>Off balance sheet items</b>							
Guarantees received	-	-	-	-	6 018 659	-	6 018 659
Guarantees issued	-	-	-	-	989 901	-	989 901
Letters of credit issued	-	-	-	-	367 658	-	367 658

Other related parties comprise mainly entities controlled by the ultimate shareholders of the Group.

**Promsvyazbank****Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The outstanding balances and the related average interest rates as of 31 December 2008 with related parties are as follows:

	<u>Nominal shareholders</u>		<u>Directors and Management Board</u>		<u>Other Related Parties</u>		<u>Total</u>
	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>	<u>Average Interest Rate</u>	<u>Carrying amount</u>
<b>Statement of Financial Position</b>							
<b>Assets</b>							
Financial assets at fair value through profit or loss	-	-	-	-	456 309	52.31%	456 309
Loans to customers (gross amount)	-	-	88 086	11.29%	8 199 558	12.33%	8 287 644
less collective impairment allowance	-	-	(813)	-	(196 619)	-	(197 432)
Investments available for sale (gross amount)	-	-	-	-	3 309	-	3 309
less impairment allowance	-	-	-	-	(3 109)	-	(3 109)
Investments held to maturity	-	-	-	-	187 384	10.99%	187 384
Other assets	-	-	-	-	53 646	-	53 646
<b>Liabilities</b>							
Current accounts and deposits from customers	110 711	2.90%	715 982	9.23%	2 454 500	2.27%	3 281 193
Own securities issued	-	-	6 369	9.95%	851 706	5.00%	858 075
Subordinated borrowings	1 178 306	14.61%	-	-	-	-	1 178 306
Other liabilities	-	-	-	-	637 909	-	637 909
<b>Off balance sheet items</b>							
Guarantees received	-	-	13 586	-	1 573 398	-	1 586 984
Guarantees issued	-	-	-	-	1 392 041	-	1 392 041
Letters of credit issued	-	-	-	-	642 112	-	642 112

Other related parties comprise mainly entities controlled by the ultimate shareholders of the Group.

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2009 are as follows:

	<b>Nominal shareholders</b>	<b>Directors and Management Board</b>	<b>Other Related Parties</b>	<b>Total</b>
Interest income	-	10 660	1 128 389	1 139 049
Fee and commission income	78	55	91 965	92 098
Other income	-	6	4 273	4 279
Interest expense	(137 156)	(81 386)	(66 584)	(285 126)
Fee and commission expense	-	-	(5 193)	(5 193)
Recovery of impairment losses	-	278	147 467	147 745
Administrative expenses	-	(312 926)	(410 541)	(723 467)

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2008 are as follows:

	<b>Nominal shareholders</b>	<b>Directors and Management Board</b>	<b>Other Related Parties</b>	<b>Total</b>
Interest income	-	7 500	664 989	672 489
Fee and commission income	218	1 415	81 177	82 810
Other income	-	-	4 749	4 749
Interest expense	(144 712)	(61 885)	(92 617)	(299 214)
Fee and commission expense	-	-	(3 628)	(3 628)
Impairment losses	-	(529)	(165 907)	(166 436)
Administrative expenses	-	(582 387)	(354 815)	(937 202)

Other related parties comprise mainly of entities controlled by the ultimate shareholders of the Group.

During the year ended 31 December 2009, short-term compensation of the Directors and members of the Management Board amounts to RUB 312 926 thousand (2008: RUB 582 387 thousand) and payments to pension funds for the benefit of the Directors and members of Management Board amounted to nil.

During the year ended 31 December 2009 the Group purchased from other related parties computers and software for RUB 582 953 thousand.

During the year ended 31 December 2008 the Group purchased from other related parties property and equipment for RUB 1 311 833 thousand including a building amounting to RUB 1 203 067 thousand and computers and software of RUB 108 766 thousand.

### 43 Acquisition of subsidiaries

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Accordingly, the sum of net liabilities acquired and purchase price was shown as distribution to shareholders. Under the terms of the agreement the Group acquired an unconditional right to buy 100% of OOO “PSF” share capital for a cash consideration of RUB 5,500 thousand for a period of 5 years starting from the date of the option agreement.

If the acquisition had occurred on 1 January 2009, the Group’s net loss attributable to shareholders of the parent for the year ended 31 December 2009 would have been RUB 634 116 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	<b>IFRS carrying amount immediately before business combination</b>
Cash and cash equivalents	21 962
Loans and advances to customers	2 432 268
Deferred tax asset	7 010
Deposits and balances from banks and other financial institutions	(2 445 236)
Other liabilities	(13 812)
Current income tax payable	(4 945)
<b>Net liabilities acquired</b>	<b>(2 753)</b>
<b>Acquired interest in net assets of the subsidiary</b>	<b>(2 753)</b>
Purchase price	(5 500)
Distribution to shareholders	8 253
Cash and cash equivalents of the subsidiary acquired	21 962
<b>Inflow of cash and cash equivalents on acquisition</b>	<b>21 962</b>

### 44 Subsequent events

On 9 February 2010 the Central Bank of the Russian Federation registered an additional issue of 144 850 846 000 shares with a nominal value of RUB 1 448 508 thousand and a share premium amounting to RUB 3 983 398 thousand. As a result of the additional issue the European Bank of Reconstruction and Development became a new shareholder of the Group with 11.75% share, Commerzbank Auslandsbanken Holding AG kept its 15.32% share, and the share of Promsvyaz Capital B. V. decreased to 72.93%.

On 11 February 2010 the Group exercised its option to acquire 85.7% share in OAO “Vologprombank” from Promsvyaz Capital B.V. for a cash consideration of RUB 1 434 774 thousand.

On 18 February 2010 the Group repaid in advance a subordinated loan from the European Bank of Reconstruction and Development amounting to RUB 1 500 million. The original due date was 7 March 2015.

On 2 April 2010 the shareholders approved a decision to reorganise the Group and merge OAO “Vologprombank” and OAO “Nizhny Novgorod Bank” with the Bank.

**Promsvyazbank**

**Notes to the consolidated financial statements – year ended 31 December 2009**

*(expressed in thousands of Russian Roubles – refer to Note 2)*

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On 12 April 2010 the Group repaid the first tranche of a syndicated loan from the European Bank of Reconstruction and Development amounting to USD 232 000 thousand.

On 12 April 2010 the Group repaid in advance a subordinated loan from Reserve Invest Limited amounting to USD 30 000 thousand. The original due date was 1 December 2011.