

**Joint-Stock Commercial Bank
“ZARECHYE”
(Open Joint-Stock Company)**

**Consolidated Financial Statements
in accordance with International
Financial Reporting Standards
and Independent Auditor’s Report
for the Year Ended 31 December 2009**

JSCB “Zarechye” (OJSC)

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Independent Auditors' Report

1. Auditor.

Name: "Presto-Audit" Limited Liability Company.

Address: 15/25, Sivtsev Vrazhek lane, office 148, Moscow, 119002.

State Registration Certificate Number: 324.308 issued by the Moscow Registration Chamber on June 15th, 1993.

State Registration Number: 1027739112081 dated 26 August 2002 issued by Interdistrict Tax Inspectorate of the Ministry of Taxes and Collections of Russia No.39 in Moscow.

Self-regulatory organization of auditors: Non-profit partnership "Moscow Audit Chamber"

Primary Registration Number of incorporation into the Register of auditors and audit organizations: 10203043757.

2. Audited Entity.

Full name: Joint-Stock Commercial Bank "Zarechye" (Open Joint-Stock Company).

Short name: JSCB "Zarechye" (OJSC)

Address: 2, Luknitskogo Street, Kazan, Republic of Tatarstan, 420032.

Registration number: 817.

Primary State Registration Number: 1021600000586 dated 26 August 2002.

3. Introduction.

We have audited the accompanying consolidated financial statements of JSCB "Zarechye" (OJSC) and its subsidiary (hereinafter referred to as the "Group" as defined by Note 1 on the consolidated financial statements), which comprise the consolidated statement of financial position as of 31 December 2009, income statement, statement of cash flows, statement of changes in equity for the year ended 31 December 2009 and a summary of significant accounting policies and other explanatory notes.

4. Audit Scope.

Management of the Bank is responsible for preparation and fair presentation of these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements. The consolidated financial statements have been prepared by JSCB "Zarechye" (parent entity) in accordance with the International Financial Reporting Standards applied for annual periods beginning on or after 1 January 2009. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for audit opinion.

5. Audit Opinion.

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

23 June 2010

Director, "Presto Audit" LLC

V.E. Morozov

Audit Leader

A.A. Dityatev

JSCB “Zarechye” (OJSC)**Consolidated Statement of Financial Position as of 31 December 2009***(In thousands of Russian roubles)*

| | Notes | 2009 | 2008 |
|--|--------------|------------------|------------------|
| ASSETS | | | |
| Cash and cash equivalents | 6 | 583 535 | 836 922 |
| Mandatory cash balance with the Central Bank of Russian Federation | 7 | 16 643 | 1 720 |
| Derivative financial instruments | 8 | 1 306 | 8 091 |
| Due from other banks | 9 | 758 158 | 700 588 |
| Loans and receivables | 10 | 1 288 129 | 1 300 983 |
| Financial assets available-for-sale | 11 | 65 750 | 65 750 |
| Investments in associates | 12 | 16 024 | 187 |
| Fixed assets | 13 | 466 898 | 427 613 |
| Intangible assets | 14 | 646 | 1 065 |
| Other assets | 15 | 273 136 | 58 933 |
| TOTAL ASSETS | | 3 470 225 | 3 401 852 |
| LIABILITIES | | | |
| Customer accounts | 16 | 2 561 380 | 2 507 072 |
| Debt securities issued | 17 | 11 | 11 |
| Other liabilities | 18 | 16 120 | 11 188 |
| Current tax liabilities | | 4 026 | 559 |
| Deferred tax liabilities | 25 | 6 700 | 16 709 |
| Non-controlling interests | | 15 725 | 15 801 |
| TOTAL LIABILITIES | | 2 603 962 | 2 551 340 |
| EQUITY | | | |
| Share capital | 19 | 571 698 | 571 698 |
| Retained earnings | 20 | 294 565 | 278 814 |
| TOTAL EQUITY | | 866 263 | 850 512 |
| TOTAL LIABILITIES AND EQUITY | | 3 470 225 | 3 401 852 |

Signed and approved for issue on behalf of the Management Board of the Bank on 23 June 2010.

E.I. Odintsova
Vice-President

O.I. Tychkina
Chief Accountant

The notes on pages 7-41 are an integral part of these consolidated financial statements.

JSCB “Zarechye” (OJSC)

Consolidated Income Statement for the Year Ended 31 December 2009

(In thousands of Russian roubles)

| | Notes | 2009 | 2008 |
|---|-------|----------------|----------------|
| Interest income | 21 | 204 814 | 125 484 |
| Interest expense | 21 | (58 565) | (38 464) |
| Net interest income | | 146 249 | 87 020 |
| Allowance for loan impairment | 9, 10 | 30 435 | 67 766 |
| Net interest income after allowance for loan impairment | | 176 684 | 154 786 |
| Gains less losses from transactions with derivative financial instruments | 8 | (6 785) | 8 091 |
| Gains less losses from dealing in foreign currencies | | 30 003 | 12 286 |
| Foreign exchange translation gains less losses | | (13 828) | (409) |
| Fee and commission income | 22 | 4 753 | 5 943 |
| Fee and commission expense | 22 | (2 162) | (1 420) |
| Loss on initial recognition of loans to customers at fair value | 10 | (1 655) | (88) |
| Loss on initial recognition of customer deposits at fair value | 16 | (7 980) | (1 625) |
| Impairment losses other than on loans | | (674) | (2 077) |
| Other operating income | 23 | 25 286 | 23 397 |
| Net income | | 203 642 | 198 884 |
| Operating expenses | 24 | (178 488) | (189 083) |
| Operating income | | 25 154 | 9 801 |
| Share of results of associates | 12 | 16 009 | - |
| Profit before income tax | | 41 163 | 9 801 |
| Income tax expense | 25 | (7 461) | (7 090) |
| Profit for the year | | 33 702 | 2 711 |
| Attributable to: | | | |
| Shareholders of the parent | | 33 778 | 3 580 |
| Non-controlling interests | | (76) | (869) |

Signed and approved for issue on behalf of the Management Board of the Bank on 23 June 2010.

E.I. Odintsova
Vice-President

O.I. Tychkina
Chief Accountant

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JSCB “Zarechye” (OJSC)

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2009

(In thousands of Russian roubles)

| | Notes | Share Capital | Retained earnings | Total equity |
|------------------------------------|-------|----------------|-------------------|-----------------|
| Balance at 31 December 2007 | | 571 698 | 310 953 | 882 651 |
| Dividends declared | 26 | - | (25 000) | (25 000) |
| Other distribution of profit | | - | (10 719) | (10 719) |
| Profit for the year | | - | 3 580 | 3 580 |
| Balance at 31 December 2008 | | 571 698 | 278 814 | 850 512 |
| Dividends declared | 26 | - | (15) | (15) |
| Other distribution of profit | | - | (18 012) | (18 012) |
| Profit for the year | | - | 33 778 | 33 778 |
| Balance at 31 December 2009 | | 571 698 | 294 565 | 866 263 |

Signed and approved for issue on behalf of the Management Board of the Bank on 23 June 2010.

E.I. Odintsova
Vice-President

O.I. Tychkina
Chief Accountant

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JSCB “Zarechye” (OJSC)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2009

(In thousands of Russian roubles)

| | Notes | 2009 | 2008 |
|---|----------|------------------|------------------|
| Cash flows from operating activities | | | |
| Interest received | | 207 131 | 123 144 |
| Interest paid | | (60 639) | (40 607) |
| Profits minus expenses under foreign currency transactions | | 30 003 | 12 286 |
| Commission fees received | | 4 745 | 5 943 |
| Commission fees paid | | (1 946) | (1 420) |
| Other operating income | | 25 240 | 23 359 |
| Operating expenses | | (159 941) | (183 019) |
| Income tax paid | | (13 958) | (24 260) |
| Cash flows received from/(used in) operating activities before changes in operating assets and liabilities | | 30 635 | (84 574) |
| Increase/decrease in operating assets and liabilities | | | |
| Net (increase)/decrease in mandatory cash balance with the Central Bank of the Russian Federation | | (14 923) | 27 513 |
| Net (increase)/decrease in due from other banks | | (62 574) | (18 231) |
| Net (increase)/decrease in loans and receivables | | (30 065) | (220 766) |
| Net (increase)/decrease in other assets | | (146 586) | (10 893) |
| Net increase/(decrease) in due to other banks | | 365 | - |
| Net increase/(decrease) in customer accounts | | 87 900 | 689 276 |
| Net increase/(decrease) of other liabilities | | 20 450 | 3 505 |
| Net cash received from/(used in) operating activities | | (114 798) | 385 830 |
| Cash flows from investing activities | | | |
| Purchase of financial assets available-for-sale | | - | (5 000) |
| Purchase of associates | | - | (230) |
| Purchase of fixed and intangible assets | | (49 691) | (145 867) |
| Proceeds from sale of fixed assets | | 314 | 264 |
| Dividends received | 12 | 172 | - |
| Net cash used in investing activities | | (49 205) | (150 833) |
| Cash flows from financing activities | | | |
| Other distributions of profit | | (18 012) | (10 719) |
| Dividends paid | 26 | (15) | (25 000) |
| Net cash used in financing activities | | (18 027) | (35 719) |
| Effect of exchange rate changes on cash and cash equivalents | | (71 357) | (320) |
| Net increase/(decrease) in cash and cash equivalents | | (253 387) | 198 958 |
| Cash and cash equivalents at the beginning of the year | 6 | 836 922 | 637 964 |
| Cash and cash equivalents at the end of the year | 6 | 583 535 | 836 922 |

Signed and approved for issue on behalf of the Management Board of the Bank on 23 June 2010.

E.I. Odintsova
Vice-President

O.I. Tychkina
Chief Accountant

The notes on pages 7-41 are an integral part of these consolidated financial statements.

JSCB "Zarechye" (OJSC)

Notes to the Consolidated Financial Statements - 31 December 2009

(In thousands of Russian roubles)

1. About the Group

These consolidated financial statements include the financial reports of "Zarechye" Bank (hereinafter referred to as the "Bank") and reports of "Ice Building" Ltd, its subsidiary company (hereinafter jointly referred to as the "Group").

Bank "Zarechye" was established by decision of the general meeting of shareholders dated 17 April 1992 as a closed joint-stock company. On 27 December 1996 the Bank was reorganized into an open joint-stock company.

The Bank operates under the general banking license № 817 issued by the Central Bank of the Russian Federation (Bank of Russia).

The Bank accepts deposits from the public, make loans, provides settlement and cash services to clients in the Russian Federation and abroad, carries out currency exchange transactions and provides retail and corporate banking services. The Bank is a member of the state deposit insurance system approved by Federal Law No.177-FZ On Insurance of Deposits Held by Individuals with Banks in the Russian Federation dated 23 December 2003. The State Corporation "Deposit Insurance Agency" guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount.

The Bank has three sub-branches in Kazan, one representative office in Moscow and one representative office in the city of Yalta (Ukraine).

The head office of the Bank is located at 2, Luknitskogo Street, Kazan 420032, Republic of Tatarstan, Russian Federation.

The number of employees of the Bank at 31 December 2009 was 202 (31 December 2008: 200).

The table below includes information on the subsidiary company of the Group as of 31 December 2009 and 31 December 2008:

| | Country of registration | Type of activities | Ownership, % | |
|---------------------|-------------------------|------------------------|------------------|------------------|
| | | | 31 December 2009 | 31 December 2008 |
| "Ice Building", Ltd | Russian Federation | Real estate management | 86.7 | 80.4 |

The table below summarizes information about the shareholders and their shares in the Bank's share capital as of 31 December 2009 and 31 December 2008:

| Shareholders | 31 December 2009 | 31 December 2008 |
|--|------------------|------------------|
| "TFK", Ltd | 30% | 30% |
| "Kazan Helicopters" OJSC | 25.39% | 25.39% |
| "Kazan Helicopters Private Pension Fund" | 23.6% | 23.6% |
| "Bank of Moscow" OJSC | 12.77% | 12.77% |
| Others | 8.24% | 8.24% |
| Total: | 100% | 100% |

"Kazan Helicopters" OJSC has the most significant influence on the Group's activities.

2. Operating environment of the Group

Russian Federation

In 2009 economic development of Russia was under influence of the global financial crisis and was not regular. Breakdown of foreign economic conditions, decline in exports, capital outflow and bank loan interruption resulted in considerable reduce of investing activity and recession of industry in the first half of the year. GDP reduction in the first half of the year was 10.4 percent to the corresponding period of the year 2008. Economic recession in Russia suspended by the middle of 2009. GDP growth was observed monthly since June. As a result a seasonal corrected dynamic of production took up a positive value in the third quarter, and in the fourth quarter the growth increased.

Eventually gradual improvement of foreign economic situation and effective realization of anti-crisis measures allowed weakening of action factors, threatening financial and social stability of the Russian economy. Overcoming the consequences of the financial crisis, supporting stability of banking sector and increasing confidence in the financial market promoted large-scale state operational measures, including increasing of the liquidity level and banking sector capitalization, bank reorganization, experiencing financial difficulties and removing inviable organizations from the banking services market. For the purpose of breaking down of the credit squeeze tendency in the real sector of economy were used optional features for bank refinancing in the Bank of Russia and reiterated reduction of the refinancing (interest) rate, as well as the mechanism of government guarantees on banking credits to non-financial organizations. Government assistance was lent to large-scale strategic enterprises and banks first of all. Non-bank financial intermediaries did not get such an assistance, and it was one of the deterioration reasons of some rates in their activity in 2009. In general, results in 2009 indicated that with the help of anti-crisis measures it was possible to lend assistance to financial sustainability in Russian Economy.

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 formalized 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.

World financial markets

In 2009 consequences of the crisis influenced the situation in the world markets, provided that its development was described by gradual recovery of more stable financial and economic conditions. At the beginning of the year the situation was described by low liquidity in the majority of segments of the financial markets combined with price cutting for assets (excepting the least risk). However the measures took by governments and Central Banks of many countries for aid to financial institutions and provision of liquidity to them contributed to appearance of positive development tendencies even in first quarter 2009. Prices of certain types of assets, including shares and exchange commodities began to rise after the antecedent great drop in prices. Economic activity downturn combined with declining of the average annual price level in the world markets for energy resources, non power-production raw materials and agricultural products facilitated to weakening of inflation development in foreign countries. Realization of monetary and credit policy, and fiscal policy, intended for lessening consequences of the financial crisis and evening-out of cyclical fluctuations in the economic, helped them to avoid the most unfavorable deflationary scenario of recession. In 2009 Central banks of many countries alleviated monetary and credit policy. The crisis stipulated some Central banks to pursue monetary and credit policy significantly different from the traditional model (where the main instrument was impact on the level of short-term interest rates in money-market). Federal Reserve System (FRS), Bank of England, Bank of Japan, European Central Bank (ECB) and other Central banks pursued monetary and credit policy based on increasing and restructuring of their assets and liabilities.

The Group’s management cannot predict all trends which could negatively affect the banking sector development and the Group’s financial position.

3. Basis of preparation and significant accounting policies

Accounting basis

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) on the basis of historical cost convention, as modified by the initial recognition of financial instruments based on fair value, revaluation of available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements

Subsidiaries are those entities, in which the Group has direct or indirect interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the result of above calculation is negative, the difference is recognized directly in the income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. Non-controlling interest at the acquisition date is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This choice is made by the acquirer for each business combination. Non-controlling interest at the subsequent reporting date represents the initially recognized amount of non-controlling interest at the acquisition date and the minorities' portion of movements in other comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

Investments in associates

Associates are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and accumulated goodwill impairment losses, if any. The Group's share of its associates' profits or losses is recognized in the income statement, and its share of movements in equity is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. Basis of preparation and significant accounting policies (continued)

Initial recognition of financial assets

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and subsequently can reclassify financial assets in certain cases as described below.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Group uses valuation techniques, which are based on discounted cash flow models and other pricing models, to determine the fair value of financial assets that are not traded in an active market. For such assets differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are not recognized as “day 1” gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset.

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Cash and cash equivalents

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

Mandatory cash balance with the Central Bank of Russian Federation

Mandatory cash balance with the Central Bank of Russian Federation is carried at amortized cost and represents non-interest bearing mandatory reserve deposit, which is not available to finance the Group’s day-to-day operations and hence is not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial assets carried at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the income statement.

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets classified as trading financial assets that would have met the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the income statement as interest income. Dividends are included in dividend income within other operating income when the Group’s right to receive the dividend payment is established. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

3. Basis of preparation and significant accounting policies (continued)

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities and is in accordance with IAS 39 revised for the fair value option.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow (net present value) analysis, option pricing models and other relevant valuation models.

Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

Impairment of financial assets carried at amortized cost

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired include its overdue status and realizability of related collateral, if any.

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

Impairment losses are recognized through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectable assets are written-off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognized initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 “Revenue”. Commitments to provide loans at a below-market interest rate are initially recognized at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

3. Basis of preparation and significant accounting policies (continued)

Promissory notes

Promissory notes purchased are included in trading securities, or in available-for-sale financial assets, or in due from other banks, or in loans and advances to customers or in investment securities held-to-maturity, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories of financial instruments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income in a separate component of equity until the investment is derecognized or until the investment is determined to be impaired. However, interest calculated using the effective interest method is recognized in the income statement.

When the Group derecognizes available-for sale financial assets, the Group reclassifies the cumulative gain or loss previously recognized in other comprehensive income in a separate component of equity to a separate line in the income statement.

If there is objective evidence that available-for-sale financial asset is impaired the cumulative loss previously recognized in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognized in income statement) – is reclassified from equity to the income statement.

The fair value of investments that are actively traded in active financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Fixed assets

Fixed assets, acquired after 1 January 2003 are carried at historical costs less accumulated depreciation and any recognized impairment loss, if any. Fixed assets, acquired before 1 January 2003 are carried at historical costs restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Construction in progress is carried at cost less allowance for impairment, if any. Upon completion, assets are transferred to fixed assets at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the income statement when the expense is incurred.

Depreciation

Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings and other real estate – 7-50 years;
- machinery and equipment – 1-10 years;
- vehicles – 3-10 years;
- other fixed assets – 2-25 years.

Estimated useful lives and residual values are reviewed annually.

Land is not depreciated.

3. Basis of preparation and significant accounting policies (continued)

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets include computer software, licenses and other identifiable intangible assets.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives, which normally do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

Operating lease

Where the Group is the lessor in a lease agreement and does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is recognized in the Group's consolidated statement of financial position, and depreciation and lease income are recognized in the consolidated income statement on a straight-line basis over the period of the lease.

Where the Group is the lessee in a lease agreement and the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognized in the Group's consolidated statement of financial position, and lease expenses are recognized in the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Borrowed funds

Borrowed funds include customer accounts, due to other banks and other borrowed funds. Borrowed funds are initially recognized at fair value.

Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statement of comprehensive income over the period of borrowings, using the effective interest method.

Financial liabilities carried at fair value through profit or loss

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are issued for the purpose of repurchasing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognized in the income statement.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, bonds issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability the consideration paid is included in gains less losses arising from extinguishment of liability in the income statement.

Share capital

Contributions to share capital made before January 1, 2003 are recognized at their cost restated for inflation. Contributions to share capital made after January 1, 2003 are recognized at cost.

Costs directly attributable to the issue of new shares, other than on business combination, are deducted from equity net of any related income taxes.

Preference shares

Preference shares have no right of conversion or redemption. Preference shares of the Bank are recorded as equity and are shares on which dividends are paid by resolution of the general meeting of shareholders.

3. Basis of preparation and significant accounting policies (continued)

Dividends

Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement except if it is recognized through other comprehensive income directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

Taxation has been provided for in the consolidated financial statements in accordance with applicable legislation currently in force in Russian Federation. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxes, other than on income, are recorded within operating expenses.

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: the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries where the parent company 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related incremental direct costs) and recognized as an adjustment to the effective yield of the loans. Commission fees and other incremental direct costs, related to the issuance of debt securities and other borrowed funds are recognized as an adjustment to the effective yield of the relevant liability.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Fee and commission income are mostly collected by debiting customers deposits upon provision of services.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Offsetting

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

3. Basis of preparation and significant accounting policies (continued)

Pension costs

The Group contributes to the Russian Federation state pension schemes, social insurance and employment funds in respect of their employees. The contributions to these funds are expensed as incurred and included within staff costs in the consolidated income statement. The Group has no further payment obligation once the contribution has been paid.

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is the Group's Russian entities' functional currency. Transactions in foreign currencies are reported at the official rate of the Bank of Russia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rates at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

| | 31 December 2009 | 31 December 2008 |
|-----------|------------------|------------------|
| RUR / USD | 30.2442 | 29.3804 |
| RUR / EUR | 43.3883 | 41.4411 |

Accounting for the effects of hyperinflation

In periods prior to 1 January 2003 the Russian Federation experienced relatively high levels of inflation and was considered to be a hyperinflationary economy as defined by International Financial Reporting Standard IAS 29 “Financial Reporting in Hyperinflationary Economies”.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to non-monetary assets acquired or revalued and non-monetary liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency.

4. Significant accounting judgements and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Tax legislation

The tax, currency and customs laws of the Russian Federation allow various interpretations. See Note 29.

5. Adoption of new and revised standards

Several new standards and interpretations and certain revised standards became effective for the Group from 1 January 2009, as described below:

IAS 1 “Presentation of Financial Statements” (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income, which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has opted to present two separate statements: income statement and statement of comprehensive income. As a result of other changes the Group has presented the statement of financial position previously referred as the balance sheet.

IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – “Puttable Financial Instruments” (effective for annual periods beginning on or after 1 January 2009). Amendment was issued in February 2008 and requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The revised IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

As a result of application this amendment by the Group, the shares of “Ice Building” Ltd were classified as equity in this consolidated financial statement, cause they have all required features.

Non-controlling interests were classified as liabilities in the consolidated financial statements of the Group, and:

- the amount of 15 801 was reclassified from equity to liabilities in the consolidated statement of financial position as of 31 December 2008;
- the amount of 15 801 was excluded from the consolidated statement of changes in equity as of 31 December 2008.

IAS 23 “Borrowing Costs” (effective for periods beginning on or after 1 January 2009). A revised IAS 23 was issued in March 2007. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group has adopted this as a prospective change. Accordingly, borrowing costs are capitalized on qualifying assets with a commencement date on or after 1 January 2009. These amendments did not have a significant effect on consolidated financial statements of the Group.

IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives” – “Embedded Derivatives” (issued in March 2009). The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have any impact on the Group’s financial statements.

IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” (revised in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendment had no impact on the Group’s financial statements.

IFRS 2 “Share-based Payments” – “Vesting Conditions and Cancellations” (issued in January 2008, effective for periods beginning on or after 1 January 2009). Amendment restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The amendment did not have any impact on the Group’s financial statements.

5. Adoption of new and revised standards (continued)

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 non-controlling interests 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 has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognized 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. The Group is considering the impact of these amendments on its future consolidated financial statements.

IFRS 7 “Financial Instruments: Disclosures” - Amendment “Improving Disclosures about Financial Instruments” (effective for annual periods beginning on or after 1 January 2009). The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group is presenting the fair value measurement disclosures in these financial statements.

IFRS 8 “Operating segments” (effective for periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments on a similar basis to that used for internal reporting purposes. This standard is not applicable to the consolidated financial statements of the Group.

“Improvements to International Financial Reporting Standards” (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The amendments had no material effect on Group’s financial statements.

IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008). IFRIC Interpretation 13 was issued in June 2007. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction, in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation has no material impact on the Group's financial statements.

IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. This interpretation has no material impact on the Group's financial statements.

5. Adoption of new and revised standards (continued)

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure, to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. This interpretation has no material impact on the Group's financial statements.

The Group has not early adopted the following IFRSs (IASs) and Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) that have been issued but are not yet effective:

IAS 24 “Related Party Disclosures” (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group considers that such amendments will not have a significant effect on its consolidated financial statements in the future.

IAS 32 “Financial Instruments: Presentation” – “Classification of Rights Issues” (effective for annual periods beginning on or after 1 February 2010). The Amendment was issued in October 2009. It exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as derivatives. The amendment is not expected to have an impact on the Group's future financial statements.

IAS 39 “Financial Instruments: Recognition and Measurement” – “Eligible Hedged Items” (effective for annual periods beginning on or after 1 July 2009). The amendment to IAS 39 was issued in August 2008. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment is not expected to have an impact on the Group's future financial statements.

IFRS 1 “First-time Adoption of International Financial Reporting Standards” (following an Amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRS 2 “Share-based Payment” – “Group Cash-settled Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2010). The amendment provides a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendment incorporates into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendment expands on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendment also clarifies the defined terms in the Appendix to the standard. The Group does not expect the amendment to have any material effect on its financial statements.

IFRS 1 “First-time Adoption of International Financial Reporting Standards” – “Additional Exemptions for First-time Adopters” (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, “Determining Whether an Arrangement Contains a Lease” when the application of their national accounting requirements produced the same result. The Group does not expect the amendments to have any impact on its financial statements.

5. Adoption of new and revised standards (continued)

IFRIC 17 “Distribution of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009). The Interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not applicable to the Group’s operations because it does not distribute non-cash assets to owners.

IFRIC 18 “Transfers of Assets from Customers” (effective for transfers received on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances, in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 has no impact on the Group’s financial statements.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010). The interpretation clarifies the accounting for the transactions when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group’s financial statements.

Improvement of the International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16, effective for annual periods beginning on or after 1 July 2009; and amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39, effective for annual periods beginning on or after 1 January 2010). The improvements represent a combination of essential amendments and explanations of some standards and interpretations. The Group considers that these amendments, will not have a significant effect on the consolidated financial statements.

IFRS 9 “Financial Instruments Part 1: Classification and Measurement”. IFRS 9 was issued in November 2009 and will replace those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into one of the two measurement categories: those to be measured subsequently at fair value, or those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses in other comprehensive income rather than in profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group’s future financial statements and the timing of its adoption by the Group.

JSCB “Zarechye” (OJSC)

Notes to the Consolidated Financial Statements - 31 December 2009

(In thousands of Russian roubles)

6. Cash and cash equivalents

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| Cash on hand | 20 604 | 13 861 |
| Cash balances with the Bank of Russia (other than mandatory cash deposits) | 265 086 | 150 603 |
| Correspondent accounts and overnight deposits with other banks: | | |
| - Russian Federation | 27 164 | 130 844 |
| - OECD countries | 269 316 | 540 598 |
| - Other countries | 1 365 | 1 016 |
| Total cash and cash equivalents | 583 535 | 836 922 |

The geographic analysis and the currency structure analysis of cash and cash equivalents are shown in Note 27.

7. Mandatory cash balance with the Central Bank of Russian Federation

The amount of mandatory cash deposit as of 31 December 2009 is RUR 16 643 thousand (2008: RUR 1 720 thousand).

The credit institutions are obliged to deposit cash with the Bank of Russia in the form of a non-interest cash deposit (a mandatory reserve fund), the amount of which depends on the amount of funds attracted by a credit institution. The Law of the Russian Federation applies significant restrictions to withdrawal of such deposit.

8. Derivative financial instruments

As of 31 December 2009 the amount of RUR 1 306 thousand is a positive fair value of put option with contract amount EUR 500 thousand (31 December 2008: RUR 8 091 thousand with contract amount EUR 500 thousand). This is an OTC currency derivative with a foreign counterparty which can be executed in December 2010.

9. Due from other banks

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| Short-term interbank loans to banks of the Russian Federation (RF) | 762 553 | 700 000 |
| Guarantee deposit in russian bank | 605 | 588 |
| Total gross due from other banks | 763 158 | 700 588 |
| Less: Allowance for impairment | (5 000) | - |
| Total due from other banks | 758 158 | 700 588 |

The analysis of changes in allowance for impairment of due from other banks is presented below:

| | Due from other banks | | Total |
|-------------------------|---------------------------------|---|---------------|
| | Loans to banks of the RF | Loans to banks of the OECD countries | |
| 31 December 2007 | 20 010 | 1 437 | 21 447 |
| Recovery of allowance | (20 010) | (1 437) | (21 447) |
| 31 December 2008 | - | - | - |
| Creation of allowance | 5 000 | - | 5 000 |
| 31 December 2009 | 5 000 | - | 5 000 |

Guarantee deposit in russian bank is placed as security for payments by Visa cards. See also Note 31.

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Notes to the Consolidated Financial Statements - 31 December 2009

(In thousands of Russian roubles)

9. Due from other banks (continued)

At 31 December 2009, the Group has four loans with a total amount of RUR 688 953 thousand (31 December 2008: two loans with a total amount of RUR 700 000 thousand), which individually exceeded 10% of the Group's equity. Due from other banks have no collateral. The credit risk management policy is described in Note 27.

The geographic, interest rate and currency structure analysis of due from other banks is presented in Note 27. The information on operations with related parties is given in Note 31.

10. Loans and receivables

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| Legal entities | 1 259 430 | 1 212 667 |
| Individuals | 32 980 | 40 492 |
| Receivables | 21 586 | 109 126 |
| Total gross loans and receivables | 1 313 996 | 1 362 285 |
| Less: Allowance for impairment | (25 867) | (61 302) |
| Total loans and receivables | 1 288 129 | 1 300 983 |

During 2009 the loss in the amount of RUR 1 655 thousand is shown in the consolidated income statement (2008: RUR 88 thousand), connected with granting credits under rates below market rates.

The analysis of changes in allowance for impairment of loans and receivables is presented below:

| | Legal entities | Individuals | Receivables | Total |
|-------------------------|-----------------------|--------------------|--------------------|-----------------|
| 31 December 2007 | 103 488 | 2 339 | 1 794 | 107 621 |
| Recovery of allowance | (42 944) | (1 663) | (1 712) | (46 319) |
| 31 December 2008 | 60 544 | 676 | 82 | 61 302 |
| Recovery of allowance | (35 191) | (162) | (82) | (35 435) |
| 31 December 2009 | 25 353 | 514 | - | 25 867 |

Economic sector risk concentrations within the loans and receivables are as follows:

| | 31 December 2009 | | 31 December 2008 | |
|--|-------------------------|------------|-------------------------|------------|
| | Amount | % | Amount | % |
| Finance | 926 447 | 70.5 | 945 185 | 69.4 |
| Leasing | 175 000 | 13.3 | 179 097 | 13.1 |
| Aircraft | 107 000 | 8.1 | 96 664 | 7.1 |
| Individuals | 32 980 | 2.5 | 40 492 | 3.0 |
| Construction | 6 039 | 0.5 | 42 616 | 3.1 |
| Other | 66 530 | 5.1 | 58 231 | 4.3 |
| Total gross loans and receivables | 1 313 996 | 100 | 1 362 285 | 100 |

At 31 December 2009, the Group has three loans with a total amount of RUR 379 260 thousand (31 December 2008: four loans with a total amount of RUR 495 000 thousand), which individually exceeded 10% of the Group's equity.

As of 31 December 2009 the loan portfolio included overdue loans for RUR 228 thousand (31 December 2008: RUR 270 thousand).

JSCB "Zarechye" (OJSC)

Notes to the Consolidated Financial Statements - 31 December 2009

(In thousands of Russian roubles)

10. Loans and receivables (continued)

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

| | Securities | Guarantees and sureties | Property | No collateral | Total |
|-------------------------|---------------|-------------------------|----------------|----------------|------------------|
| Loans to legal entities | 14 700 | 7 460 | 317 876 | 894 041 | 1 234 077 |
| Loans to individuals | - | 13 252 | 18 200 | 1 014 | 32 466 |
| Receivables | - | - | - | 21 586 | 21 586 |
| Total | 14 700 | 20 712 | 336 076 | 916 641 | 1 288 129 |

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

| | Securities | Guarantees and sureties | Property | No collateral | Total |
|-------------------------|----------------|-------------------------|----------------|----------------|------------------|
| Loans to legal entities | 264 179 | 1 704 | 118 943 | 767 297 | 1 152 123 |
| Loans to individuals | - | 15 472 | 24 150 | 194 | 39 816 |
| Accounts receivable | - | - | - | 109 044 | 109 044 |
| Total | 264 179 | 17 176 | 143 093 | 876 535 | 1 300 983 |

The fair value of collateral for impaired loans and receivables at 31 December 2009 is presented below:

| | Loans to legal entities | Loans to individuals | Total |
|---------------------------|-------------------------|----------------------|----------------|
| - property | 44 159 | 448 914 | 493 073 |
| - guarantees and sureties | 35 671 | 200 459 | 236 130 |
| - securities | - | 5 130 | 5 130 |
| Total | 79 830 | 654 503 | 734 333 |

The fair value of collateral for impaired loans and receivables at 31 December 2008 is presented below:

| | Loans to legal entities | Loans to individuals | Total |
|---------------------------|-------------------------|----------------------|----------------|
| - property | 288 437 | 50 607 | 339 044 |
| - securities | 294 120 | - | 294 120 |
| - guarantees and sureties | 11 147 | 33 077 | 44 224 |
| Total | 593 704 | 83 684 | 677 388 |

The geographic, interest rate and currency structure analysis of loans and receivables is presented in Note 27. The information on operations with related parties is given in Note 31.

11. Financial assets available-for-sale

| | 31 December 2009 | 31 December 2008 |
|---|------------------|------------------|
| Shares of companies without quoted market prices: | | |
| Investments in "TFK", Ltd | 48 750 | 48 750 |
| Investments in "Leasing-Invest", Ltd | 17 000 | 17 000 |
| Total financial assets available-for-sale | 65 750 | 65 750 |

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12. Investments in associates

| | 31 December 2009 | | 31 December 2008 | |
|--|------------------|--------------|------------------|--------------|
| | Amount | Ownership, % | Amount | Ownership, % |
| “KVZ–Remservis”, Ltd | 15 987 | 30 | 150 | 30 |
| "PSC “Zarechye”, Ltd | 37 | 25 | 37 | 25 |
| Total investments in associates | 16 024 | - | 187 | - |

“KVZ–Remservis”, Ltd renders services on repair and maintenance of airplanes. "PSC “Zarechye”, Ltd is engaged in security activity. Both companies are registered and operates in the Russian Federation.

Influence of "PSC “Zarechye”, Ltd on the consolidated financial statements of the Group is immaterial, thereby these investments are accounted at cost in the consolidated statement of financial position.

Changes in the Group’s investments in “KVZ–Remservis”, Ltd are presented in the table below:

| | 2009 | 2008 |
|--------------------------------------|---------------|------------|
| As of 1 January | 150 | - |
| Share of the profit of the investee | 16 009 | - |
| Dividends received from the investee | (172) | - |
| Cost of acquisition | - | 150 |
| As of 31 December | 15 987 | 150 |

The following table contains the summarized aggregated financial information on the associate at 31 December 2009:

| | Assets | Liabilities | Revenue | Profit |
|----------------------|---------|-------------|---------|--------|
| “KVZ–Remservis”, Ltd | 254 962 | 201 731 | 311 505 | 53 364 |

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13. Fixed assets

| | Buildings and constructions | Land | Machinery and equipment | Vehicles | Construction in progress | Other | Total |
|--|-----------------------------|---------------|-------------------------|---------------|--------------------------|---------------|-----------------|
| Net book amount at 31 December 2007 | 178 630 | 63 343 | 8 327 | 6 831 | 46 821 | 12 577 | 316 529 |
| Cost amount | | | | | | | |
| Opening balance at 1 January 2008 | 220 093 | 63 343 | 18 710 | 13 966 | 46 821 | 28 502 | 391 435 |
| Additions | 28 641 | - | 362 | 5 138 | 148 628 | 4 916 | 187 685 |
| Improvements | 5 469 | - | 35 | - | - | 45 | 5 549 |
| Disposals | - | - | (1 191) | (313) | (66 897) | (1 072) | (69 473) |
| Closing balance at 31 December 2008 | 254 203 | 63 343 | 17 916 | 18 791 | 128 552 | 32 391 | 515 196 |
| Accumulated depreciation | | | | | | | |
| Opening balance at 1 January 2008 | 41 463 | - | 10 383 | 7 135 | - | 15 925 | 74 906 |
| Depreciation charge | 5 947 | - | 2 479 | 2 334 | - | 4 417 | 15 177 |
| Disposals | - | - | (1 177) | (310) | - | (1 013) | (2 500) |
| Closing balance at 31 December 2008 | 47 410 | - | 11 685 | 9 159 | - | 19 329 | 87 583 |
| Net book amount at 31 December 2008 | 206 793 | 63 343 | 6 231 | 9 632 | 128 552 | 13 062 | 427 613 |
| Cost amount | | | | | | | |
| Opening balance at 1 January 2009 | 254 203 | 63 343 | 17 916 | 18 791 | 128 552 | 32 391 | 515 196 |
| Additions | - | - | 742 | 817 | 56 001 | 965 | 58 525 |
| Improvements | 414 | - | 97 | 9 | - | 32 | 552 |
| Disposals | - | - | (509) | (955) | (4 927) | (1 435) | (7 826) |
| Closing balance at 31 December 2009 | 254 617 | 63 343 | 18 246 | 18 662 | 179 626 | 31 953 | 566 447 |
| Accumulated depreciation | | | | | | | |
| Opening balance at 1 January 2009 | 47 410 | - | 11 685 | 9 159 | - | 19 329 | 87 583 |
| Depreciation charge | 6 362 | - | 2 539 | 2 443 | - | 3 183 | 14 527 |
| Disposals | - | - | (509) | (621) | - | (1 431) | (2 561) |
| Closing balance at 31 December 2009 | 53 772 | - | 13 715 | 10 981 | - | 21 081 | 99 549 |
| Net book amount at 31 December 2009 | 200 845 | 63 343 | 4 531 | 7 681 | 179 626 | 10 872 | 466 898 |

Construction in progress is the Group’s capital investments in non-residential premises. Upon completion, assets are transferred to relevant category of fixed assets at their carrying value. Construction in progress is not depreciated until the asset is available for use.

A certain part of premises of the Group is transferred operating lease for a term less than one year, with the relevant information disclosed as follows:

| | 31 December 2009 | 31 December 2008 |
|-------------------------------|-------------------------|-------------------------|
| Cost amount | 4 332 | 4 559 |
| Accumulated depreciation | (3 699) | (3 495) |
| Net amount | 633 | 1 064 |
| Future minimum lease payments | 120 | 126 |

A part of premises of the Group is transferred operating lease for a term over 1 year and less than 5 years, with the relevant information disclosed as follows:

| | 31 December 2009 | 31 December 2008 |
|-------------------------------|-------------------------|-------------------------|
| Cost amount | 27 908 | 21 989 |
| Accumulated depreciation | (1 331) | (616) |
| Net amount | 26 577 | 21 373 |
| Future minimum lease payments | 1 946 | 2 545 |

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14. Intangible assets

| | Computer software and licenses |
|--|--------------------------------|
| Net book amount at 31 December 2007 | 970 |
| Cost amount | |
| Opening balance at 1 January 2008 | 1 946 |
| Additions | 659 |
| Disposals | (390) |
| Closing balance at 31 December 2008 | 2 215 |
| Accumulated amortization | |
| Opening balance at 1 January 2008 | 976 |
| Amortization charge | 563 |
| Disposals | (389) |
| Closing balance at 31 December 2008 | 1 150 |
| Net book amount at 31 December 2008 | 1 065 |
| Cost amount | |
| Opening balance at 1 January 2009 | 2 215 |
| Additions | 238 |
| Disposals | (11) |
| Closing balance at 31 December 2009 | 2 442 |
| Accumulated amortization | |
| Opening balance at 1 January 2009 | 1 150 |
| Amortization charge | 657 |
| Disposals | (11) |
| Closing balance at 31 December 2009 | 1 796 |
| Net book amount at 31 December 2009 | 646 |

15. Other assets

| | 31 December 2009 | 31 December 2008 |
|---|------------------|------------------|
| Other non-financial assets | | |
| Advances to suppliers | 248 961 | 36 848 |
| Precious metals | 17 979 | 13 882 |
| Prepaid taxes other than income tax | 7 968 | 6 615 |
| Other | 3 200 | 1 588 |
| Total other assets before allowance for impairment | 278 108 | 58 933 |
| Less: Allowance for impairment | (4 972) | - |
| Total other assets | 273 136 | 58 933 |

Movements in other assets impairment allowance are as follows:

| | Total |
|-------------------------------|----------------|
| As of 31 December 2008 | - |
| Impairment of other assets | (4 972) |
| As of 31 December 2009 | (4 972) |

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16. Customer accounts

| | 31 December 2009 | 31 December 2008 |
|---------------------------------------|------------------|------------------|
| State and public organizations | | |
| Current / settlement accounts | 19 097 | 10 133 |
| Term deposits | 19 565 | 18 499 |
| Other legal entities | | |
| Current / settlement accounts | 1 577 076 | 1 878 829 |
| Term deposits | 605 497 | 328 719 |
| Individuals | | |
| Current accounts / call deposits | 21 530 | 16 274 |
| Term deposits | 318 615 | 254 618 |
| Total customer accounts | 2 561 380 | 2 507 072 |

During 2009 the loss in the amount of RUR 7 980 thousand is shown in the consolidated income statement (2008: RUR 1 625 thousand), connected with taking deposits under rates above market rates.

Economic sector risk concentrations within customer accounts are as follows:

| | 31 December 2009 | | 31 December 2008 | |
|--------------------------------|------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| Aircraft | 1 883 202 | 73.5 | 1 928 835 | 76.9 |
| Individuals | 340 145 | 13.3 | 270 892 | 10.8 |
| Trade and commerce | 166 735 | 6.5 | 178 219 | 7.1 |
| Finance | 106 820 | 4.2 | 86 611 | 3.5 |
| Other | 64 478 | 2.5 | 42 515 | 1.7 |
| Total customer accounts | 2 561 380 | 100 | 2 507 072 | 100 |

As of 31 December 2009, the aggregate balance of accounts of the "Kazan Helicopters" OJSC was RUR 1 779 844 thousand or 69% of the total customer accounts (31 December 2008: RUR 1 912 353 thousand or 76% respectively). The geographic, interest rate and currency structure analysis of customer accounts is presented in Note 27. The information on operations with related parties is given in Note 31.

17. Debt securities issued

At 31 December 2009 debt securities issued include the Bank's promissory note payable on demand with an amount of RUR 11 thousand (31 December 2008: RUR 11 thousand).

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18. Other liabilities

| | 31 December 2009 | 31 December 2008 |
|--|------------------|------------------|
| Other financial liabilities | | |
| Credit related commitments | 422 | 4 720 |
| Total other financial liabilities | 422 | 4 720 |
| Other non-financial liabilities | | |
| Settlements with creditors | 10 899 | - |
| Accrued staff compensation expenses | 1 914 | 911 |
| Taxes other than income tax payable | 1 474 | 1 999 |
| Settlements on operations with plastic cards | 1 038 | 303 |
| Advances received | 126 | 3 121 |
| Other | 247 | 134 |
| Total other non-financial liabilities | 15 698 | 6 468 |
| Total other liabilities | 16 120 | 11 188 |

Movements in provision for losses on credit related commitments are as follows:

| | Total |
|-------------------------------|--------------|
| As of 31 December 2007 | 1 105 |
| Provision during the period | 3 615 |
| As of 31 December 2008 | 4 720 |
| Provision during the period | (4 298) |
| As of 31 December 2009 | 422 |

The geographic, currency structure analysis of other liabilities is presented in Note 27. The information on operations with related parties is given in Note 31.

19. Share capital

As of 31 December 2009 and 2008 authorized share capital (issued an fully paid) comprised of 3 106 250 ordinary shares with a nominal value of RUR 160 and 18 750 preference shares with a nominal value of RUR 160.

All ordinary shares are of the same class and carry one vote. All preference shares carry no voting rights but rank ahead in the event of the liquidation of the Bank.

The information on dividends is given in Note 26.

20. Retained earnings

In compliance with the Russian legislation the Group distributes its profits as dividends and transfers its profits to the accounts of funds on the basis of financial statements prepared according to the Russian accounting rules.

As of 31 December 2009 the Group's funds comprised of RUR 264 680 thousand (31 December 2008: RUR 217 187 thousand).

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21. Interest income and expense

| | 2009 | 2008 |
|-------------------------------|-----------------|-----------------|
| Interest income | | |
| Loans and receivables | 158 745 | 112 353 |
| Due from other banks | 46 069 | 13 131 |
| Total interest income | 204 814 | 125 484 |
| Interest expense | | |
| Customer accounts | (57 836) | (28 530) |
| Due to other banks | (729) | (9 931) |
| Debt securities issued | - | (3) |
| Total interest expense | (58 565) | (38 464) |
| Net interest income | 146 249 | 87 020 |

22. Fee and commission income and expense

| | 2009 | 2008 |
|---|----------------|----------------|
| Fee and commission income | | |
| Settlement and cash transactions | 4 538 | 4 405 |
| Guaranties issued | - | 1 490 |
| Other | 215 | 48 |
| Total fee and commission income | 4 753 | 5 943 |
| Fee and commission expense | | |
| Plastic card settlements | (1 784) | (1 106) |
| Settlement and cash transactions | (378) | (314) |
| Total fee and commission expense | (2 162) | (1 420) |
| Net fee and commission income | 2 591 | 4 523 |

23. Other operating income

| | 2009 | 2008 |
|-------------------------------------|---------------|---------------|
| Operations with precious metals | 23 608 | 21 652 |
| Operating lease | 970 | 691 |
| Disposal of property | 169 | 311 |
| Other | 539 | 743 |
| Total other operating income | 25 286 | 23 397 |

24. Operating expenses

| | 2009 | 2008 |
|--|----------------|----------------|
| Staff costs | 70 318 | 75 563 |
| Administrative expenses | 23 063 | 8 160 |
| Operations with precious metals | 19 533 | 18 883 |
| Taxes other than income tax | 18 663 | 19 541 |
| Depreciation of fixed assets | 14 597 | 11 521 |
| Operating lease | 9 160 | 9 171 |
| Other expenses related to fixed assets | 7 825 | 26 012 |
| Post and telecommunication expenses | 3 167 | 2 225 |
| Amortization of intangible assets | 636 | 174 |
| Charity | 428 | 10 050 |
| Disposal of property | 52 | 2 405 |
| Other | 11 046 | 5 378 |
| Total operating expenses | 178 488 | 189 083 |

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25. Income tax

Income tax expense comprises the following:

| | 2009 | 2008 |
|---|--------------|--------------|
| Current tax expense | 17 469 | 10 813 |
| Deferred taxation movement due to the origination and reversal of temporary differences | (10 008) | (3 723) |
| Total income tax expense | 7 461 | 7 090 |

The income tax rate applicable to the majority of the Group’s income in 2009 is 20% (2008: 24%).

The reconciliation between the expected and the actual taxation charge is provided below:

| | 2009 | 2008 |
|--|---------------|--------------|
| IRFS profit before taxation | 41 163 | 9 801 |
| Statutory tax rate | 20% | 24% |
| Theoretical income tax expense at the statutory rate | 8 233 | 2 352 |
| Dividend income at other tax rate | (34) | - |
| Effect of change of tax rate from 24% to 20% | - | 3 037 |
| Tax effect of items that are not assessable for taxation purposes, and other items of a non-temporary nature | (738) | 1 701 |
| Income tax expense | 7 461 | 7 090 |

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes.

The tax effect of the movements in these temporary differences for the year ended 31 December 2009 is detailed below and is recorded at the rate of 20% (2008: 20%), except for income on state securities that is taxed at 15% (2008: 15%).

| | 31 December 2008 | Credited / (charged) to profit or loss | 31 December 2009 |
|--|-------------------------|---|-------------------------|
| Tax effect of deductible temporary differences: | | | |
| Tax losses of the subsidiary carried forward | - | 7 451 | 7 451 |
| Tax losses carried forward | 2 724 | (135) | 2 589 |
| Allowances for impairment of other assets | - | 994 | 994 |
| Customer accounts | 678 | 272 | 950 |
| Allowances for impairment of due from other banks | - | 360 | 360 |
| Loans and receivables | - | 194 | 194 |
| Other | 858 | 90 | 948 |
| Gross deferred tax asset | 4 260 | 9 226 | 13 486 |
| Tax effect of taxable temporary differences: | | | |
| Allowances for impairment of loans and receivables | (15 917) | 2 540 | (13 377) |
| Investments in associates | - | (3 167) | (3 167) |
| Fixed and intangible assets | (2 036) | (887) | (2 923) |
| Derivatives | (1 618) | 1 618 | - |
| Loans and receivables | (821) | 821 | - |
| Other | (577) | (142) | (719) |
| Gross deferred tax liability | (20 969) | 783 | (20 186) |
| Deferred tax liability, net | (16 709) | 10 009 | (6 700) |

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25. Income tax (continued)

Movements in temporary differences for the year ended 31 December 2008:

| | 31 December 2007 | Credited / (charged) to profit or loss | 31 December 2008 |
|--|------------------|---|------------------|
| Tax effect of deductible temporary differences: | | | |
| Tax losses carried forward | - | 2 724 | 2 724 |
| Allowances for impairment of due from other banks | 4 523 | (4 523) | - |
| Customer accounts | 1 074 | (396) | 678 |
| Loans and receivables | 288 | (288) | - |
| Other | 1 853 | (995) | 858 |
| Gross deferred tax asset | 7 738 | (3 478) | 4 260 |
| Tax effect of taxable temporary differences: | | | |
| Allowances for impairment of loans and receivables | (26 632) | 10 715 | (15 917) |
| Fixed and intangible assets | (1 078) | (958) | (2 036) |
| Derivatives | - | (1 618) | (1 618) |
| Loans and receivables | - | (821) | (821) |
| Other | (460) | (117) | (577) |
| Gross deferred tax liability | (28 170) | 7 201 | (20 969) |
| Deferred tax liability, net | (20 432) | 3 723 | (16 709) |

26. Dividends

| | 2009 | | 2008 | |
|--|----------|------------|----------|------------|
| | Ordinary | Preference | Ordinary | Preference |
| Dividends payable as at 1 January | - | - | - | - |
| Dividends declared during the year | - | 15 | 24 850 | 150 |
| Dividends paid during the year | - | (15) | (24 850) | (150) |
| Dividends payable as at 31 December | - | - | - | - |

All dividends are declared and paid in Russian Roubles.

27. Financial risk management

Financial risk management is an inherent part of banking business and is an important element of the Group's activities. Top priority goal of the Group's risk management system is maintaining its stable financial conditions, i.e. ensuring for a certain period the achieving required financial criteria, supporting adequate equity level and liquidity volume for all current risks.

Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts of the principal debt or interest in full when due.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of respective financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and credit related commitments the maximum credit risk exposure equals the contractual amounts of those instruments. The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group minimizes credit risk by establishing limits for separate borrowers and groups of related borrowers. Credit risk limits for credit institutions are reviewed monthly. In certain cases the established risk limits may be reviewed on an unscheduled basis.

Credit risk management includes assessment of the borrowers' financial position at the moment of the loan application and during the term of the loan.

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27. Financial risk management (continued)

Also the Group takes into account the collateral for a loan. Group control the availability and safety of the pledge, both preliminary (before the pledge agreement is concluded) and subsequent control within the agreement term.

The Group has established a certain priority of collateral based on liquidity of collateral.

The information on collateral related to loans and receivables are given in Note 10.

Geographical concentration

Geographical concentration information is based on geographical location of the Group’s counterparts. As at 31 December 2009 the geographical concentration of the Group’s assets and liabilities is set out below:

| | Russia | OECD countries | Other countries | Total |
|--|------------------|----------------|-----------------|------------------|
| Assets | | | | |
| Cash and cash equivalents | 312 854 | 269 316 | 1 365 | 583 535 |
| Mandatory cash balance with the Central Bank of Russian Federation | 16 643 | - | - | 16 643 |
| Derivative financial instruments | - | - | 1 306 | 1 306 |
| Due from other banks | 758 158 | - | - | 758 158 |
| Loans and receivables | 544 825 | 21 586 | 721 718 | 1 288 129 |
| Financial assets available-for-sale | 65 750 | - | - | 65 750 |
| Investments in associates | 16 024 | - | - | 16 024 |
| Fixed assets | 465 565 | - | 1 333 | 466 898 |
| Intangible assets | 646 | - | - | 646 |
| Other assets | 272 531 | - | 605 | 273 136 |
| Total assets | 2 452 996 | 290 902 | 726 327 | 3 470 225 |
| Liabilities | | | | |
| Customer accounts | 2 493 540 | - | 67 840 | 2 561 380 |
| Debt securities issued | 11 | - | - | 11 |
| Other liabilities | 16 120 | - | - | 16 120 |
| Current tax liabilities | 4 026 | - | - | 4 026 |
| Deferred tax liabilities | 6 700 | - | - | 6 700 |
| Non-controlling interests | 15 725 | - | - | 15 725 |
| Total liabilities | 2 536 122 | - | 67 840 | 2 603 962 |
| Net position | (83 126) | 290 902 | 658 487 | 866 263 |

27. Financial risk management (continued)

As at 31 December 2008 the geographical concentration of the Group's assets and liabilities is set out below:

| | Russia | OECD countries | Other countries | Total |
|--|------------------|-----------------------|------------------------|------------------|
| Assets | | | | |
| Cash and cash equivalents | 295 308 | 540 598 | 1 016 | 836 922 |
| Mandatory cash balance with the Central Bank of Russian Federation | 1 720 | - | - | 1 720 |
| Derivative financial instruments | - | - | 8 091 | 8 091 |
| Due from other banks | 700 588 | - | - | 700 588 |
| Loans and receivables | 546 136 | 54 871 | 699 976 | 1 300 983 |
| Financial assets available-for-sale | 65 750 | - | - | 65 750 |
| Investments in associates | 187 | - | - | 187 |
| Fixed assets | 425 789 | - | 1 824 | 427 613 |
| Intangible assets | 1 065 | - | - | 1 065 |
| Other assets | 58 345 | - | 588 | 58 933 |
| Total assets | 2 094 888 | 595 469 | 711 495 | 3 401 852 |
| Liabilities | | | | |
| Customer accounts | 2 431 253 | - | 75 819 | 2 507 072 |
| Debt securities issued | 11 | - | - | 11 |
| Other liabilities | 11 188 | - | - | 11 188 |
| Current tax liabilities | 559 | - | - | 559 |
| Deferred tax liabilities | 16 709 | - | - | 16 709 |
| Non-controlling interests | 15 801 | - | - | 15 801 |
| Total liabilities | 2 475 521 | 0 | 75 819 | 2 551 340 |
| Net position | (380 633) | 595 469 | 635 676 | 850 512 |

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and securities prices. The Group is exposed to market risks, which include currency risk and interest rate risk. Price risk is insufficient for the Group's activity due to small volume of operations (or absence at all) with equity financial instruments.

Currency risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group.

The Group manages its currency risk through the system of measures including the following:

- maintaining the required level of the Group's open foreign currency positions;
- monitoring limits of the total open foreign exchange position as well as for each currency;
- analyzing the results of foreign currency transactions and their effect on the overall results of the Group's activities;
- complying with the prudential standards of the Bank of Russia regulating open foreign currency positions.

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27. Financial risk management (continued)

As at 31 December 2009, the Group had the following positions in different currencies:

| | RUR | USD | EUR | Other | Total |
|--|------------------|----------------|-----------------|---------------|------------------|
| Assets | | | | | |
| Cash and cash equivalents | 292 271 | 50 449 | 240 810 | 5 | 583 535 |
| Mandatory cash balance with the Central Bank of Russian Federation | 16 643 | - | - | - | 16 643 |
| Derivative financial instruments | 757 553 | 605 | - | - | 758 158 |
| Due from other banks | 1 113 225 | 153 318 | 21 586 | - | 1 288 129 |
| Loans and receivables | 65 750 | - | - | - | 65 750 |
| Financial assets available-for-sale | 16 024 | - | - | - | 16 024 |
| Investments in associates | 466 898 | - | - | - | 466 898 |
| Fixed assets | 646 | - | - | - | 646 |
| Intangible assets | 254 635 | 605 | - | 17 896 | 273 136 |
| Total assets | 2 983 645 | 204 977 | 262 396 | 17 901 | 3 468 919 |
| Liabilities | | | | | |
| Customer accounts | 2 167 304 | 214 500 | 179 570 | 6 | 2 561 380 |
| Debt securities issued | 11 | - | - | - | 11 |
| Other liabilities | 16 113 | - | 7 | - | 16 120 |
| Current tax liabilities | 4 026 | - | - | - | 4 026 |
| Deferred tax liabilities | 6 700 | - | - | - | 6 700 |
| Non-controlling interests | 15 725 | - | - | - | 15 725 |
| Total liabilities | 2 209 879 | 214 500 | 179 577 | 6 | 2 603 962 |
| Net balance sheet position, excluding currency derivatives | 773 766 | (9 523) | 82 819 | 17 895 | 864 957 |
| Currency derivatives (Note 8) | 23 000 | - | (21 694) | - | 1 306 |
| Net balance sheet position, including currency derivatives | 796 766 | (9 523) | 61 125 | 17 895 | 866 263 |
| Credit related commitments (Note 29) | 73 510 | 1 059 | 651 | - | 75 220 |

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27. Financial risk management (continued)

As at 31 December 2008, the Group had the following positions in different currencies:

| | RUR | USD | EUR | Other | Total |
|--|------------------|----------------|-----------------|---------------|------------------|
| Assets | | | | | |
| Cash and cash equivalents | 170 318 | 601 094 | 65 505 | 5 | 836 922 |
| Mandatory cash balance with the Central Bank of Russian Federation | 1 720 | - | - | - | 1 720 |
| Derivative financial instruments | 700 000 | 588 | - | - | 700 588 |
| Due from other banks | 1 093 797 | 97 895 | 109 291 | - | 1 300 983 |
| Loans and receivables | 65 750 | - | - | - | 65 750 |
| Financial assets available-for-sale | 187 | - | - | - | 187 |
| Investments in associates | 427 613 | - | - | - | 427 613 |
| Fixed assets | 1 065 | - | - | - | 1 065 |
| Intangible assets | 44 846 | 588 | - | 13 499 | 58 933 |
| Total assets | 2 505 296 | 700 165 | 174 796 | 13 504 | 3 393 761 |
| Liabilities | | | | | |
| Customer accounts | 1 693 836 | 703 175 | 110 055 | 6 | 2 507 072 |
| Debt securities issued | 11 | - | - | - | 11 |
| Other liabilities | 11 188 | - | - | - | 11 188 |
| Current tax liabilities | 559 | - | - | - | 559 |
| Deferred tax liabilities | 16 709 | - | - | - | 16 709 |
| Non-controlling interests | 15 801 | - | - | - | 15 801 |
| Total liabilities | 1 738 104 | 703 175 | 110 055 | 6 | 2 551 340 |
| Net balance sheet position, excluding currency derivatives | 767 192 | (3 010) | 64 741 | 13 498 | 842 421 |
| Currency derivatives (Note 8) | 37 100 | - | (29 009) | - | 8 091 |
| Net balance sheet position, including currency derivatives | 804 292 | (3 010) | 35 732 | 13 498 | 850 512 |
| Credit related commitments (Note 29) | 153 705 | 28 888 | 590 | - | 183 183 |

The table below presents the total currency risk analysis, applicable to monetary financial instruments of the Group as of 31 December 2009 and 2008:

| | 31 December 2009 | | | | 31 December 2008 | | | |
|--------------|---------------------------|--------------------------------|--------------|------------------------|---------------------------|--------------------------------|--------------|----------------------------|
| | Monetary financial assets | Monetary financial liabilities | Derivatives | Net balance sheet item | Monetary financial assets | Monetary financial liabilities | Derivatives | Net balance sheet position |
| RUR | 2 245 442 | 2 167 315 | 23 000 | 101 127 | 2 031 585 | 1 693 847 | 37 100 | 374 838 |
| USD | 204 977 | 214 500 | 0 | (9 523) | 700 165 | 703 175 | 0 | (3 010) |
| EUR | 262 396 | 179 577 | (21 694) | 61 125 | 174 796 | 110 055 | (29 009) | 35 732 |
| Other | 17 901 | 6 | 0 | 17 895 | 13 504 | 6 | 0 | 13 498 |
| Total | 2 730 716 | 2 561 398 | 1 306 | 170 624 | 2 920 050 | 2 507 083 | 8 091 | 421 058 |

27. Financial risk management (continued)

The sensitivity analysis represents management's assessment of the possible changes in foreign currency exchange rates. For currency risk sensitivity the Group uses 10% increase and decrease in the USD, EUR and other currencies against the RUR. The analysis includes only outstanding foreign currency denominated monetary items.

The table below shows impact on net profit and equity of the Group as at 31 December 2009 and 2008:

| | 31 December 2009 | 31 December 2008 |
|---------------|------------------|------------------|
| RUR/USD +5% | (415) | (214) |
| RUR/USD -5% | 415 | 214 |
| RUR/EUR +5% | 3 056 | 521 |
| RUR/EUR -5% | (3 056) | (521) |
| RUR/Other +5% | 895 | 688 |
| RUR/Other -5% | (895) | (688) |

The analysis above does not reflect a typical risk during the year.

The table below presents impact on net profit and equity of the Group as at 31 December 2009 and 2008 used the average currency exchange rates during 2009 and 2008:

| | Average risk in 2009 | Average risk in 2008 |
|---------------|----------------------|----------------------|
| RUR/USD +5% | (313) | (163) |
| RUR/USD -5% | 313 | 163 |
| RUR/EUR +5% | 1 809 | 251 |
| RUR/EUR -5% | (1 809) | (251) |
| RUR/Other +5% | 792 | 580 |
| RUR/Other -5% | (792) | (580) |

Interest rate risk

Interest rate risk is defined as the risk of the decrease of interest income or increase of interest expense resulting from adverse changes of market interest rates.

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.

The Group is exposed to the interest rate risk primarily due to granting loans at fixed interest rates for amounts and within terms, which differ from amounts and terms of borrowing funds with fixed interest rates. Interest rates are regularly monitored and approved by the management.

The table below contains weighted average interest rates by main currencies and for major financial instruments. The analysis is prepared on the basis of contractual interest rates for the various financial instruments at the end of the reporting period.

| | 31 December 2009 | | | 31 December 2008 | | |
|-----------------------|------------------|-------|------|------------------|-------|-------|
| | RUR | USD | EUR | RUR | USD | EUR |
| Assets | | | | | | |
| Due from other banks | 6.1% | 2.0% | - | 6.9% | 2.0% | - |
| Loans and receivables | 12.8% | 12.0% | - | 11.9% | 15.0% | 16.0% |
| Liabilities | | | | | | |
| Customer accounts | 7.3% | 8.7% | 6.4% | 7.8% | 11.1% | 13.7% |

27. Financial risk management (continued)

An analysis of sensitivity of profit and equity of the Group to changes in the market interest rate as a result of changes in net interest income based on a simplified scenario of a 100 basis point (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position and not taking into consideration the effect such changes may have on fair values of financial instruments) is as follows:

| | 31 December 2009 | | | 31 December 2008 | | |
|--------------------------|------------------|------|------|------------------|-------|------|
| | RUR | USD | EUR | RUR | USD | EUR |
| 100 bp parallel increase | 12 432 | (58) | (46) | 14 809 | (181) | (50) |
| 100 bp parallel decrease | (12 432) | 58 | 46 | (14 809) | 181 | 50 |

Liquidity risk

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than those of market level. The Group’s exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

The tools used by the Bank for measurement, management and mitigation of liquidity risk include:

- Contractual and behavioral maturity analysis and cash flow projection (gap analysis);
- Setting internal limits including maturity mismatch limits (gap limits);
- Maintaining a diverse range of funding sources;
- Monitoring payment position of the Bank;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Maintaining liquidity and funding contingency plans. These plans identify several indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios include:

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

The Bank was in compliance with the above ratios during the years ended 31 December 2009 and 2008.

The table below presents liquidity ratios of the Bank calculated as of 31 December 2009 and 2008:

| | Mandatory ratio | 31 December 2009 | 31 December 2008 |
|--------------------------------|-------------------|------------------|------------------|
| Instant liquidity ratio (N2) | No less than 15% | 52.2% | 44.5% |
| Current liquidity ratio (N3) | No less than 50% | 64.7% | 83.3% |
| Long-term liquidity ratio (N4) | No more than 120% | 62.5% | 12.4% |

27. Financial risk management (continued)

The table below shows the undiscounted cash flows on financial liabilities and unrecognized loan commitments on the basis of their contractual maturity. The amounts disclosed in the table do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments, which are not recognized in the consolidated statement of financial position under the effective interest rate method.

| | On demand and up to 1 month | From 1 month to 6 months | From 6 months to 1 year | Over 1 year | Total |
|------------------------------------|--------------------------------|-----------------------------|----------------------------|----------------|------------------|
| Customer accounts | 2 175 406 | 344 924 | 57 884 | - | 2 578 214 |
| Debt securities issued | 11 | - | - | - | 11 |
| Credit related commitments | - | 6 187 | 15 553 | 53 902 | 75 642 |
| Total financial liabilities | 2 175 417 | 351 111 | 73 437 | 53 902 | 2 653 867 |

The table below shows cash flows payable under financial liabilities at 31 December 2008 by their remaining contractual maturity:

| | On demand and up to 1 month | From 1 month to 6 months | From 6 months to 1 year | Over 1 year | Total |
|------------------------------------|--------------------------------|-----------------------------|----------------------------|----------------|------------------|
| Customer accounts | 2 069 998 | 185 041 | 155 226 | 126 869 | 2 537 134 |
| Debt securities issued | 11 | - | - | - | 11 |
| Credit related commitments | 10 095 | 115 190 | 5 707 | 56 911 | 187 903 |
| Total financial liabilities | 2 080 104 | 300 231 | 160 933 | 183 780 | 2 725 048 |

In accordance with the Russian legislation individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, usually with a loss of accrued interest.

Management believes that although a substantial portion of customer accounts are on demand and mature in less than one month, diversification of these accounts by number and type of depositors, and the past experience of the Group indicates that these accounts provide a long-term and stable source of funding for the Group. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management. The stable part of resources on demand is statistically determined for separate currencies and based on the dynamics of the cumulative balances on these accounts.

28. Capital management

The Group’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Central Bank of Russia requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation. As of 31 December 2009, the Group’s capital adequacy ratio on this basis exceeded the statutory minimum and was 29% (31 December 2008: 30.9%).

The Group and the Bank also maintain capital adequacy ratio under Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, commonly known as Basel I.

The Group’s capital adequacy ratio, computed in accordance with Basel I, as of 31 December 2009 and 2008 was as follows:

| | 31 December 2009 | 31 December 2008 |
|-------------------------------------|------------------|------------------|
| Tier 1 capital | 850 239 | 850 512 |
| Total capital | 850 239 | 850 512 |
| Total capital adequacy ratio | 35.2% | 37.7% |
| Minimum capital adequacy ratio | 8% | 8% |

During the years ended 31 December 2009 and 2008 the Group and the Bank complied with all externally imposed capital requirements.

29. Contingent liabilities and commitments**Legal proceedings**

From time to time and in the normal course of business, claims against the Group may be received. Management is of the opinion that there would be no material outflow of resources and accordingly no provision has been made in these consolidated financial statements.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently, unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments (including derivative transactions) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Credit related commitments

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

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

Outstanding credit related commitments are as follows:

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| Undrawn credit lines | 75 642 | 187 903 |
| Less: Provision for losses on credit related commitments | (422) | (4 720) |
| Total credit related commitments | 75 220 | 183 183 |

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

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases are as follows:

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| Not later than 1 year | 2 287 | 2 600 |
| Later than 1 year and not later than 5 years | 3 754 | 9 103 |
| Total operating lease commitments | 6 041 | 11 703 |

30. Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

The table below represents the fair values of the Group’s financial instruments as of 31 December 2009 and 2008:

| | 31 December 2009 | | 31 December 2008 | |
|-------------------------------------|------------------|------------|------------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets | | | | |
| Cash and cash equivalents | 583 535 | 583 535 | 836 922 | 836 922 |
| Derivative financial instruments | 1 306 | 1 306 | 8 091 | 8 091 |
| Due from other banks | 758 158 | 758 158 | 700 588 | 700 588 |
| Loans and receivables | 1 288 129 | 1 288 129 | 1 300 983 | 1 300 983 |
| Financial assets available-for-sale | 65 750 | 65 750 | 65 750 | 65 750 |
| Financial liabilities | | | | |
| Customer accounts | 2 561 380 | 2 561 380 | 2 507 072 | 2 507 072 |
| Debt securities issued | 11 | 11 | 11 | 11 |

As of 31 December 2009 the fair value of the derivative financial instruments of the Group was determined using the market observable inputs and was RUR 1 306 thousand (2008: RUR 8 091 thousand)

Financial assets carried at fair value

Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available-for-sale are carried in the consolidated statement of financial position at fair value. The estimated fair value is based on quoted market prices at the reporting date except financial assets available-for-sale (see Note 11). For financial assets available-for-sale there is no active market, and fair value cannot be reliably measured, so such unquoted equity instruments are measured at cost at 31 December 2009 in the amount of RUR 65 750 thousand (2008: RUR 65 750 thousand).

Loans and receivables

Management has estimated that at 31 December 2009 and 2008 the fair value of loans and receivables was not materially different from respective carrying value. Fair value of loans and receivables was calculated basing on respective market interest rates as at 31 December 2009.

Financial liabilities carried at amortized cost

All financial liabilities, other than financial liabilities at fair value through profit or loss, financial guarantee liabilities and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured in the consolidated statement of financial position at amortized cost using the effective interest rate method. The estimated fair value of liabilities were not materially different from their respective carrying values.

31. Related party transactions

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

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31. Related party transactions (continued)

Banking transactions are entered into in the normal course of business with the related parties. These include settlements, loans, deposit taking, trade finance, securities and foreign currency transactions. These transactions are priced mainly on normal market terms.

The information on transactions between the Group and related parties as of 31 December 2009 are disclosed in the table below:

| | Shareholders | Key management personnel | Associates | Other |
|--|--------------|-----------------------------|------------|---------|
| Cash and cash equivalents | 24 438 | - | | - |
| Due from other banks | 605 | - | | - |
| Loans and receivables | 107 000 | 9 798 | - | 177 350 |
| Allowance for loan impairment | 2 140 | - | - | 3 503 |
| Financial assets available-for-sale | 48 750 | - | - | 17 000 |
| Other assets | 13 | - | 1 | 2 |
| Customer accounts | 1 945 914 | 224 194 | 21 275 | 150 512 |
| Other liabilities | 4 782 | - | - | 4 |
| Contingent liabilities and commitments | - | 2 209 | - | 150 |
| Interest income | 18 488 | 693 | - | 25 496 |
| Interest expense | 22 313 | 23 356 | - | 1 992 |
| Movements in allowance for loan impairment | (207) | - | - | 79 |
| Fee and commission income | 2 594 | 16 | 111 | 438 |
| Fee and commission expense | 1 592 | - | - | - |
| Loss on initial recognition of customer deposits at fair value | - | 7 975 | - | - |
| Movements in impairment losses other than on loans | 735 | 180 | - | (3) |
| Other operating income | 62 | - | 628 | 556 |
| Operating expenses | 136 | 693 | 10 622 | 7 709 |

The information on transactions between the Group and related parties as of 31 December 2008 are disclosed in the table below:

| | Shareholders | Key management personnel | Other |
|--|--------------|-----------------------------|---------|
| Cash and cash equivalents | 130 198 | - | - |
| Due from other banks | 588 | - | - |
| Loans and receivables | 96 664 | 14 157 | 179 097 |
| Allowance for loan impairment | 1 933 | - | 3 582 |
| Financial assets available-for-sale | 48 750 | - | 17 000 |
| Other assets | - | 113 | - |
| Customer accounts | 2 072 707 | 160 475 | 29 762 |
| Other liabilities | 1 040 | 180 | 1 |
| Contingent liabilities and commitments | 14 960 | 3 600 | - |
| Interest income | 17 291 | 955 | 4 744 |
| Interest expense | 4 980 | 11 448 | 1 770 |
| Movements in allowance for loan impairment | 3 077 | 210 | (3 006) |
| Fee and commission income | 3 638 | 15 | 42 |
| Fee and commission expense | 628 | - | - |
| Loss on initial recognition of customer deposits at fair value | - | 1 149 | - |
| Movements in impairment losses other than on loans | (735) | (130) | - |
| Other operating income | 115 | - | 414 |
| Operating expenses | 87 | - | 2 483 |

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31. Related party transactions (continued)

The total amount of loans granted to the related parties and redeemed by the related parties in the year ended 31 December 2009 is presented in the table below:

| | Shareholders | Key management personnel | Other |
|----------------------------------|--------------|--------------------------|---------|
| Loans granted during the period | 755 000 | 9 625 | 175 000 |
| Loans redeemed during the period | 761 183 | 11 350 | 175 284 |

The total amount of loans granted to the related parties and redeemed by the related parties in the year ended 31 December 2008 is presented in the table below:

| | Shareholders | Key management personnel | Other |
|----------------------------------|--------------|--------------------------|---------|
| Loans granted during the period | 693 583 | 13 917 | 175 000 |
| Loans redeemed during the period | 706 711 | 26 627 | 9 602 |

The total remuneration (short-term employee benefits) of the Board of Directors of the Bank for the year ended 31 December 2009 amounted to RUR 4 500 thousand (2008: RUR 4 500 thousand). The total remuneration (short-term employee benefits) of the Management Board of the Bank for the year ended 31 December 2009 amounted to RUR 6 884 thousand (2008: RUR 6 615 thousand).

32. Subsequent events

On 20 May 2010, the Bank's annual shareholders' meeting declared dividends on preference shares in the amount of RUR 15 thousand for 2009.

In the second quarter of the 2010 the Bank has increased its share capital through capitalization of retained earnings in the amount of RUR 109 375 thousand.