DeltaCredit Bank CJSC

Consolidated Financial Statements

31 December 2009

Contents

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Commercial Bank DeltaCredit, Closed joint stock company and special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group") as of 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;

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

The consolidated financial statements of the Group for the year ended 31 December 2009 were approved by management on 12 April 2010:

On behalf of the Management:

Serge Ozerov
Chief Executive Officer
Commercial Bank DeltaCredit, CJSC

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer
Commercial Bank DeltaCredit, CJSC

12 April 2010
Moscow

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company DeltaCredit Bank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Commercial Bank DeltaCredit, Closed joint stock company and special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 2009, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Bank's consolidated financial statements for the year ended December 31, 2008 were audited by another audit company whose independent auditor's report is dated May 8, 2009 and expresses the unqualified opinion on the financial statements.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Deloitte & Touche

12 April 2010
Moscow

DeltaCredit Bank CJSC
Consolidated Statement of Financial Position as at 31 December 2009
(in thousands of Russian Rubles)

	Note	31 December 2009	31 December 2008
Assets			
Cash and cash equivalents	5	2,439,678	1,992,688
Mandatory cash balances with the Central Bank of the Russian Federation (CBRF)	23	17,980	5,088
Amounts due from banks	6	6,136,682	5,884,413
Mortgage loans to individuals	7	46,728,440	47,909,058
Investments available-for-sale	8	16,633	-
Property, equipment and intangible assets	9	70,599	73,420
Other assets	10	118,682	58,815
Total assets		**55,528,694**	**55,923,482**
Liabilities			
Amounts due to banks and other financial institutions	11	5,214,961	6,525,922
Customer current accounts		434,429	544,820
Financing from related parties	12	37,569,291	36,384,423
Bonds issued	13	1,861,266	3,539,928
Notes issued	14	2,681,821	3,721,960
Financial liabilities at fair value through profit or loss	15	205,483	270,025
Other liabilities	10	303,718	106,038
Total liabilities		**48,270,969**	**51,093,116**
Shareholder's equity			
Share capital	16	2,430,763	2,430,763
Share premium		580,551	580,551
Investments available-for-sale fair value reserve		783	-
Retained earnings		4,258,995	1,824,555
Cumulative translation reserve		(13,367)	(5,503)
Total equity		**7,257,725**	**4,830,366**
Total liabilities and equity		**55,528,694**	**55,923,482**

Signed and authorised for release on behalf of the Management Board of the Bank

Serge Ozerov
Chairman of the Management Board

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer/Chief Accountant

12 April 2010
Moscow

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	17	7,821,536	4,394,503
Interest expense	17	(4,109,918)	(2,576,342)
Net interest income		**3,711,618**	**1,818,161**
Net loss from foreign currency exchange transactions		(4,617)	(3,481)
Net (loss)/gain from foreign exchange translation		(9,442)	31,857
Fee and commission income	18	274,002	214,820
Fee and commission expense	18	(74,046)	(60,775)
Net gain/(loss) on financial liabilities at fair value through profit or loss	19	75,436	(97,801)
Other operating income	20	154,960	13,848
Net banking income		**4,127,911**	**1,916,629**
Personnel expenses		(347,031)	(376,440)
Other operating expenses	20	(229,260)	(269,120)
Depreciation expenses	9	(27,520)	(24,883)
Gross operating income		**3,524,100**	**1,246,186**
Net cost of risk	7	(497,840)	(280,210)
Operating income		**3,026,260**	**965,976**
Income tax expense	21	(591,820)	(246,074)
Net profit		**2,434,440**	**719,902**

Serge Ozerov
Chairman of the Management Board

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer/Chief Accountant

12 April 2010
Moscow

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(in thousands of Russian Rubles)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Net Profit		2,434,440	719,902
Other comprehensive income			
Exchange differences on translation of foreign operations		(7,864)	(5,503)
Net change in fair value of investments available-for-sale, net of deferred income tax effect of RUB (24) thousand		783	-
Other comprehensive income after income tax		**(7,081)**	**(5,503)**
Total comprehensive income		**2,427,359**	**714,399**

Serge Ozerov
Chairman of the Management Board

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer/Chief Accountant

12 April 2010
Moscow

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(in thousands of Russian Rubles)

	Note	Share capital	Share premium	Investments available-for-sale fair value reserve	Retained earnings	Cumulative translation reserve	Total
Balance as of 31 December 2007		**1,280,763**	**580,551**	**-**	**1,104,653**	**-**	**2,965,967**
Total comprehensive income for the year		-	-	-	719,902	(5,503)	714,399
Share capital increase of: - ordinary shares	16	1,150,000	-	-	-	-	1,150,000
Balance as of 31 December 2008		**2,430,763**	**580,551**	**-**	**1,824,555**	**(5,503)**	**4,830,366**
Total comprehensive income for the year		-	-	783	2,434,440	(7,864)	2,427,359
Balance as of 31 December 2009		**2,430,763**	**580,551**	**783**	**4,258,995**	**(13,367)**	**7,257,725**

Serge Ozerov
Chairman of the Management Board

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer/Chief Accountant

12 April 2010
Moscow

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Interest received		8,252,149	3,958,154
Interest paid		(4,072,097)	(1,918,886)
Net losses from dealing in foreign currencies		(4,617)	(3,481)
Realized loss on financial derivatives		(725)	-
Fees and commissions received		303,765	537,394
Fees and commissions paid		(72,556)	(62,291)
Other operating income received		19,077	25,641
Operating expenses paid		(514,220)	(676,351)
Income tax paid		(452,762)	(229,160)
Cash flows from operating activities before changes in operating assets and liabilities		**3,458,014**	**1,631,020**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the Central Bank of the Russian Federation		(12,892)	96,779
Net change in amounts due from banks		(83,238)	(3,377,313)
Net change in mortgage loans to individuals		772,027	(21,348,237)
Net change in AFS securities		(15,349)	-
Net change in other assets		(48,171)	(923)
Net change in short-term amounts due to banks		(50,001)	50,001
Net change in customer accounts		(123,421)	229,315
Net change in other liabilities		7,894	(23,050)
Net cash from/(used in) operating activities		**3,904,863**	**(22,742,408)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(32,450)	(47,695)
Proceeds from equipment sale		310	-
Net cash used in investing activities		**(32,140)**	**(47,695)**
Cash flows from financing activities			
Contributions from shareholders for increase in share capital		-	1,150,000
Receipts from related parties		700,000	22,897,945
Receipts from banks and other financial institutions		-	190,973
Payments to banks and other financial institutions		(3,137,195)	(1,287,247)
Payments on securitized notes issued		(1,065,996)	(1,163,688)
Net cash (used in)/from financing activities		**(3,503,191)**	**21,787,983**
Effect of exchange rate changes on cash and cash equivalents		**77,458**	**58,641**
Net increase/decrease in cash and cash equivalents		**446,990**	**(943,479)**
Cash and cash equivalents at the beginning of the period		1,992,688	2,936,167
Cash and cash equivalents at the end of the period	5	**2,439,678**	**1,992,688**

Serg Ozerov

Serge Ozerov
Chairman of the Management Board

12 April 2010
Moscow

Elena Kudlik
Chief Financial Officer/Chief Accountant

12 April 2010
Moscow

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

1 Principal Activities

These consolidated financial statements include the financial statements of Commercial Bank DeltaCredit, Closed joint stock company (the "Bank"), and its special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group").

DeltaCredit Bank is a commercial bank incorporated as a closed joint-stock company under the laws of the Russian Federation. As at 31 December 2009, the immediate holding company of the Bank was DC Mortgage Finance Netherlands B.V. ("DCMF"), which is wholly-owned by Société Générale S.A. DCMF was founded in June 2000 under ultimate control of The U.S. Russia Investment Fund (the "Fund"). On 26 March 2003 DCMF acquired control share in capital of the Bank.

The Bank operates under a banking license issued by the Central Bank of the Russian Federation since 1999. The Bank's original shareholders were JP Morgan Overseas Capital Corporation and Morgan Guarantee International Finance Corporation. The Bank previously operated as ZAO JP Morgan Bank, and on 24 July 2001 changed its name to DeltaCredit Bank as part of an acquisition initiated by The U.S. Russia Investment Fund. The acquisition was completed on 27 November 2001. The Fund is a non-profit entity established to promote the development of a free-market economy in the Russian Federation.

Since the acquisition of the Bank by the Fund, the Bank's principal business activity is mortgage lending within the Russian Federation.

In September 2002, the Bank obtained a license from the Central Bank of the Russian Federation that allows the Bank to perform all types of banking and lending operations with individuals. In February 2005, the Bank became a member of the deposit insurance system provided by the State Corporation "Agency for deposit insurance".

On 25 November 2005, DC Mortgage Finance Netherlands B.V. was acquired by the Société Générale group.

The Bank's registered office is located: 125009, Russia, Moscow, 4/7 Vozdvizhenka St., Bld. 2. The Bank currently maintains outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg and Novosibirsk. The number of the Bank's employees as at 31 December 2009 was 292 (31 December 2008: 340).

The SPE, a limited liability company, incorporated under the laws of Ireland under company registration number 432754 and having its registered office at Ireland, Dublin, 85 Merrion Square, was established for the purpose of purchasing mortgage loan portfolio from the Bank and issuing notes.

DeltaCredit Bank is a specialized lender whose core business is provision of mortgage loans and mortgage loans purchases in the Russian Federation.

Residential mortgage products are distributed to retail customers through a distribution network with an emphasis on cost efficiency. The network consists of the Bank's outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg, Novosibirsk and a regional network of partner banks.

Funding is obtained from both domestic and global financial markets from wholesale credit lines, issuance of debt securities and securitization of loans.

As of 31 December 2009 and 31 December 2008, the shareholders, and the composition of the Board of Directors and Board of Management were as follows:

	31 December 2009		31 December 2008	
	% Ownership	**% Votes**	**% Ownership**	**% Votes**
DC Mortgage Finance Netherlands B.V.	100.0	100.0	100.0	100.0
	100.0	**100.0**	**100.0**	**100.0**

(in thousands of Russian Rubles)

1 Principal Activities (continued)

Board of Directors as of

31 December 2009	31 December 2008
Jean-Louis Mattei	Jean-Louis Mattei
Christian Poirier	Christian Poirier
Serge Ozerov	Serge Ozerov
Mark-Emmanual Vives	Mark-Emmanual Vives
Jean-Didier Reigner	Jean-Didier Reigner
Serge Eveille	Serge Eveille

Board of Management as of

31 December 2009	31 December 2008
Serge Ozerov	Serge Ozerov
Larisa Fainzilberg	Larisa Fainzilberg
Konstantin Y. Artioukh	Konstantin Y. Artioukh
Dinara Yunusova	Dinara Yunusova
Irina Kuzmicheva	

2 Operating Environment of the Bank

In the 1st half of the year 2009 the Russian economy has slowed down. During the year 2009 exchange rate of Russian Ruble for 1 dollar of the United States has increased from 29,38 to 30,24. Average exchange rate for the year is 31.72 RUR for USD. The GDP of Russia for the year 2009 has decreased by 7.9% comparing to GDP of the year 2008.

Conditions on the residential property market, banking sector developments and government attention to housing and mortgage markets have resulted in substantial mortgage market development in recent years, but for the period from September 2008 to the end of 2009 housing market was stagnating and origination of mortgage loans has fallen down. Due to the changed market conditions and problems with liquidity which have arisen in 2008, many Russian banks have suspended their mortgage programs. According to official analytical report of the Agency for Housing Mortgage Lending (AHML), in the 4th quarter 2008 and further during the year 2009 only few banks (including DeltaCredit Bank) carried on origination of new mortgage loans.

For the last couple of months stable recovery of the mortgage market has been observed. Banks started actively renewing the mortgage loans programs. The Bank's partners, regional banks, renewed issuance of mortgage loans under DeltaCredit Bank standards. However it is too early to conclude on the market restoration. Some experts believe that the currently observed recovery is explained by seasonal increase in customers' demand and attractive offers from developers.

3 Basis of Presentation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to it's sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in RUR in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

3 Basis of Presentation (continued)

General (continued)

These consolidated financial statements are presented in thousands of Russian Rubles unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The Group's operations are highly integrated and primarily constitute a single industry segment, mortgage lending in the Russian Federation.

Functional currency

The functional currency of the Bank and the presentation currency of the Group used in the preparation of these consolidated financial statements is the Russian Rubles ("RUR"). The functional currency of the Bank and the presentational currency of the Group have been changed from United States Dollars ("USD") to RUR effective 1 January 2008. Management has determined that the RUR is the Bank's functional currency as it considers that the use of the RUR best reflects the economic substance of the Bank rather than the USD. In making this assessment, management primarily considered that more than half of the Group's balances and related income and expenditures are denominated in RUR. In addition most of the Bank's clients have RUR-based earnings.

The functional currency of the SPE is the USD. Please refer to foreign currency translation methods described below.

4 Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the special purpose entity controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

4 Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash within thirty business days. All short term interbank placements including overnight placements are also classified as cash and cash equivalents. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF

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

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

4 Significant Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling them in the near future; (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or (3) are designated as derivatives (except for the case when a derivative is defined as an effective hedging instrument).

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held (except for cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosure").

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to mitigate its risk associated with interest rate. Such derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative contracts are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As the derivative financial instruments of the group do not qualify for hedge accounting any gains or losses arising from changes on fair value on derivatives during the year are taken directly to profit or loss.

The fair value of interest rate swap contracts is determined by using external quotes.

Originated and purchased loans to customers

Loans originated by the Group by providing money directly to the borrower, other than those that are originated with the intent of being sold immediately or in the short-term, which are recorded as trading assets, are categorized as originated loans.

Loans to individuals, all rights for which were purchased by the Group from other Russian banks in accordance with assignment agreements, purchased by the Bank, other than those that are purchased with the intent of being sold immediately or in the short-term, are categorized as purchased loans.

Securitized loans represent loans to individuals which were transferred to the SPE under a Mortgage certificates purchase agreement in the course of a securitization deal.

Originated and purchased loans and advances are recognized when cash is advanced to borrowers. Initially, both categories of loans are recorded at fair value adjusted for transaction costs and gains, and subsequently are carried at amortized cost using the effective interest method less allowance for loan impairment. Amortized cost is based on the fair value of cash consideration given determined by reference to market prices at origination date.

4 Significant Accounting Policies (continued)

Allowance for impairment losses

Credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount of an individual loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to other income in the consolidated income statement.

If the amount of the allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to net cost of risk in the consolidated income statement.

Investments available-for-sale

Investments available-for-sale represent debt investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in the consolidated statement of comprehensive income, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in other comprehensive income is recycled through the consolidated income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale.

Non-marketable debt securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the consolidated income statement for the period. These financial assets are recognized net of reserve for impairment.

Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost less accumulated depreciation, amortization and allowance for impairment. Changes in the expected useful life are accounted for by changing the depreciation/amortization period or method, as appropriate, and treated as changes in accounting estimates.

Leasehold improvements include expenditures incurred subsequent to entering a long-term operating lease of banking premises. The Group treats these expenses as leasehold improvements since they are directly attributable costs of bringing the premises to working condition for their intended use. The Bank assumes that it is highly probable that future economic benefits associated with the leasehold improvements will flow to the Bank. Leasehold improvements are stated at cost less accumulated depreciation and allowance for impairment, where required.

Depreciation/amortization is calculated using the straight-line method to write down the cost of property, equipment and intangible assets to their residual values over their estimated useful lives, using the following depreciation rates:

Office and computer equipment	20%-25% per annum
Leasehold improvements	10% per annum
Motor vehicles	20% per annum
Intangible assets	33.33% per annum

4 Significant Accounting Policies (continued)

Property, equipment and intangible assets (continued)

An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income or other operating expenses in the consolidated income statement in the year the asset is derecognized.

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

Non-current assets held for sale

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

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

Operating leases

Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated income statement on a straight-line basis over the period of the lease.

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

4 Significant Accounting Policies (continued)

Taxation (continued)

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

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

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

Borrowings

Borrowings, which include amounts due to banks and other financial institutions, customer current accounts, debt securities issued and financing from related parties are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Borrowings originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar borrowings.

For borrowings from non-related parties, the difference between the fair value and the nominal value at origination is credited or charged to the consolidated income statement as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. For borrowings from related parties, such differences are credited or charged directly to other comprehensive income. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated income statement using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in losses/gains arising from early retirement of debt.

Other credit-related commitments

In the normal course of business, the Group enters into other credit related commitments including guarantees. A specific allowance is recorded against other credit related commitments when losses are considered probable.

Contingencies

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

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Share premium represents the excess of share capital contributions over the nominal value of the shares issued.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(in thousands of Russian Rubles)

4 Significant Accounting Policies (continued)

Accrued interest income and accrued interest expense

Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount, are included in the carrying values of the related balance sheet items.

Income and expense recognition

Interest income and expense are recognized in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans and upfront commitment fees paid to banks and other financial institutions for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loans/borrowings.

Realized gains or losses on the sale of a mortgage portfolio (if derecognition criteria are met) are recognized at the time of settlement based on the difference between the sale proceeds and the carrying value of the portfolio.

Foreign currency translation

According to IAS 21 "The Effect of Changes in Foreign Exchange Rates" ("IAS 21") the Bank translated all items to RUR as at 1 January 2008, using the exchange rate at that date, which equaled to 24.5462 RUR for 1 USD. The resulting translated amounts for non-monetary items are treated as their historical cost. Transactions denominated in a foreign currency are recorded at the exchange rate effective at the transaction date. Exchange differences resulting from the settlements of transactions denominated in foreign currencies are included in the consolidated income statement using the exchange rate effective at that date.

Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the official exchange rate of the Central Bank of the Russian Federation at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated income statement as net gain/losses from foreign exchange translation.

The results and the financial position of the SPE are translated into the presentation currency as follows. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the corresponding reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised within other comprehensive income as currency translation adjustment. The same approach has been applied for translation of the results and the financial position of the SPE for 2008 into the presentation currency.

Rates of exchange

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

	31 December 2009	31 December 2008
RUR/1 US Dollar	30.2442	29.3804
RUR/1 Euro	43.3883	41.4411

4 Significant Accounting Policies (continued)

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purpose entities that issue debt securities to investors. The securitised financial assets may be retained by the Group and are primarily classified as mortgage loans to individuals.

Significant accounting estimates

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

Allowance for impairment of loans

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

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

In 2009 the Group has changed the approach to estimation of allowance for loan impairment losses. According to new methodology provision is no longer estimated on individual basis but with a statistical method as for all retail exposures in SG Group. Allowance for loans impairment estimated in accordance to new approach is lower by RUR 647,497 thousand, compared to what it would have been if old approach had been applied.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2009 and 31 December 2008 the gross mortgage loans to individuals value totaled RUR 47,628,304 thousand and RUR 48,316,589 thousand, respectively, and allowance for impairment losses amounted to RUR 899,864 thousand and RUR 407,531 thousand, respectively.

4 Significant Accounting Policies (continued)

Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Mortgage loans purchased from other banks, in which the Group has either an unlimited right of recourse or right to recourse only for 15 months from the date of repurchase in the event of borrower default, have been recognized as part of the Group's own loan portfolio as the Group receives predominantly all income relating to these loans and, while not accepting all credit risk, it accepts full prepayment and interest rate risk, which in aggregate are considered to be substantially all the risks related to these loans. Therefore, management views that substantially all risks and rewards of ownership of these loans have been transferred to the Group.

According to SIC 12, in the context of the SPE, control arose through the predetermination of the activities of the SPE (operating on "autopilot"). For this reason Management believes that the SPE must be consolidated, despite the fact the Bank does not hold a majority of voting rights in the SPE.

The Group's mortgage portfolio includes the securitized mortgage loan pool. Management views that the majority of risks and rewards of ownership of the securitized loan pool have been retained by the Group. Accordingly the Group has not derecognized the securitized mortgage pool from its consolidated statement of financial position.

Adoption of new and revised standards

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

The accounting policies adopted are consistent with those of the previous financial year.

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year.

IFRS 8 "Operating Segments"
On November 30, 2006, the IASB issued IFRS 8 that replaces IAS 14 "Segment Reporting" and which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after January 1, 2009.

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

Standards and interpretations in issue and not yet adopted

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

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

(in thousands of Russian Rubles)

4 Significant Accounting Policies (continued)

Standards and interpretations in issue and not yet adopted (continued)

IFRS 2 "Share-based Payment"
In June 2009 the IASB issued amendments to IFRS 2 "Share-based Payment". The amendments clarify the scope of IFRS 2 and provide additional guidance on the accounting for share-based payment transactions among group entities. They are effective for accounting periods beginning on or after 1 January 2010. This amendment will have no impact on the financial position or performance of the Group.

Financial instruments: Classification and Measurement (Exposure draft)

On 12 November 2009, the IASB published IFRS 9 Financial Instruments on the classification and measurement of financial assets. The Board allows, but not requires, early application for 2009 yearend financial statements. The IASB is continuing to deliberate the classification and measurement of financial liabilities. The IASB plans to issue an exposure draft (ED) on this part of the project when the FASB issues its comprehensive ED on accounting for financial instruments (covering classification and measurement, impairment and hedge accounting for hedged financial instruments). The target date for the FASB's exposure draft is the first quarter of 2010. On 5 November 2009, the IASB published for public comment the exposure draft Financial Instruments: Amortised Cost and Impairment. The IASB intends to issue an exposure draft on hedge accounting in the first quarter of 2010.

5 Cash and Cash Equivalents

	31 December 2009	31 December 2008
Cash on hand	158,298	303,772
Cash balances with the CBRF (other than mandatory reserve deposits)	114,624	123,030
Correspondent accounts, overnight placements with other banks and interbank loans less than 30 days		
- Russian Federation	617,320	105,815
- Other countries	1,549,436	1,460,071
Total cash and cash equivalents	**2,439,678**	**1,992,688**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 22.

6 Amounts Due from Banks

	31 December 2009	31 December 2008
Interbank loans	6,134,464	5,879,133
Purchased loans	2,218	5,280
Total due from banks	**6,136,682**	**5,884,413**

Interbank loans include deposits placed in banks-members of Société Générale Group in the amount of RUR 6,134,464 thousand (2008: RUR 5,730,786 thousand)

Purchased loans represent loans to Russian banks for which all rights were transferred to the Group from DC Mortgage Finance Netherlands B.V. in 2001 – 2002 in accordance with assignment agreements.

During 2009, repayments totaling RUR 3,019 thousand (2008: RUR 1,814 thousand) were received on the purchased loan portfolio.

Geographical, currency, maturity and interest rate analyses of amounts due from banks are disclosed in Note 22.

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals

	31 December 2009	31 December 2008
Originated loans	34,113,937	33,412,210
Purchased loans:		
- Under recourse agreement	1,368,094	6,923,429
- With no recourse agreement	8,617,355	3,943,674
Securitized loans	3,095,190	3,692,604
Total loans before accrued income and Allowance	**47,194,576**	**47,971,917**
Accrued interest income	420,533	329,064
Accrued interest income on securitized loans	13,195	15,608
Total loans before allowance	**47,628,304**	**48,316,589**
Less: Allowance for loan impairment	(899,864)	(407,531)
Total mortgage loans to individuals	**46,728,440**	**47,909,058**

Loan origination fees in the total amount of RUR 79,073 thousand have been deferred and recorded as an adjustment to the effective yield on the loans (2008: RUR 345,076 thousand). Also, loan transaction costs in the amount of RUR 14,884 thousand (2008: RUR 56,916 thousand) have been deferred and recorded as an adjustment to the effective yield on the loans.

Included in mortgage loans to individuals as at 31 December 2009 are RUR 639,159 thousand pledged as collateral under loans received from other financial institutions (31 December 2008: RUR 773,579 thousand). Refer to Note 23.

During the 2009 the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2009 such assets in amount of RUR 35,365 thousand, are included in other assets. The Group aims to sell the property within the next three months after it was recognized on the balance.

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

Analysis on overdue loans to individuals is presented below:

Class of financial asset	Carrying amount as at 31 December 2009	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 90 days overdue	impaired: 31 - 90 days overdue	impaired: 91 - 180 days overdue	impaired: 181 - 360 days overdue	impaired: more than 360 days overdue
Mortgage loans to individuals, excluding securitized portfolio	44,519,919	43,115,111	446,244	219,250	127,027	305,674	306,613
Less: Allowance for loan impairment	(882,813)	-	-	(143,499)	(127,027)	(305,674)	(306,613)
Securitized portfolio	3,108,385	2,904,747	132,015	-	38,865	15,594	17,164
Less: Allowance for loan impairment	(17,051)	-	-	-	(3,878)	(3,891)	(9,282)
Total mortgage loans to individuals	**46,728,440**	**46,019,858**	**578,259**	**75,751**	**34,987**	**11,703**	**7,882**

Class of financial asset	Carrying amount as at 31 December 2008	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 180 days overdue	impaired: less than 180 days overdue	impaired: 181 - 360 days overdue	impaired: more than 360 days overdue
Mortgage loans to individuals, excluding securitized portfolio	44,608,377	41,830,150	161,009	2,444,797	98,592	73,829
Less: Allowance for loan impairment	(403,113)	-	-	(273,756)	(73,968)	(55,389)
Securitized portfolio	3,708,212	3,701,720	-	6,492	-	-
Less: Allowance for loan impairment	(4,418)	-	-	(4,418)	-	-
Total mortgage loans to individuals	**47,909,058**	**45,531,870**	**161,009**	**2,173,115**	**24,624**	**18,440**

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

Movements in the allowance for loan impairment are as follows:

	31 December 2009	31 December 2008
Allowance for loan impairment at 1 January	407,531	127,321
Write-offs	(5,930)	-
Translation difference	423	-
Charge for the year	497,840	280,210
Provision for loan impairment at the end of the period	899,864	407,531

The Group has property and guarantees as collateral for its mortgage loans. Property is disclosed based on its fair value at the time of loan origination. Guarantees represent the nominal amounts pledged by the guarantor.

	31 December 2009	31 December 2008
Property	85,386,224	74,189,821
Guarantees	3,725,290	3,871,476
Collateral received	89,111,514	78,061,297

Geographical, currency, maturity and interest rate analyses of mortgage loans to individuals are disclosed in Note 22.

8 Investments Available-for-sale

Investments Available-for-sale comprise Rusfinance Bank LLC corporate bonds in the amount of RUR 16,633 thousand (31 December 2008: 0).

9 Property, Equipment and Intangible Assets

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2008	43,592	9,639	1,372	18,817	73,420
Book amount at cost					
Opening balance	97,638	43,119	3,633	37,328	181,718
Additions	14,915	-	-	17,254	32,169
Disposals	(25,754)	(1,979)	(1,234)	-	(28,967)
Closing balance	86,799	41,140	2,399	54,582	184,920
Accumulated depreciation and amortiozation					
Opening balance	54,046	33,480	2,261	18,511	108,298
Depreciation charge	14,849	2,043	593	10,035	27,520
Disposals	(19,559)	(958)	(980)	-	(21,497)
Closing balance	49,336	34,565	1,874	28,546	114,321
Net book amount at 31 December 2009	37,463	6,575	525	26,036	70,599

(in thousands of Russian Rubles)

9 Property, Equipment and Intangible Assets (continued)

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2007	**24,302**	**16,225**	**2,062**	**7,093**	**49,682**
Book amount at cost					
Opening balance	68,190	42,048	3,633	20,152	134,023
Additions	30,976	1,071	-	17,176	49,223
Disposals	(1,528)	-	-	-	(1,528)
Closing balance	**97,638**	**43,119**	**3,633**	**37,328**	**181,718**
Accumulated depreciation and amortiozation					
Opening balance	43,888	25,823	1,571	13,059	84,341
Depreciation charge	11,084	7,657	690	5,452	24,883
Disposals	(926)	-	-	-	(926)
Closing balance	**54,046**	**33,480**	**2,261**	**18,511**	**108,298**
Net book amount at 31 December 2008	**43,592**	**9,639**	**1,372**	**18,817**	**73,420**

10 Other Assets and Other Liabilities

Other Assets comprise:

	31 December 2009	31 December 2008
Insurance commission accrued	37,750	12,447
Assets aqcuired by adjudication	35,365	-
Deferred expenses	25,089	-
Upfront fee paid	16,009	6,597
Profit tax prepayment	3,101	3,019
Settlements with other debtors	1,368	4,440
Other	-	2,224
Deferred tax assets (note 21)	-	16,944
Rent prepayment	-	13,144
Total other assets	**118,682**	**58,815**

Other Liabilities comprise:

	31 December 2009	31 December 2008
Deferred tax liability (note 21)	157,747	-
Salary and bonuses payable	49,448	14,313
Professional service fees payable	29,153	20,470
Income tax and other taxes payable	28,672	63,669
Other	24,388	5,093
Unused vacation provision	12,624	-
Commissions payable	1,686	2,493
Total other liabilites	**303,718**	**106,038**

Other assets and other liabilities are non-financial, non-interest bearing and are generally on 30-90 days' terms. Geographical, currency and maturity analyses of other assets and other liabilities are disclosed in Note 22.

(in thousands of Russian Rubles)

11 Amounts Due to Banks and Other Financial Institutions

	31 December 2009	31 December 2008
Overseas Private Investments Corporation ("OPIC")	2,616,296	2,658,332
Kreditanstalt fuer Wiederaufbau ("KfW")	1,261,340	1,464,665
International Finance Corporation ("IFC")	738,871	1,060,465
European Bank for Reconstruction and Development ("EBRD")	400,523	961,063
Other	197,931	381,397
Total due to banks and other financial institutions	**5,214,961**	**6,525,922**

Geographical, currency, maturity and interest rate analyses of amounts due to banks and other financial institutions are disclosed in Note 22. Also refer to Note 23 for information on assets pledged with respect to these borrowings.

The Group is obliged to comply with financial covenants in relation to certain balances due to banks and other financial institutions disclosed above. These covenants include liquidity ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2009 and 31 December 2008.

12 Financing from Related Parties

For definition of related parties and other transactions with related parties refer to Note 26.

As at 31 December 2009 financing from related parties represents deposits of Société Générale, the ultimate parent company, with a nominal value of RUR 36,804,010 thousand (31 December 2008: RUR 35,651,206 thousand) as well as subordinated loan received from DCMF with a nominal value of USD 5,000 thousand or RUR 151,221 thousand (31 December 2008: USD 5,000 thousand or RUR 146,902 thousand) obtained in order to finance the mortgage lending activities within the Russian Federation. These deposits have contractual maturity of between 3 and 30 years.

The financing from Société Générale includes USD 9,200 thousand (USD 5,000 thousand as subordinated loan) or RUR 278,247 thousand that was originally received from The U.S. Russia Investment Fund. The transfer of the financing took place upon the successful ownership transfer of DCMF to Société Générale. The transfer resulted in no change in the deposit terms.

In July 2007 the Bank received a credit facility from Société Générale in the amount of USD 300,000 thousand or RUR 9,073,260 thousand. The credit facility is guaranteed by the Multilateral Investment Guarantee Agency. During the year 2007 the Bank withdrew funding from this credit facility in the amount of USD 110,000 thousand or RUR 2,700,082 thousand and during the year 2008 funding in the amount of USD 190,000 thousand or RUR 5,746,398 thousand. Contractual maturity from the date of funding the amount is 10 years. In addition, during 2009 the Bank received a loan in the amount of RUR 700,000 thousand under multicurrency Framework Agreement (2008: RUR 11,000,000 and USD 215,000 or RUR 6,502,503). Contractual maturity from the date of funding the amount is 5 years (2008: between 3 and 5 years).

On 30 May 2008 the Bank received subordinated loan of RUR 1 250 000 thousand with maturity in 8 years.

(in thousands of Russian Rubles)

12 Financing from Related Parties (continued)

The reconciliation between the total funds received and the carrying value of financing from related parties is presented below (the market interest rates used for determining fair values at the dates of financing vary from 8% to 11%):

	31 December 2009	31 December 2008
Subordinated loans below market received	245,462	245,462
Financing below market received	103,094	103,094
Less: Cumulative fair value adjustment on borrowings and subordinated loans below market rate from related parties recognized within retained earnings and other reserves at rate as of 1 January 2008	(261,785)	(261,785)
Fair value at the respective dates of funding	**86,771**	**86,771**
Cumulative accrued interest expense	122,505	102,608
Translation effect	20,151	17,085
Financing and subordinated loans below market received (at amortized cost)	**229,427**	**206,464**
Credit lines withdrawn (at amortized cost) long-term	36,078,063	34,916,471
Subordinated loan	1,261,801	1,261,488
Total financing from related parties	**37,569,291**	**36,384,423**

Geographical, currency, maturity and interest rate analyses of financing from related parties are disclosed in Note 22.

13 Bonds Issued

In December 2006 the Group issued bonds with a nominal value of RUR 1,500,000 thousand bearing annual coupon rate of 7.09%. These bonds matured on 1 December 2009.

In May 2007 the Group issued bonds with nominal value of RUR 2,000,000 thousand bearing MosPrime+30 basis points interest capped at 8.50% and maturing in 3 years. During 2009 the Bank has bought out own bonds of the total nominal amount of RUR 142,104 thousand earning one-time income of RUR 6,319 thousand.

As at 31 December 2009 and 31 December 2008 amortized cost of bonds issued comprised RUR 1,861,266 thousand and RUR 3,539,928 thousand, respectively.

14 Notes Issued

In April 2007 the Group securitized a mortgage loan pool in the amount of USD 206 300 thousand or RUR 5 346 904 thousand. The securitization is structured as a sale of a pool of loans to the SPE. The Group financed the purchase through the issuance of Mortgage Backed Floating Rate Notes matured in 2032.

Issued notes comprise:

	Nominal Value USD	Amortized value as at 31 December 2009	Amortized value as at 31 December 2008
Class A Senior Notes	173,000	1,907,207	2,755,432
Class B	14,500	293,429	423,341
Class C	18,600	481,185	543,187
Total notes issued	**206,100**	**2,681,821**	**3,721,960**

(in thousands of Russian Rubles)

14 Notes Issued (continued)

During 2009 the Group has bought out class A notes of the total nominal amount of RUR 372,786 thousand earning one-time income of RUR 118,504 thousand and class B notes of the total nominal amount of RUR 94,012 thousand earning one-time income of RUR 28,204 thousand.

Due to significant change in floating interest rates caused by the financial crisis, during the year 2009 the management has changed expectation of the future cash flows on the notes issued. The change in estimate resulted in income of RUR 68,897 thousand. The amount of a change in an accounting estimate that is expected to have an effect in future periods is impracticable to be estimated because future cash flows on notes are not predictable. The cash flows depend on cash collections from securitized loans and floating interest rates which are not predetermined.

15 Financial Liabilities at Fair Value through Profit or Loss

As a result of the securitization transaction described in Note 14, the SPE issued 1 month LIBOR floating rate notes and purchased a mortgage loan portfolio, the majority of which consisted of fixed rate mortgage loans and the remaining consisted of mortgage loans tied to 12- month LIBOR.

In order to secure the interest rate risk between the interest income and the interest expense, the SPE entered into two balance guaranteed swap transactions with Société Générale CIB on 12 April 2007 in the form of confirmation letter to ISDA Master Agreement.

As a result of entering into the balance guaranteed swaps, management believes that the SPE has effectively secured 100% of any interest rate changes during the life of the swap transactions.

As at 31 December 2009 the fair value of the swaps is RUR 202,740 thousand (31 December 2008: RUR 270,025 thousand). The gain from the change in fair value is recognized in net income on financial instruments at fair value through profit or loss in the amount of RUR 78,904 thousand (31 December 2008: loss in the amount of RUR 97,801 thousand). The initial valuation of the derivative instruments in the amount of USD 665 thousand or RUR 20,112 thousand was deferred.

On 16 March 2009 the Bank has entered in interest SWAP agreement with BNP Paribas. The operation consists of exchanging fixed rate cash flow versus variable rate cash flow basing on loan agreement with the Commercial Bank "Moscow Mortgage Agency" in the amount of USD 6,500 thousand. As at 31 December 2009 the fair value of the swap is RUR 2,743 thousand.

16 Share Capital

Issued and fully paid share capital of the Group comprises:

	Number of shares	Nominal amount, RUB	Carrying value
		31 December 2009	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**
		31 December 2008	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**

All ordinary shares have a nominal value RUR 1 per share, rank equally and carry one vote. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general shareholders' meetings of the Group.

In October 24, 2008 the shareholder decided to increase share capital by 1,150,000 thousand shares. Central Bank of Russia has approved the issue in November 11, 2008.

(in thousands of Russian Rubles)

17 Interest Income and Expense

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	7,820,772	4,394,503
Interest income on financial assets at fair value	764	-
Total interest income	**7,821,536**	**4,394,503**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on mortgage loans to individuals	5,653,870	3,932,280
Interest on due from other banks	2,166,902	462,223
Total interest income on financial assets recorded at amortized cost	**7,820,772**	**4,394,503**
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets available for sale	764	-
Total interest income on financial assets at fair value	**764**	**-**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	3,908,974	2,477,629
Interest on financial assets at fair value	200,944	98,713
Total interest expense	**4,109,918**	**2,576,342**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on financing from related parties	2,733,173	1,463,163
Interest on amounts due to financial institutions	865,083	513,780
Interest on bonds issued	234,536	272,806
Interest on notes issued	76,182	227,880
Total interest expense on financial liabilities recorded at amortized cost	**3,908,974**	**2,477,629**
Interest expense on financial liabilities at fair value through profit or loss:		
Interest expense on financial liabilities initially recognized at fair value through profit or loss	200,944	98,713
Total interest income on financial assets at fair value	**200,944**	**98,713**
Net interest income	**3,711,618**	**1,818,161**

(in thousands of Russian Rubles)

18 Fee and Commission Income and Expense

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income		
Insurance commission	115,933	21,776
Commission on cash and settlements transactions	57,044	134,317
Fines and penalties	45,428	13,493
Commission for clients' applications processing	19,870	-
Commission on early repayment of mortgage loans	17,142	12,207
Commission on rental of safe deposits boxes	6,984	18,369
Commission on issued guarantees	6,712	-
Other commission income	3,194	8,757
Correspondent programme entry fee	1,695	5,901
Total fee and commission income	**274,002**	**214,820**
Fee and commission expense		
Commission on guarantees received	51,910	39,008
Other commissions	14,233	4,007
Commission on settlement transactions	7,164	17,432
Fees paid to banks and other financial institutions	739	328
Total fee and commission expense	**74,046**	**60,775**
Net fee and commission income	**199,956**	**154,045**

19 Net Gain/(Loss) on Financial Liabilities at Fair Value through Profit or Loss

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

	31 December 2009	31 December 2008
Net gain/(loss) on operations with financial liabilities initially recognized at fair value through profit and loss comprise:		
Fair value adjustment	75,436	(97,801)
Total net gain/(loss) on operations with financial liabilities designated at fair value through profit or loss	**75,436**	**(97,801)**

(in thousands of Russian Rubles)

20 Other Operating Income and Expenses

Other operating expenses comprise the following:

	Year ended 31 December 2009	Year ended 31 December 2008
Other operating income		
Income from repurchase of own notes issued	146,708	-
Income from repurchase of own bonds issued	6,319	-
Other	1,933	13,848
Total other operating income	**154,960**	**13,848**
Other operating expenses		
Rent expense	66,418	88,320
Professional services	60,165	54,006
Communications and information services	29,303	34,360
Taxes other than on income	18,021	13,679
Advertising and representative expenses	18,238	37,600
Maintenance of buildings and equipment	15,888	10,408
Travelling and transportation	5,899	12,037
Other	15,328	18,710
Total other operating expenses	**229,260**	**269,120**

21 Income Tax Expense

Income tax expense comprises the following:

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax charge	417,153	257,741
Deferred tax	174,667	(11,667)
Income tax expense for the year	**591,820**	**246,074**

The income tax rate applicable to the majority of the Group's income is 20% (31 December 2008: 24%). Reconciliation between the expected and the actual taxation charge is provided below.

IFRS profit/(loss) before taxation	**3,026,260**	**965,976**
Theoretical tax charge at the applicable statutory rate	605,252	231,834
Non-deductable interest expense	(40,044)	(3,044)
Effect of change in tax rate	-	6,374
Other non-temporary differences	26,612	10,910
Income tax expense	**591,820**	**246,074**

Deferred tax liabilities/assets as of 31 December 2009 and 31 December 2008 and their movements for the respective periods comprise:

(in thousands of Russian Rubles)

21 Income Tax Expense (continued)

Tax effect of deductible temporary difference	**31 December 2008**	**Recognized in the income statement**	**Recognized directly in equity**	**31 December 2009**
Mortgage loans to individuals	57,813	(57,813)	-	-
Bonds issued	7,986	(4,458)	-	3,528
Financing from related parties	156,476	(156,476)	-	-
Financial liabilities at fair value through profit or loss	-	549	-	549
Other	7,460	(2,486)	(24)	4,950
Deferred tax asset	**229,735**	**(220,684)**	**(24)**	**9,027**
Mortgage loans to individuals	-	(100,464)	-	(100,464)
Amounts due to banks and other financial institutions	(189,066)	172,378	-	(16,688)
Deferred tax liability on SPV	(14,925)	(27,567)	-	(42,492)
Property, equipment and intangible assets	(6,256)	3,275	-	(2,981)
Financing from related parties	-	(4,149)	-	(4,149)
Other	(2,544)	2,544	-	-
Deferred tax liability	**(212,791)**	**46,017**	**-**	**(166,774)**
Net deffered tax asset/(liability)	**16,944**	**(174,667)**	**(24)**	**(157,747)**

Tax effect of deductible temporary difference	**31 December 2007**	**Recognized in the income statement**	**31 December 2008**
Mortgage loans to individuals	27,123	30,690	57,813
Bonds issued	4,590	3,396	7,986
Financing from related parties	47,939	108,537	156,476
Other	11,242	(3,782)	7,460
Deferred tax asset	**90,894**	**138,841**	**229,735**
Amounts due to banks and other financial institutions	(76,265)	(112,801)	(189,066)
Property, equipment and intangible assets	(4,050)	(2,206)	(6,256)
Deferred tax liability on SPV	(1,645)	(13,280)	(14,925)
Other	(3,657)	1,113	(2,544)
Deferred tax liability	**(85,617)**	**(127,174)**	**(212,791)**
Net deffered tax asset	**5,277**	**11,667**	**16,944**

(in thousands of Russian Rubles)

22 Risk Management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to financial and operational risks.

Financial risks

The primary objectives of the financial risk management function are to establish risk limits for credit, liquidity and market risks, and then ensure that exposure to risks stays within these limits. These limits reflect the business strategy and market environment of the Group as well as the level of risk that Group is willing to accept.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower are approved regularly by the Board of Management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

31 December 2009	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	2,281,380	-	2,281,380
Amounts due from banks	6,136,682	-	6,136,682
Mortgage loans to individuals	46,728,440	85,386,224	-
Total credit risk exposure	**55,146,502**	**85,386,224**	**8,418,062**

31 December 2008	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	1,688,916	-	1,688,916
Amounts due from banks	5,884,413	-	5,884,413
Mortgage loans to individuals	47,909,058	74,189,821	-
Total credit risk exposure	**55,482,387**	**74,189,821**	**7,573,329**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Credit risk (continued)

Past due or individually impaired loans comprise:

31 December 2009	not impaired as of reporting date but past due: less than 30 days	not impaired as of reporting date but past due: 31 to 90 days	not impaired as of reporting date but past due: 91 to 180 days	Individually impaired but not past due	Impaired and past due: less than 30 days	Impaired and past due: 31 to 90 days	Impaired and past due: 91 to 180 days	Impaired and past due: 181 to 360 days	Impaired and past due: more than 360 days	Total
Mortgage loans to individuals	529 081	49 178	-	-	-	219 250	165 892	321 268	323 777	1 608 446
Total	**529 081**	**49 178**	**-**	**-**	**-**	**219 250**	**165 892**	**321 268**	**323 777**	**1 608 446**

31 December 2008	not impaired as of reporting date but past due: less than 30 days	not impaired as of reporting date but past due: 31 to 90 days	not impaired as of reporting date but past due: 91 to 180 days	Individually impaired but not past due	Impaired or/and past due: less than 30 days	Impaired or/and past due: 31 to 90 days	Impaired or/and past due: 91 to 180 days	Impaired or/and past due: 181 to 360 days	Impaired or/and past due: more than 360 days	Total
Mortgage loans to individuals	147 772	8 904	4 333	1 783 018	371 152	207 077	90 042	98 592	73 829	2 784 719
Total	**147 772**	**8 904**	**4 333**	**1 783 018**	**371 152**	**207 077**	**90 042**	**98 592**	**73 829**	**2 784 719**

Interest income on impaired loans constituted RUR 92,482 thousand for the year ended 31 December 2009 (for the year ended 31 December 2008: RUR 156,650).

The Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Prepayment risk

The Group is exposed to prepayment risk through providing fixed and variable rate mortgage loans, which give the borrower the right to early repay the loan.

The prepayment effect on interest income and fees and commissions income is set out below. The effect was estimated based on prepayment statistics and takes into account any prepayment penalties.

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Prepayment risk (continued)

	Effect on interest income	Effect on fees and commissions income	Net effect on income statement	Effect on equity
Mortgage loans to individuals	(45,277)	23,445	(21,832)	(21,832)
USD	(18,810)	12,312	(6,498)	(6,498)
RUR	(19,920)	6,459	(13,461)	(13,461)
Securitized loans	(6,547)	4,674	(1,873)	(1,873)

Prepayment risk is the risk that the Group will incur a financial loss because its customers repay earlier than expected. In order to manage prepayment risk, the Group sets prepayment moratorium for certain products, charges prepayment penalties and makes projections on future prepayments based on historical statistics.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition the Group has also committed lines of credit that it can access to meet liquidity needs. Liquidity risk is managed by Asset and Liability Management Committee (ALM Committee) and the Treasury of the Group in accordance with the approved "Liquidity measurement, management and control policy".

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The table below shows financial assets and liabilities by their remaining maturities, based on the net present value of future principal and interest cash flows, based on repayment obligations. With regard to mortgage loans to individuals, management believes that the development of the mortgage loan market in Russia in the medium term will result in loans being repaid prior to maturity and the expected early repayment effect has been reflected in the following liquidity disclosures.

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account expected prepayments as at 31 December 2009 is set out below:

	Demand and less than 1 month	From 1 to 3 month	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	No stated maturity	Total
Financial assets									
Cash and cash equivalents	2,439,678	-	-	-	-	-	-	-	2,439,678
Amounts due from banks	75	699,066	5,436,213	1,328	-	-	-	-	6,136,682
Mortgage loans to individuals	867,045	1,517,143	5,667,403	13,105,734	14,946,017	10,625,098	-	-	46,728,440
Investments available-for-sale	-	16,633	-	-	-	-	-	-	16,633
Total financial assets	**3,306,798**	**2,232,842**	**11,103,616**	**13,107,062**	**14,946,017**	**10,625,098**	**-**	**-**	**55,321,433**
Financial liabilities									
Amounts due to banks and other financial institutions	-	320,202	810,791	1,835,263	1,123,744	759,514	365,447	-	5,214,961
Customer current accounts	434,429	-	-	-	-	-	-	-	434,429
Financing from related parties	-	73	2,602,136	14,511,494	9,791,024	10,653,032	11,532	-	37,569,291
Bonds issued	-	35,546	1,825,720	-	-	-	-	-	1,861,266
Notes issued	47,816	93,615	388,932	809,839	767,162	506,162	68,295	-	2,681,821
Financial liabilities at fair value through profit or loss	3,615	7,077	32,145	61,222	57,996	38,265	5,163	-	205,483
Total financial liabilities	**485,860**	**456,513**	**5,659,724**	**17,217,818**	**11,739,926**	**11,956,973**	**450,437**	**-**	**47,967,251**
Net liquidity gap	**2,820,938**	**1,776,329**	**5,443,892**	**(4,110,756)**	**3,206,091**	**(1,331,875)**	**(450,437)**	**-**	**7,354,182**
Cumulative liquidity gap	**2,820,938**	**4,597,267**	**10,041,159**	**5,930,403**	**9,136,494**	**7,804,619**	**7,354,182**	**7,354,182**	

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account prepayments as at 31 December 2008 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	No stated maturity	Total
Financial assets									
Cash and cash equivalents	1,992,688	-	-	-	-	-	-	-	1,992,688
Amounts due from banks	5,879,267	270	1,215	3,153	508	-	-	-	5,884,413
Mortgage loans to individuals	785,626	1,625,340	5,689,823	13,065,436	15,098,514	11,644,319	-	-	47,909,058
Total financial assets	**8,657,581**	**1,625,610**	**5,691,038**	**13,068,589**	**15,099,022**	**11,644,319**	-	-	**55,786,159**
Financial liabilities									
Amounts due to banks and other financial institutions	122,493	295,733	1,353,649	2,000,852	1,530,825	729,174	493,196	-	6,525,922
Customer current accounts	544,820	-	-	-	-	-	-	-	544,820
Financing from related parties	-	71	2,511,071	6,982,735	16,423,207	10,457,195	10,144	-	36,384,423
Bonds issued	-	41,885	1,625,504	1,872,539	-	-	-	-	3,539,928
Notes issued	75,136	144,595	592,517	1,172,297	1,007,506	579,019	150,890	-	3,721,960
Financial liabilities at fair value through profit or loss	5,451	10,490	42,987	85,049	73,094	42,007	10,947	-	270,025
Total financial liabilities	747,900	492,774	6,125,728	12,113,472	19,034,632	11,807,395	665,177	-	50,987,078
Net liquidity gap	7,909,681	1,132,836	(434,690)	955,117	(3,935,610)	(163,076)	(665,177)	-	4,799,081
Cumulative liquidity gap	7,909,681	9,042,517	8,607,827	9,562,944	5,627,334	5,464,258	4,799,081	4,799,081	

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

Undiscounted cash flows on financial liabilities as at 31 December 2009 comprise:

31 December 2009	Demand and less than 1 month	From 1 to 3 month	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial liabilities								
Amounts due to banks and other financial institutions	-	323,539	848,412	2,097,700	1,467,763	1,269,212	746,040	6,752,666
Customer current accounts	434,429	-	-	-	-	-	-	434,429
Financing from related parties	-	75	2,735,598	17,191,688	13,493,527	17,509,095	153,534	51,083,517
Bonds issued	-	36,037	1,895,913	-	-	-	-	1,931,950
Notes issued	55,162	108,262	453,830	970,211	964,751	700,390	102,830	3,355,436
Financial liabilities at fair value through profit or loss	10,711	22,307	82,765	99,910	39,653	12,002	325	267,673
Total undiscounted financial liabilities	**500,302**	**490,220**	**6,016,518**	**20,359,509**	**15,965,694**	**19,490,699**	**1,002,729**	**63,825,671**

Undiscounted cash flows on financial liabilities as of 31 December 2008 comprise:

31 December 2008	Demand and less than 1 month	From 1 to 3 month	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial liabilities								
Amounts due to banks and other financial institutions	121,069	298,906	1,409,813	2,309,176	2,019,029	1,218,406	1,038,850	8,415,249
Customer current accounts	544,820	-	-	-	-	-	-	544,820
Financing from related parties	-	73	2,638,032	8,256,665	22,688,636	18,387,893	149,295	52,120,594
Bonds issued	-	42,384	1,733,209	2,087,096	-	-	-	3,862,689
Notes issued	75,367	146,086	615,186	1,318,558	1,312,886	943,559	328,860	4,740,502
Financial liabilities at fair value through profit or loss	14,915	30,720	90,714	256,529	94,409	34,035	706	522,028
Total undiscounted financial liabilities	**756,171**	**518,169**	**6,486,954**	**14,228,024**	**26,114,960**	**20,583,893**	**1,517,711**	**70,205,882**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Market risk

The Group actively manages its exposure to market risks. Market risks arise from open positions in currency products, interest rates, all of which are exposed to general and specific market movements as well as to geographical location.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee sets guidelines to minimize the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group does not carry out speculative operations which can lead to currency risk exposure. The Group performs conversion operations in the internal currency market to eliminate open foreign currency positions.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2009. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by currency.

	RUR	USD	Euro	Total
Financial assets				
Cash and cash equivalents	1,062,254	1,368,112	9,312	2,439,678
Amounts due from banks	6,134,454	2,228	-	6,136,682
Mortgage loans to individuals, net	24,680,930	22,047,510	-	46,728,440
Investments available-for-sale	16,633	-	-	16,633
Total financial assets	**31,894,271**	**23,417,850**	**9,312**	**55,321,433**
Financial liabilities				
Amounts due to banks and other financial institutions	617,824	4,597,137	-	5,214,961
Customer current accounts	327,365	100,936	6,128	434,429
Financing from related parties	21,629,872	15,939,419	-	37,569,291
Bonds issued	1,861,266	-	-	1,861,266
Notes issued	-	2,681,821	-	2,681,821
Financial liabilities at fair value through profit or loss	-	205,483	-	205,483
Total financial liabilities	**24,436,327**	**23,524,796**	**6,128**	**47,967,251**
Net position	**7,457,944**	**(106,946)**	**3,184**	**7,354,182**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Currency risk (continued)

At 31 December 2008 the Group had the following positions in currency:

	RUR	USD	Euro	Total
Financial assets				
Cash and cash equivalents	416,539	1,563,168	12,981	1,992,688
Amounts due from banks	5,200,000	684,413	-	5,884,413
Mortgage loans to individuals	24,923,081	22,985,977	-	47,909,058
Total financial assets	**30,539,620**	**25,233,558**	**12,981**	**55,786,159**
Financial liabilities				
Amounts due to banks and other financial institutions	1,010,845	5,515,077	-	6,525,922
Customer current accounts	345,307	192,004	7,509	544,820
Financing from related parties	20,918,237	15,466,186	-	36,384,423
Bonds issued	3,539,928	-	-	3,539,928
Notes issued	-	3,721,960	-	3,721,960
Financial liabilities at fair value through profit or loss	-	270,025	-	270,025
Total financial liabilities	**25,814,317**	**25,165,252**	**7,509**	**50,987,078**
Net position	**4,725,303**	**68,306**	**5,472**	**4,799,081**

As a result of significant operations in USD the Group's consolidated statement of financial position can be affected significantly by movements in the USD/RUR exchange rates. The Bank seeks to mitigate the effect of its structural currency exposure by borrowing in USD to fund USD assets.

31 December 2009				
Currency	**Exchange rate**	**Change in currency rate%**	**Effect on profit before tax**	**Effect on equity**
USD	30.2442	±10%	±(9,722)	±(9,722)
EUR	43.3883	±10%	±289	±289

31 December 2008				
Currency	**Exchange rate**	**Change in currency rate%**	**Effect on profit before tax**	**Effect on equity**
USD	29.3804	±10%	±6,210	±6,210
EUR	41.4411	±10%	±497	±497

22 Risk Management (continued)

Financial risks (continued)

Interest rate risk

Interest rate risk arises from possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk, principally as a result of loans to banks and mortgage loans to individuals, at fixed interest rates, in amounts and for periods that differ from those of term borrowings at fixed interest rates.

The ALM Committee sets guidelines to limit the level of interest rate mismatch that may be undertaken. The objective of the guidelines is to keep well-balanced assets and liabilities in terms of their structure, maturity and rates. The Group analyzes possible gaps in assets and liabilities in terms of rates and maturity, takes steps on minimization and covering of such risks.

The interest rates on the mortgage loans to individuals are either fixed or variable. As at 31 December 2009 4,5% of the Group's mortgage individuals loan portfolio were issued with an interest rate indexed to LIBOR (2008: 3,9%) and 2,2% (2008: 3,5%) with an interest rate indexed to MosPrime, which is reset on an annual basis and quarterly basis, respectively.

The table below summarizes the Group's exposure to interest rate risks excluding effect of interest rate swaps (see Note 15). Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

31 December 2009	Demand less than 1 month	From 1 to 3 month	From 3 month to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Non-interest bearing	Total
Financial assets									
Cash and cash equivalents	1 762 048	-	-	-	-	-	-	677 630	2 439 678
Due from other banks	75	699 066	5 436 213	1 328	-	-	-	-	6 136 682
Mortgage loans to individuals	809 495	1 416 443	6 300 786	14 327 876	13 953 980	9 919 860	-	-	46 728 440
Available for sale securities	-	16 633	-	-	-	-	-	-	16 633
Total financial assets	**2 571 618**	**2 132 142**	**11 736 999**	**14 329 204**	**13 953 980**	**9 919 860**	**-**	**677 630**	**55 321 433**
Financial liabilities									
Amounts due to banks and other financial institutions	-	347 201	964 950	1 654 106	1 123 744	759 514	365 446	-	5 214 961
Customer current accounts	114 000	-	-	-	-	-	-	320 429	434 429
Financing from related parties	-	73	2 602 136	14 511 494	9 791 024	10 653 032	11 532	-	37 569 291
Bonds issued	-	35 546	1 825 720	-	-	-	-	-	1 861 266
Notes issued	47 816	93 615	388 932	809 839	767 162	506 162	68 295	-	2 681 821
Financial liabilities at fair value through profit or loss	205 483	-	-	-	-	-	-	-	205 483
Total financial liabilities	**367 299**	**476 435**	**5 781 738**	**16 975 439**	**11 681 930**	**11 918 708**	**445 273**	**320 429**	**47 967 251**
Net interest sensitivity gap	**2 204 319**	**1 655 707**	**5 955 261**	**(2 646 235)**	**2 272 050**	**(1 998 848)**	**(445 273)**	**357 201**	**7 354 182**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

31 December 2008	Demand less than 1 month	From 1 to 3 months	From 3 month to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Non-interest bearing	Total
Financial assets									
Cash and cash equivalents	1 203 314	-	-	-	-	-	-	789 374	1 992 688
Amounts due from banks	5 879 267	270	1 215	3 153	508	-	-	-	5 884 413
Mortgage loans to individuals	2 388 709	1 505 608	7 139 003	12 102 952	13 986 261	10 786 525	-	-	47 909 058
Total financial assets	**9 471 290**	**1 505 878**	**7 140 218**	**12 106 105**	**13 986 769**	**10 786 525**	**-**	**789 374**	**55 786 159**
Financial liabilities									
Amounts due to banks and other financial institutions	190 370	439 694	1 368 722	1 773 941	1 530 825	729 174	493 196	-	6 525 922
Customer current accounts	544 820	-	-	-	-	-	-	-	544 820
Financing from related parties	-	71	2 511 070	6 982 735	16 423 207	10 457 196	10 144	-	36 384 423
Bonds issued	-	41 885	1 625 504	1 872 539	-	-	-	-	3 539 928
Notes issued	75 136	144 595	592 517	1 172 297	1 007 506	579 019	150 890	-	3 721 960
Financial insruments at fair value through profit or loss	270 025	-	-	-	-	-	-	-	270 025
Total financial liabilities	**1 080 351**	**626 245**	**6 097 813**	**11 801 512**	**18 961 538**	**11 765 389**	**654 230**	**-**	**50 987 078**
Net interest sensitivity gap	**8 390 939**	**879 633**	**1 042 405**	**304 593**	**(4 974 769)**	**(978 864)**	**(654 230)**	**789 374**	**4 799 081**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax, as at the respective balance sheet date.

	Increase/(decrease) in basis points	Effect on profit before tax	Effect on equity
Year ended 31 December 2009			
RUR	+15	(1,466)	(1,466)
USD	+10	(751)	(751)
RUR	-15	1,466	1,466
USD	-10	751	751
Year ended 31 December 2008			
RUR	+15	(1,062)	(1,062)
USD	+10	(2,208)	(2,208)
RUR	-15	1,062	1,062
USD	-10	2,208	2,208

The table below summarizes the weighted average interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective interest rates.

	31 December 2009		31 December 2008	
	USD	RUR	USD	RUR
Financial assets				
Cash and cash equivalents	0.2%	5.1%	0.1%	43.9%
Amounts due from banks	13.1%	12.5%	0.3%	44.3%
Mortgage loans to individuals	10.3%	12.8%	10.5%	12.3%
Financial liabilities				
Customer current accounts	0.0%	0.0%	0.0%	0.0%
Amounts due to banks and other financial institutions	6.0%	8.4%	6.2%	11.7%
Financing from related parties	5.1%	9.3%	5.1%	9.3%
Bonds issued	-	7.8%	-	7.9%
Notes issued	1.7%	-	2.9%	-

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

Included in the table below are the Group's loans to individuals and financing received categorized by fixed and variable interest rates excluding effect of interest rate swaps (see Note 15).

31 December 2009	Fixed rate				Variable rate			
	RUR	USD	EUR	Weight (%)	MOSPRIME (RUR)	LIBOR (USD)	Weight (%)	Total
Financial assets								
Mortgage loans to individuals, excluding securitized portfolio, gross	23,776,480	17,651,637	-	93%	1,036,675	2,055,127	7%	44,519,919
Securitized portfolio, gross	-	3,015,781	-	97%	-	92,604	3%	3,108,385
Allowance for loan impairment	(359,982)	(423,241)	-	87%	(97,734)	(18,907)	13%	(899,864)
Amounts due from banks	6,134,426	2,256	-	100%	-	-	-	6,136,682
Financial liabilities								
Customer current accounts	327,365	100,936	6,128	100%	-	-	-	434,429
Amounts due to banks and other credit institutions	562,506	4,399,206	-	95%	55,318	197,931	5%	5,214,961
Financing from related parties	21,629,872	15,939,419	-	100%	-	-	-	37,569,291
Bonds issued	-	-	-	-	1,861,266	-	100%	1,861,266
Notes issued	-	-	-	-	-	2,681,821	100%	2,681,821
Net interest sensitivity gap	**7,031,181**	**(193,128)**	**(6,128)**		**(977,643)**	**(750,928)**		**5,103,354**

31 December 2008	Fixed rate				Variable rate			
	RUR	USD		Weight (%)	MOSPRIME (RUR)	LIBOR (USD)	Weight (%)	Total
Financial assets								
Mortgage loans to individuals, excluding securitized portfolio, gross	23,254,220	17,882,148	-	92%	1,684,215	1,787,794	8%	44,608,377
Securitized portfolio, gross	-	3,601,003	-	97%	-	107,209	3%	3,708,212
Allowance for loan impairment	(170,365)	(188,959)	-	88%	(37,849)	(10,358)	12%	(407,531)
Amounts due from banks	5,348,346	536,067	-	100%	-	-	-	5,884,413
Financial liabilities								
Customer current accounts	345,307	192,004	7,509	100%	-	-	-	544,820
Amounts due to banks and other credit institutions	691,727	5,144,273	-	89%	319,130	370,792	11%	6,525,922
Financing from related parties	20,918,237	15,466,186	-	100%	-	-	-	36,384,423
Bonds issued	1,504,567	-	-	43%	2,035,361	-	57%	3,539,928
Notes issued	-	-	-	-	-	3,721,960	100%	3,721,960
Net interest sensitivity gap	**4,972,363**	**1,027,796**	**(7,509)**		**(708,125)**	**(2,208,107)**		**3,076,418**

(in thousands of Russian Rubles)

22 Risk Management (continued)

Financial risks (continued)

Geographical risk

The Group is registered in Moscow and operates mainly in the Russian Federation.
The geographical concentration of the Group's assets and liabilities as at 31 December 2009 is set out below:

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	890,242	1,549,436	2,439,678
Amounts due from banks	5,119,253	1,017,429	6,136,682
Mortgage loans to individuals	46,728,440	-	46,728,440
Availavble-for-sale securities	16,633	-	16,633
Total financial assets	**52,754,568**	**2,566,865**	**55,321,433**
Financial liabilities			
Amounts due to banks and other financial institutions	197,931	5,017,030	5,214,961
Customer current accounts	434,429	-	434,429
Financing from related parties	-	37,569,291	37,569,291
Bonds issued	1,861,266	-	1,861,266
Notes issued	-	2,681,821	2,681,821
Financial liabilities at fair value through profit or loss	-	205,483	205,483
Total financial liabilities	**2,493,626**	**45,473,625**	**47,967,251**
Net position	**50,260,942**	**(42,906,760)**	**7,354,182**

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

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	532,617	1,460,071	1,992,688
Amounts due from banks	5,281	5,879,132	5,884,413
Mortgage loans to individuals	47,909,058	-	47,909,058
Total financial assets	**48,446,956**	**7,339,203**	**55,786,159**
Financial liabilities			
Amounts due to banks and other financial institutions	381,397	6,144,525	6,525,922
Customer current accounts	544,820	-	544,820
Financing from related parties	-	36,384,423	36,384,423
Bonds issued	3,539,928	-	3,539,928
Notes issued	-	3,721,960	3,721,960
Financial liabilities at fair value through profit or loss	-	270,025	270,025
Total financial liabilities	**4,466,145**	**46,520,933**	**50,987,078**
Net position	**43,980,811**	**(39,181,730)**	**4,799,081**

22 Risk Management (continued)

Operational risks

The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational risks.

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit and Risk department.

23 Contingencies and Commitments

Russian operating environment

Although in recent years there has been a general improvement in economic conditions in Russia, Russia continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing Global Liquidity Crisis

The financial markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

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

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

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

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

(in thousands of Russian Rubles)

23 Contingencies and Commitments (continued)

Ongoing Global Liquidity Crisis (continued)

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

Legal proceedings

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its 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.

The SPE is a qualifying Company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporation tax under Case III of Schedule D at a rate of 25 per cent but are computed in accordance with the provisions applicable to Case I of Schedule D.

Contingencies and commitments

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

As at 31 December 2009 and 31 December 2008 the Group's commitments and contingencies comprised the following:

	31 December 2009	31 December 2008
Contingent liabilities		
Guarantees issued	7,000,000	-
Operating lease commitments		
Not later than 1 year	40,280	35,900
Later than 1 year but not later than 5 years	161,120	143,600
Later than 5 years	3,357	38,892
Total operating lease commitments	**204,757**	**218,392**
Commitments and contingencies	**7,204,757**	**218,392**

The guarantee was issued to the Central bank of the Russian Federation in favor of OJSC Joint-Stock Commercial Bank Rosbank (Rosbank) to guarantee the loan received by Rosbank from the Central bank.

23 Contingencies and Commitments (continued)

Assets pledged and restricted

As at 31 December 2009 the mortgage loans to individuals in the total amount of RUR 639,159 thousand were pledged as collateral against loans received from other financial institutions (31 December 2008: RUR 773,579 thousand).

In addition, mandatory cash balances with the CBRF in the amount of RUR 17,980 thousand (31 December 2008: RUR 5,088 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

24 Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Before January 1, 2009 the Group's primary format for reporting segment information was business segments in accordance with IAS 14 "Segment reporting". The secondary format for reporting segment information in accordance with IAS 14 was geographical segments. Starting January 1, 2009 the Group disclosed segment reporting in accordance with IFRS 8. The information below is in accordance with IFRS 8 both for year 2009 and year 2008.

In accordance with IFRS 8 the Group defined its business activities as operating segment which is reported in these consolidated financial statements. The Group's operations primarily constitute a single industry segment, mortgage lending in the Russian Federation.

The accounting policies of the operating segment are the same as those described in the summary of significant accounting policies. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding items such as taxation.

(in thousands of Russian Rubles)

24 Segment reporting (continued)

Segment information about these businesses comprises:

	Mortgage lending	Total for the year ended 31 December 2009
Interest income	7,821,536	7,821,536
Interest expense	(4,109,918)	(4,109,918)
Net loss from foreign currency exchange transactions	(4,617)	(4,617)
Net (loss)/gain from foreign exchange translation	(9,442)	(9,442)
Fee and commission income	274,002	274,002
Fee and commission expense	(74,046)	(74,046)
Net gain/(loss) on financial liabilities at fair value through profit or loss	75,436	75,436
Other operating income	154,960	154,960
Net banking income	**4,127,911**	**4,127,911**
Operating expenses	(603,811)	(603,811)
Gross operating income	**3,524,100**	**3,524,100**
Cost of risk	(497,840)	(497,840)
Profit before income tax	**3,026,260**	**3,026,260**
Income tax expense	(591,820)	(591,820)
Net profit	**2,434,440**	**2,434,440**
Segment assets	55,525,593	55,525,593
Segment liabilities	48,084,550	48,084,550

(in thousands of Russian Rubles)

24 Segment reporting (continued)

	Mortgage lending	Total for the year ended 31 December 2008
Interest income	4,394,503	4,394,503
Interest expense	(2,576,342)	(2,576,342)
Net loss from foreign currency exchange transactions	(3,481)	(3,481)
Net (loss)/gain from foreign exchange translation	31,857	31,857
Fee and commission income	214,820	214,820
Fee and commission expense	(60,775)	(60,775)
Net gain/(loss) on financial liabilities at fair value through profit or loss	(97,801)	(97,801)
Other operating income	13,848	13,848
Net banking income	**1,916,629**	**1,916,629**
Operating expenses	(670,443)	(670,443)
Gross operating income	**1,246,186**	**1,246,186**
Cost of risk	(280,210)	(280,210)
Profit before income tax	**965,976**	**965,976**
Income tax expense	(246,074)	(246,074)
Net profit	**719,902**	**719,902**
Segment assets	55,903,519	55,903,519
Segment liabilities	51,029,447	51,029,447

The geographic information comprises:

	Russia	Total for the year ended 31 December 2009
Operational income before deduction of interest expenses	8,237,829	8,237,829
Property, equipment and intangible assets	70,599	70,599

	Russia	Total for the year ended 31 December 2008
Operational income before deduction of interest expenses	4,492,971	4,492,971
Property, equipment and intangible assets	73,420	73,420

25 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 an active 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, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market operations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. 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.

Financial instruments carried at fair value

Cash and cash equivalents are carried on the consolidated statement of financial position at their fair value.

Amounts due from banks

The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. As at 31 December 2009 the estimated fair value of amounts due from Banks approximates their carrying value of RUR 6,136,682 thousand (31 December 2008: RUR 5,884,413 thousand).

Mortgage loans to individuals

Mortgage loans to individuals are net of allowance for impairment. The estimated fair value of mortgage loans to individuals represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at estimated market rates which are adjusted from current rates by eliminating fluctuations that aroused due to financial crisis in Russia at the end of 2008 to determine fair value. As at 31 December 2009 the estimated fair value of mortgage loans to individuals approximates their carrying value of RUR 46,728,440 thousand (31 December 2008: RUR 47,909,058 thousand).

Investments available-for-sale

Available-for-sale securities are recorded at fair value based on quoted market price.

Borrowings

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As at 31 December 2009 the estimated fair value of due to banks and other financial institutions approximates their carrying value of RUR 5,214,961 thousand (31 December 2008: RUR 6,525,922 thousand).

Financing from related parties

For financing received with maturity within one year, the carrying amount approximates fair value due to the relatively short-term maturity of these loans. For long-term financing from related parties which is at below market rates, fair value adjustments have been recognized within retained earnings and other reserves. As at 31 December 2009 the estimated fair value of financing from related parties approximates their carrying value of RUR 37,569,291 thousand (31 December 2008: RUR 36,384,423 thousand).

Bonds issued

Bonds are issued at market interest rates, thus, their carrying value approximates their fair value.

(in thousands of Russian Rubles)

25 Fair Value of Financial Instruments (continued)

Customer current accounts

The fair value of customer current accounts approximates their carrying value of RUR 434,429 thousand (31 December 2008: RUR 544,820 thousand).

Notes issued

The fair value of the notes approximates their carrying value because they are issued at market interest rate.

Financial instruments at fair value through profit or loss

As at 31 December 2009 the fair value of the swaps is RUR 205,483 thousand (31 December 2008: 270,025 thousand).

Set out below is comparison by category of carrying amount and fair value of all the Group's financial instruments:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and cash equivalents	2,439,678	2,439,678	1,992,688	1,992,688
Amounts due from banks	6,136,682	6,136,682	5,884,413	5,884,413
Mortgage loans to individuals	46,728,440	46,728,440	47,909,058	47,909,058
Investments available-for-sale	16,633	16,633	-	-
Financial Liabilities				
Amounts due to banks and other financial institutions	5,214,961	5,214,961	6,525,922	6,525,922
Customer current accounts	434,429	434,429	544,820	544,820
Financing from related parties	37,569,291	37,569,291	36,384,423	36,384,423
Financial liabilities at fair value through profit or loss	205,483	205,483	270,025	270,025
Bonds issued	1,861,266	1,861,266	3,539,928	3,539,928
Notes issued	2,681,821	2,681,821	3,721,960	3,721,960

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

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

The Group's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

(in thousands of Russian Rubles)

25 Fair Value of Financial Instruments (continued)

31 December 2009	Quoted prices in active market (Level 1)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial Assets			
Investment securities – available-for-sale	16,633	-	16,633
Total Financial Assets	**16,633**	**-**	**16,633**
Financial Liabilities			
Derivative financial instruments	(2,743)	(202,740)	(205,483)
Total Financial Liabilities	**(2,743)**	**(202,740)**	**(205,483)**

Derivative financial instruments under Level 3 represent SWAPs which the SPE has entered to, disclosed in Note 15. The valuation technique is based on the assumptions of the projected mortgage pool repayments and the share of floating rate loans in the total mortgage pool. These assumptions are relatively stable and are not expected to change so that to affect the SWAPs fair value significantly.

Changes in the SWAPs fair value during the period are as follows:

	31 December 2009	31 December 2008
Fair value at 1 January	**270,025**	**129,015**
Total (gains)/losses for the period recognised in profit or loss	(78,904)	97,801
Translation difference	11,619	43,209
Fair value at the end of the period	**202,740**	**270,025**

Total (gains)/losses for the period are presented in the consolidated income statement. Translation difference is comprised of RUR 3,680 thousand translation loss (31 December 2008: RUR 17,801 thousand translation loss) presented in the consolidated statement of comprehensive income and RUR 7,939 thousand exchange difference loss (31 December 2008: RUR 25,409 thousand exchange difference loss) presented in the consolidated income statement.

26 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions 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.

Banking transactions are entered into in the normal course of business with the shareholder of the Bank, Société Générale, its affiliates, directors and senior management. The outstanding balances at year end and income and expense items as well as other transactions for the year with related parties are as follows:

(in thousands of Russian Rubles)

26 Related Party Transactions (continued)

(a) Transactions with directors and senior management

Total remuneration included in staff costs is as follows:

	2009	2008
Management Board and Senior Management	65,022	47,329
Social security costs	7,608	6,153
Total management remuneration	**72,630**	**53,482**

(b) Transactions with Société Générale Group entities

	2009	2008
Cash and cash equivalents	3,856	43,175
Available-for sale securities	16,633	-
Amounts due from banks	7,134,061	7,065,602
Financing from related parties	37,569,291	36,384,423
Interest expense	2,733,173	1,463,163
Professional services	10,023	10,360

The Group has entered into two interest rate swap agreements with Société Générale CIB on 12 April 2007 to hedge the interest rate risk associated with the floating rate notes, as described in Note 15.

As at 31 December 2009 the guarantee was issued to the Central bank of the Russian Federation in favor of Rosbank to guarantee the loan received by Rosbank from the Central bank. The outstanding amount of guarantee as at 31 December 2009 is RUR 7,000,000 thousand.

Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBRF in supervising the Group.

As of year-end, the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

CBR capital adequacy ratio

The CBR requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2009 and 31 December 2008, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

(in thousands of Russian Rubles)

27 Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988 with amendments

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, of 28% and 26,62% as of 31 December 2009 and 31 December 2008, respectively, exceeded the minimum ratio of 8% recommended by the Basel Accord.

	31 December 2009	31 December 2008
Tier 1 capital	7,256,942	4,764,999
Tier 2 capital	1,797,739	1,750,898
Total capital	**9,054,681**	**6,515,897**
Risk weighted assets	32,338,387	24,478,525