

OJSC «OTP Bank»

Financial Statements

For the Year Ended December 31, 2009

OJSC «OTP Bank»

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER, 31 2009:	
Income statement	3
Statement of comprehensive income	4
Statement of financial position	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-53

OJSC «OTP Bank»

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Company «OTP Bank» (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2009, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2009 were authorized for issue on 18 May 2010 by the President of the Bank.

On behalf of the Management Board:

President

A.A. Korovin

May 18, 2010
Moscow

Chief Accountant

D.I. Karpov

May 18, 2010
Moscow

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company «OTP Bank»:

Report on the financial statements

We have audited the accompanying financial statements of Open Joint Stock Company «OTP Bank» (the "Bank"), which comprise the statement of financial position as at December 31, 2009, the related statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these 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 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 financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

May 31, 2010
Moscow

OJSC «OTP Bank»

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

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Interest income	4,28	15,137,767	12,762,139
Interest expense	4,28	<u>(4,325,995)</u>	<u>(2,736,032)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		10,811,772	10,026,107
Provision for impairment losses on interest bearing assets	5	<u>(5,080,339)</u>	<u>(3,897,191)</u>
NET INTEREST INCOME		<u>5,731,433</u>	<u>6,128,916</u>
Net gain on financial assets and liabilities at fair value through profit or loss	6	776,307	1,226,138
Net loss on foreign exchange operations	7,28	(293,106)	(828,952)
Fee and commission income	8,28	1,391,129	1,857,952
Fee and commission expense	8,28	(725,697)	(441,688)
Net gain on investments available-for-sale		104,620	-
Net loss on investments held to maturity	18,28	(55,897)	-
Gain on sale of loans	16	101,573	135
Changes in other provisions	5	(6,026)	19,701
Other income	9,28	<u>47,409</u>	<u>37,561</u>
NET NON-INTEREST INCOME		<u>1,340,312</u>	<u>1,870,847</u>
OPERATING INCOME		7,071,745	7,999,763
OPERATING EXPENSES	10,28	<u>(6,125,224)</u>	<u>(6,106,241)</u>
PROFIT BEFORE INCOME TAX		946,521	1,893,522
Income tax expense	11	<u>(207,066)</u>	<u>(399,461)</u>
NET INCOME		<u>739,455</u>	<u>1,494,061</u>

On behalf of the Management Board:

President
A.A. Korovin

May 18, 2010
Moscow

Chief Accountant
D.I. Karpov

May 18, 2010
Moscow

The notes on pages 9-53 form an integral part of these financial statements.

OJSC «OTP Bank»

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

	Year ended December 31, 2009	Year Ended December 31, 2008
NET INCOME	739,455	1,494,061
OTHER COMPREHENSIVE INCOME		
Net change in fair value of investments available-for-sale	1,989,586	(439,434)
Accumulated income transferred to gain on sale of investments available-for-sale from comprehensive income	(104,158)	-
Revaluation of property and equipment	(132,196)	-
Deferred income tax classified as component of other comprehensive income:		
Investments available-for-sale	(378,036)	74,450
Revaluation of property and equipment	19,533	18,373
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	1,394,729	(346,611)
TOTAL COMPREHENSIVE INCOME	2,134,184	1,147,450

On behalf of the Management Board:

President

A.A. Korovin

May 18, 2010

Moscow

Chief Accountant

D.I. Karpov

May 18, 2010

Moscow

The notes on pages 9-53 form an integral part of these financial statements.

OJSC «OTP Bank»

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

	Notes	December 31, 2009	December 31, 2008
ASSETS:			
Cash and cash equivalents	12,28	8,401,420	17,065,786
Minimum reserve deposit with the Central Bank of the Russian Federation	13	354,935	49,975
Financial assets at fair value through profit or loss	14	586,735	320,739
Due from banks	15,28	15,204,041	412,588
Loans and advances to customers	16,28	52,912,582	53,762,494
Investments available-for-sale	17,28	9,085,874	1,966,881
Investments held-to-maturity	18	421,619	2,699,695
Property and equipment and intangible assets	19	2,407,337	2,484,470
Current income tax assets		3,103	92,392
Deferred income tax assets	11	154,857	155,069
Other assets	20,28	370,557	372,317
TOTAL ASSETS		89,903,060	79,382,406
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	21,28	26,385,995	33,471,583
Customer accounts	22,28	46,614,539	32,831,299
Debt securities issued	23	2,573,344	1,308,853
Other provisions	5	7,459	18,259
Deferred income tax liabilities	11	326,474	166,017
Other liabilities	24,28	850,585	629,632
Subordinated debt	25,28	2,166,516	2,112,799
TOTAL LIABILITIES		78,924,912	70,538,442
EQUITY:			
Share capital	26	4,265,532	4,265,532
Share premium	26	2,000,000	2,000,000
Investments available-for-sale fair value reserve		887,115	(620,277)
Property and equipment revaluation reserve		414,028	526,691
Retained earnings		3,411,473	2,672,018
TOTAL EQUITY		10,978,148	8,843,964
TOTAL LIABILITIES AND EQUITY		89,903,060	79,382,406

On behalf of the Management Board:

President
A.A. Korovin

May 18, 2010
Moscow

Chief Accountant
D.I. Karpov

May 18, 2010
Moscow

The notes on pages 9-53 form an integral part of these financial statements.

OJSC «OTP Bank»

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009 (in thousands of Russian Rubles)

	Share capital	Share premium	Investment s available-for-sale fair value reserve	Property and equipment revaluation reserve	Retained earnings	Total equity
December 31, 2007	3,765,532	-	(255,293)	510,915	1,175,360	5,196,514
Comprehensive income for the year ended December 31, 2008	-	-	(364,984)	18,373	1,494,061	1,147,450
Write-off of property and equipment revaluation reserve as a result of disposal	-	-	-	(2,597)	2,597	-
Share capital increase through ordinary shares issue and share premium	500,000	2,000,000	-	-	-	2,500,000
December 31, 2008	4,265,532	2,000,000	(620,277)	526,691	2,672,018	8,843,964
Comprehensive income for the year ended December 31, 2009	-	-	1,507,392	(112,663)	739,455	2,134,184
December 31, 2009	4,265,532	2,000,000	887,115	414,028	3,411,473	10,978,148

On behalf of the Management Board:

President
A.A. Korovin

May 18, 2010
Moscow

Chief Accountant
D.I. Karpov

May 18, 2010
Moscow

The notes on pages 9-53 form an integral part of these financial statements.

OJSC «OTP Bank»

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

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		946,521	1,893,522
Adjustments for:			
Provision for impairment losses on interest bearing assets		5,080,339	3,897,191
Provision/ (recovery of provision) for other operations		6,026	(19,701)
Fair value adjustment of financial assets held for trading		(45,982)	45,479
Fair value adjustment of derivative financial instruments		(31,700)	35,094
Loss from disposal of property and equipment and intangible assets		2,915	18,220
Realized gain on investments available-for-sale		(104,620)	-
Realized loss on investments held to maturity		55,897	-
Depreciation and amortization expense		390,990	319,757
Loss on foreign exchange operations		22,625	836,484
Change in interest accruals, net		(1,990,914)	(1,077,260)
Change in other accruals, net		181,461	175,182
Loss on revaluation of property and equipment		25,858	-
Reversal of loss on revaluation of property and equipment of prior periods		(6,377)	-
Income from assets received free of charge		-	(11,391)
Impairment of investments available-for-sale		13,012	-
Cash flows from operating activities before changes in operating assets and liabilities		4,546,051	6,112,577
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(304,960)	682,358
Financial assets at fair value through profit or loss		(268,674)	3,707,673
Due from banks		(14,869,522)	1,695,163
Loans and advances to customers		(2,186,310)	(11,774,711)
Other assets		(78,657)	492
Increase in operating liabilities:			
Advances from other banks		(7,664,456)	18,689,444
Customer accounts		13,455,108	(9,811,672)
Debt securities issued in the normal course of business		1,175,274	84,457
Other liabilities		64,083	12,402
Cash (outflow)/inflow from operating activities before taxation		(6,132,063)	9,398,183
Income tax paid		(252,747)	(393,767)

OJSC «OTP Bank»

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

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Net cash (outflow)/inflow from operating activities		(6,384,810)	9,004,416
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets		(472,504)	(635,842)
Proceeds on sale of fixed and intangible assets		4,054	2,408
Proceeds on sale of investments available-for-sale		3,979,109	6,310
Proceeds on sale of investments held to maturity		2,562,232	-
Purchase of investments available-for-sale		(9,193,066)	-
Net cash outflow from investing activities		(3,120,175)	(627,124)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(8)	(461)
Increase of share capital and share premium through issue of ordinary shares		-	2,500,000
Net cash (outflow)/inflow from financing activity		(8)	2,499,539
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		840,627	723,324
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(8,664,366)	11,600,155
CASH AND CASH EQUIVALENTS, beginning of year	12	17,065,786	5,465,631
CASH AND CASH EQUIVALENTS, end of year	12	8,401,420	17,065,786

Interest paid and received by the Bank during the year ended December 31, 2009 amounted to RUB 4,337,280 thousand and RUB 13,197,931 thousand, respectively.

Interest paid and received by the Bank during the year ended December 31, 2008 amounted to RUB 2,385,387 thousand and RUB 11,560,656 thousand, respectively.

On behalf of the Management Board:

President
A.A. Korovin

May 18, 2010
Moscow

Chief Accountant
D.I. Karpov

May 18, 2010
Moscow

The notes on pages 9-53 form an integral part of these financial statements.

OJSC «OTP Bank»

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009 (in thousands of Russian Rubles)

1. ORGANIZATION

OJSC «OTP Bank» («Bank») is an Open Joint Stock Company, which was incorporated in the Russian Federation in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the «CBR») and conducts its business under general license number 2766 dated March 4, 2008. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 16A Leningradskoye shosse, bld. 1, Moscow, Russia, 125171

At the beginning of 2009 the Bank had 7 branches operating. The Nizhny Novgorod branch was registered in 2008 but started operations in 2009. As at December 31, 2009 the Bank had 8 branches operating in the Russian Federation. The Chelyabinsk branch was opened in 2009.

The Bank is a parent company of the group which consists of the following entities:

Name	Country of operation	Proportion or ownership interest, %		Type of activity
		2009	2008	
Open Joint Stock Company «OTP Bank»	Russia	Parent company	Parent company	Commercial bank
Limited Liability Company PSF	Russia	100.0	100.0	Finance lease
Limited Liability Company «Gamayun»	Russia	100.0	100.0	Catering
Limited Liability Company «Promfin»	Russia	99.2	99.2	Consulting services
Limited Liability Company «Promstroyinvest Investment Company»	Russia	99.0	99.0	Investments
Limited Liability Company «Business-Office»	Russia	99.2	99.2	Real estate
Limited Liability Company «Legal Advisory Center» Audit Firm	Russia	-	25.0	Audit and accounting

No consolidated financial statements have been prepared as the impact on the members of the group would be immaterial.

As at December 31, 2009 and 2008, the following shareholders owned the issued shares of the Bank:

	December 31, 2009, %	December 31, 2008, %
First level shareholders:		
OTP BANK PLC	58.17	58.12
LLC ALLIANCE RESERVE	36.98	5.49
LLC INVEST OIL	-	17.18
LLC Megaform Inter	-	14.30
Other	4.85	4.91
Total	100.00	100.00
Ultimate shareholders:		
OTP BANK PLC	95.15	95.09
Other	4.85	4.91
Total	100.00	100.00

Due to the fact that OTP BANK PLC is the sole member of LLC ALLIANCE RESERVE, OTP BANK PLC effectively owns 95,15% of the Bank's shares as at December 31, 2009, for which reason the Bank is a subsidiary bank of OTP BANK PLC.

2. BASIS OF PRESENTATION

Accounting basis

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. Management has the intention to further develop the business of the Bank in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Bank.

These financial statements are presented in thousands of Russian rubles (“RUB thousand”), unless otherwise indicated. These financial statements have been prepared under the historical cost conversion, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard (“IAS”) No. 16 “Property, Plant and Equipment”.

The Bank maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the applicable statutory accounting records and have been adjusted to conform with IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Functional currency

The functional currency of the financial statements is the Russian ruble (RUB).

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

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 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.

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 Bank 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 Bank 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 Bank 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 Bank 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 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 Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank 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 income statement.

Cash and cash equivalents

Cash includes cash on hand and balances on the Bank's current accounts. Cash equivalents include short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Amounts that are subject to restrictions over their availability are not included in cash and cash equivalents.

Minimum reserve deposit with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation comprises funds deposited with the Central Bank of the Russian Federation and not used to finance the Bank's current operations. They are not included in cash and cash equivalents for the purposes of the statement of cash flows and are separately presented on the balance sheet.

Due from banks

In the normal course of business, the Bank maintains advances or 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.

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 or repurchasing them in the near future, (2) which are 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 the case when the derivative is defined as an effective hedging instrument).

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank 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/ liabilities at fair value through profit or loss is recognized in the income statement for the period.

The Bank does not reclassify financial instruments in or out of this category while they are held (except the cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosure").

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments. The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. The Bank performs transactions with currency futures contracts, short-term interest rate futures contracts and security-based futures contracts. Derivative financial instruments that are entered by the Bank do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value

through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the income statement.

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

Securities repurchase and reverse repurchase agreements

The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

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

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

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

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Loans to customers

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

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

Write off of loans

Loans are written off against allowance for impairment losses in the case of uncollectibility of loans, including through repossession of collateral. Loans and advances are written off after the management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Excess funds upon such sale are repaid to the borrower.

Loans may also be written off under the resolution of the Board of Directors provided that both conditions exist at the balance sheet date:

- delay in the repayment of principal is more than two years;
- cash under the agreement has not been transferred for more than two years.

Allowance for impairment losses

The Bank accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjustment to an allowance account.

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

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

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

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

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in equity, until the securities are realized; and accumulated gain/(loss) previously recorded in equity are recognized in the income statement. The impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method are recognized in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If the market for investments is not active, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received are included in dividend income in the income statement.

Non-marketable debt and equity 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 directly in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Property and equipment and intangible assets

Property and equipment (other than buildings) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property and equipment (other than buildings) and intangible assets acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and recognized impairment losses, if any.

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

Buildings	2%-20%
Other real estate	3.3%-20%
Motor vehicles	9.8%-32.4%
Other property and equipment	3.3%-50%
Intangible assets	10-80%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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

Buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount of assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income statement.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

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 profit before tax as reported in the income statement because it excludes amounts of income or expense that are taxable or deductible in other years and it further excludes amounts that are never taxable nor deductible. The Bank'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.

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

- The Bank 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.

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt 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 income statement over the period of the borrowings, using the effective interest method.

Other provisions

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

Financial guarantee contracts

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

Contingencies

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

Share capital and share premium

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed in "Events after the Balance Sheet Date" note.

Retirement and other benefit obligations

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

Recognition of income and expense

Recognition of interest income and expense

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

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

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

Recognition of fee and commission income and expense

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

Other income/expenses are recorded as benefits are obtained/ cost are incurred, and are recognized in the period in which they arise.

Foreign currency translation

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

Rates of exchange

The Central Bank of the Russian Federation exchange rates for the key currencies at year-end used by the Bank in the preparation of the financial statements are as follows:

	December 31, 2009	December 31, 2008
RUB/1 USD	30.2442	29.3804
RUB/1 EUR	43.3883	41.4411

Offset of financial assets and liabilities

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

Accounting for the effects of hyperinflation

In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. From 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and shareholders' equity as stated in measuring units as at 31 December 2002 have formed the basis for the amounts carried forward to 1 January 2003.

Fiduciary activities

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

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. 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 Bank's financial condition.

Allowance for impairment of loans

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (a) 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 (b) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank 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 Bank 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. 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 Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at December 31, 2009 and 2008 the loans to customers totaled RUB 60,799,919 thousand and RUB 59,840,662 thousand, respectively, and allowance for impairment losses was RUB 7,887,337 thousand and RUB 6,078,168 thousand, respectively.

Valuation of Financial Instruments

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

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

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

The carrying value of financial assets at fair value through profit or loss amounted to RUB 586,735 thousand and RUB 320,739 thousand as at December 31, 2009 and 2008, respectively.

As at December 31, 2009 and 2008 the carrying value of investments available-for-sale amounted to RUB 9,085,874 thousand and RUB 1,966,881 thousand, respectively, including equity investments available-for-sale in the amount of RUB 6,924 thousand and RUB 19,048 thousand respectively that were accounted for at cost. The fair value of these investments can not be measured reliably due to time and cost restriction.

Property and equipment

Certain items of property and equipment (buildings) are carried at revalued cost. The date of the latest appraisal was December 31, 2009. As at December 31, 2009 and 2008 the carrying value of revalued buildings amounted to RUB 1,074,583 thousand and RUB 1,261,783 thousand, respectively.

Deferred tax assets

The Bank regularly assesses the possibility of recognition of deferred tax assets. As at December 31, 2009 and 2008 the carrying value of recognized deferred tax assets amounted to RUB 154,857 thousand and RUB 155,069 thousand, respectively.

Adoption of new and revised standards

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

Amendment to IAS 1 "Presentation of Financial Statements" – On September 6, 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. As an alternative, entities are allowed to provide two statements: a separate Income Statement and Statement of Comprehensive Income. The amendment to IAS 1 is effective for periods beginning on or after January 1, 2009. The Bank's management decided to present a separate Income Statement and Statement of Comprehensive Income. The revised IAS 1 had impact on the presentation of the Bank's financial statements, but did not affect the recognition and measurement of specific transactions and balances on the accounts.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 "Financial Instruments: Disclosures") was issued in March 2009 and applies to annual periods beginning on or after January 1, 2009. The Amendments enhance the existing requirements for the disclosure of fair value measurements and liquidity risk. The Bank shall disclose the analysis of financial instruments using a three-level hierarchy for fair value measurement. The Amendments explain that maturity analysis for financial liabilities shall include issued financial guarantee contracts and require that the maximum amount of the guarantee be disclosed in the earliest period in which such a guarantee could be called, and require that the remaining contractual maturities for derivative financial liabilities that are essential for an understanding of the timing of the cash flows be disclosed. The enhanced disclosures are included into these financial statements.

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 Bank in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

Financial Instruments: Classification and Measurement (Exposure draft) – In July 2009 the IASB issued the exposure draft ("the ED") as part of IASB project to replace IAS 39: Recognition and Measurement. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognized financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortized cost or fair value. If the financial instrument has only basic loan features and is managed on a contractual yield basis, it is measured at amortized cost, provided that it is not classified at fair value through profit or loss. Financial instruments measured at fair value will be classified at fair value through profit or loss, or in case of investments in equity instruments not held for trading purposes, will be irrevocably classified at fair value through other comprehensive income. All investments in equity instruments and derivatives linked to those investments covered by IAS 39 should be measured at fair value, i.e. investments in equity instruments that do not have a quoted price in an active market may not be measured at cost less impairment, when the fair value cannot be reliably measured, as currently required by IAS 39. The ED does not permit reclassifications out of or into amortized cost, FVTPL or FVTOCI after initial recognition. The effective date of these amendments has not been determined yet.

4. NET INTEREST INCOME

Interest income/ expense comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Interest income comprises:		
Interest income on assets recorded at amortized cost:	14,454,049	12,296,046
- interest income on impaired assets	13,539,259	11,213,642
- interest income on unimpaired assets	914,790	1,082,404
Interest income on assets at fair value	<u>683,718</u>	<u>466,093</u>
Total interest income	<u>15,137,767</u>	<u>12,762,139</u>
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	14,063,508	12,059,440
Interest due from banks	182,344	93,615
Interest on investments held-to-maturity	<u>208,197</u>	<u>142,991</u>
Total interest income on assets recorded at amortized cost	<u>14,454,049</u>	<u>12,296,046</u>
Interest income on financial assets at fair value:		
Interest income on financial assets at fair value through profit or loss	102,563	282,610
Interest income on financial assets available-for-sale	<u>581,155</u>	<u>183,483</u>
Total interest income on financial assets at fair value	<u>683,718</u>	<u>466,093</u>
Interest expenses comprise:		
Interest on financial liabilities recorded at amortized cost	<u>4,325,995</u>	<u>2,736,032</u>
Total interest expense	<u>4,325,995</u>	<u>2,736,032</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	2,448,513	1,537,378
Interest on deposits from banks	1,611,737	1,013,359
Interest on subordinated debt	142,239	120,064
Interest on debt securities issued	<u>123,506</u>	<u>65,231</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>4,325,995</u>	<u>2,736,032</u>
Net interest income before provision for impairment losses on interest-bearing assets	<u>10,811,772</u>	<u>10,026,107</u>

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Loans to customers	Investments available-for- sale	Investments held to maturity	Total
December 31, 2007	5,366,934	22	-	5,366,956
Provisions	3,897,191	-	-	3,897,191
Loans written off against allowance	(3,232,791)	-	-	(3,232,791)
Recovery of loans previously written off	<u>46,834</u>	<u>-</u>	<u>-</u>	<u>46,834</u>
December 31, 2008	6,078,168	22	-	6,078,190
Provisions	4,996,626	48,333	35,380	5,080,339
Loans written off against allowance	(3,245,297)	-	-	(3,245,297)
Recovery of loans previously written off	<u>57,840</u>	<u>-</u>	<u>-</u>	<u>57,840</u>
December 31, 2009	<u>7,887,337</u>	<u>48,355</u>	<u>35,380</u>	<u>7,971,072</u>

The movements in other allowances were as follows:

	Other assets	Provisions for loan commitments	Provisions for legal proceedings	Total
December 31, 2007	14,190	45,127	839	60,156
Provision/(Recovery of provision)	8,006	(27,235)	(472)	(19,701)
Write-off of assets	(71)	-	-	(71)
December 31, 2008	22,125	17,892	367	40,384
Provision/(Recovery of provision)	13,750	(12,250)	4,526	6,026
Write-off of assets	(28)	-	(3,076)	(3,104)
December 31, 2009	35,847	5,642	1,817	43,306

6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Net gain on operations with derivative financial instruments	691,026	1,252,160
Net gain/(loss) on financial assets and liabilities held for trading	85,281	(26,022)
Total net gain on financial assets and liabilities at fair value through profit or loss	776,307	1,226,138
Net gain on operations with financial assets and liabilities held-for-trading comprise:		
Realized gain on trading operations	39,299	19,457
Unrealized gain/(loss) on fair value adjustment	45,982	(45,479)
Total net gain/(loss) on operations with financial assets and liabilities held for trading	85,281	(26,022)

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

7. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Translation differences, net	(22,625)	(836,484)
Dealing, net	(270,481)	7,532
Total net loss on foreign exchange operations	(293,106)	(828,952)

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Fee and commission income:		
Cash operations	537,293	669,558
Plastic cards operations	439,011	585,472
Intermediary services	141,537	254,808
Foreign exchange operations	97,735	127,396
Use of Client-Bank system	65,568	71,909
Currency control agent's functions	31,836	51,298
Attraction of clients for insurance companies	26,566	40,219
Cash collection	19,137	27,254
Documents preparation, storage and copying	4,947	6,502
Banknote transactions	4,751	3,776
Documentary operations	1,384	9,204
Brokerage	1,330	1,302
Use of automated information system	1,255	1,453
Other	18,779	7,801
	<u>1,391,129</u>	<u>1,857,952</u>
Fee and commission expense:		
Intermediary services	378,676	139,431
Plastic cards operations	160,421	180,974
Guarantees	90,389	-
Financial market operations, including transactions with securities	45,127	50,964
Settlements and money transfers	38,112	49,367
Banknote transactions	5,602	13,581
Depository services	2,952	3,237
Cash collection	2,623	1,669
Other	1,795	2,465
	<u>725,697</u>	<u>441,688</u>

9. OTHER INCOME

Other income comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Income from letting safe boxes	14,830	12,892
Income from recalculation of interest on deposits upon early termination of agreement	14,600	7,787
Reversal of loss on revaluation of property and equipment of prior periods	6,377	-
Fines and penalties received	4,225	846
Property lease	1,768	901
Income on disposal of fixed assets	1,687	-
Income on accounts payable write-off	865	723
Gain on transactions with own bills of exchange	552	125
Income from sale of assets not classified as property and equipment	49	99
Income from VISA shares received free of charge	-	11,391
Other	2,456	2,797
	<u>47,409</u>	<u>37,561</u>

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Staff costs	2,913,656	3,080,292
Operating leases	825,335	700,091
Unified social tax	475,398	531,290
Depreciation and amortization	390,991	319,757
Other taxes and duties	327,110	306,280
Telecommunication and information services	321,451	328,708
Expenses on materials and furniture not classified as property and equipment	145,106	132,321
Repairs and maintenance expenses	140,407	104,590
Advertising costs	120,057	168,325
Security expenses	96,884	90,807
Payments to the Deposit Insurance Fund	94,615	102,653
Other repairs and maintenance expenses	44,905	32,692
Business trip expenses	41,602	40,492
Information and consulting services	33,361	19,279
Vehicle maintenance expenses	31,701	23,752
Loss on revaluation of property and equipment	25,858	-
Impairment of investments available-for-sale	13,012	-
Transportation expenses	11,100	10,742
Audit costs	10,251	8,361
Expenses on rulings and permissions, and issue of documents	8,678	12,087
Expenses on rights to use intellectual property	7,605	11,138
Insurance expenses	7,223	12,155
Charity and sponsorship expenses	3,418	1,741
Loss on disposal of property and equipment	-	18,220
Realtor services	-	10,155
Other	35,500	40,313
Total operating expenses	<u>6,125,224</u>	<u>6,106,241</u>

11. INCOME TAXES

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation, which may differ from IFRS.

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

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

The tax rate used for the 2009 and 2008 reconciliations above is the corporate tax rate of 20% and 24%, respectively, payable by corporate entities in the Russian Federation on taxable profits under tax law in that jurisdiction.

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

	December 31, 2009	December 31, 2008
Deductible temporary differences:		
Loans to customers	725,683	464,093
Other assets	114,986	60,009
Other liabilities and other provisions	257,720	107,134
Debt securities issued	37,021	4,829
Financial assets at fair value through profit or loss	27,976	-
Investments available-for-sale	-	154,141
Investments held-to-maturity	-	8,513
Total deductible temporary differences	1,163,386	798,719
Taxable temporary differences:		
Investments available-for-sale	1,111,268	-
Property and equipment and intangible assets	806,846	852,866
Investments held-to-maturity	21,436	-
Due from banks	7,769	-
Financial assets at fair value through profit or loss	-	595
Total taxable temporary differences	1,947,319	853,461
Net taxable temporary differences	(783,933)	(54,742)
Net deferred tax liability at the statutory tax rate (20%)	(156,787)	(10,948)
Less: unrecognized deferred tax asset	(14,830)	-
Net deferred income tax liabilities	(171,617)	(10,948)

Relationships between tax expenses and accounting profit for the years ended December 31, 2009 and 2008 are explained as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Profit before tax	946,521	1,893,522
Tax at the statutory tax rate (20%/24%)	189,304	454,445
Change in unrecognized deferred tax asset	14,830	(13,061)
Tax effect of permanent differences – non-deductible expenses	24,345	35,844
Effect of income tax rate change	-	(8,595)
Adjustment of income tax base for prior years	(21,413)	(69,172)
Income tax expense	207,066	399,461
Current income tax expense	404,900	318,024
Changes in deferred income tax balances	(197,834)	81,437
Income tax expense	207,066	399,461

	Year ended December 31, 2009	Year ended December 31, 2008
As at January 1 - deferred income tax assets	155,069	119,079
As at January 1 - deferred income tax liabilities	(166,017)	(141,413)
Changes in deferred income tax balances recognized in income statement	197,834	(81,437)
Changes in deferred income tax assets recognized in equity	(155,069)	74,450
Changes in deferred income tax liabilities recognized in equity	(203,434)	18,373
As at December 31 - deferred income tax assets	154,857	155,069
As at December 31 - deferred income tax liabilities	(326,474)	(166,017)

12. CASH AND CASH EQUIVALENTS

	December 31, 2009	December 31, 2008
Cash on hand	3,892,561	3,054,997
Balances with the Central Bank of the Russian Federation (less minimum reserves)	3,196,017	7,251,044
Balances on correspondent accounts with banks and non-banking credit institutions	<u>1,312,842</u>	<u>6,759,745</u>
Total cash and cash equivalents	<u>8,401,420</u>	<u>17,065,786</u>

13. MINIMUM RESERVE DEPOSITS WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

As at December 31, 2009 and 2008, minimum reserve deposits with the Central Bank of the Russian Federation amounted to RUB 354,935 thousand and RUB 49,975 thousand, respectively. The Bank is required to maintain minimum reserve deposits with the Central Bank of the Russian Federation at all times.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In accordance with amendments to IAS 39 and IFRS 7, on October 31, 2008 the Bank's management made a decision to reclassify debt securities out of financial assets at fair value through profit or loss to investments available-for-sale and investments held to maturity effective as at July 1, 2008.

As at July 1, 2008 the total value of reclassified securities amounted to RUB 2,823,920 thousand.

As at July 1, 2008 the total value of estimated cash flows related to the reclassified securities amounted to RUB 3,890,310 thousand with effective interest rates varying from 5.06% to 10.89% per annum. Without reclassification, the Bank's 2008 and 2009 income statement would have included unrealized losses from change in fair value of these reclassified debt securities in the amount of RUB 574,029 thousand and RUB 7,234 thousand respectively.

Financial assets at fair value through profit or loss comprise:

	December 31, 2009	December 31, 2008
Financial assets held for trading:		
Eurobonds	311,837	-
Government bonds	<u>274,898</u>	<u>320,739</u>
Total financial assets held for trading	<u>586,735</u>	<u>320,739</u>
Total financial assets at fair value through profit or loss	<u>586,735</u>	<u>320,739</u>

	Nominal value	December, 31 2008	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Futures	<u>1,359,977</u>	<u>-</u>	<u>-</u>
Total derivative financial instruments	<u>1,359,977</u>	<u>-</u>	<u>-</u>

As at December 31, 2009 and 2008 financial assets at fair value through profit or loss included accrued interest income on debt securities for the total amount of RUB 12,209 thousand and RUB 6,488 thousand, respectively.

As at December 31, 2008 financial assets at fair value through profit or loss also included federal loan bonds pledged under repurchase agreements with the Bank of Russia in the amount of RUB 320,739 thousand (Note 21).

As at December 31, 2009 federal loan bonds amounting RUB 274,898 thousand were blocked by the Central Bank of Russian Federation. Collateral represented by these securities enables the Bank to use the one-day and automatic overdraft loans while transfer payments through the current accounts with the Central Bank of the Russian Federation.

15. DUE FROM BANKS

Due from banks comprise:

	December 31, 2009	December 31, 2008
Due from banks	15,204,041	412,588
Total due from banks	15,204,041	412,588

As at December 31, 2009 and 2008 included in amounts due from banks is accrued interest income of RUB 66,592 thousand and RUB 3,148 thousand, respectively.

As at December 31, 2009 and 2008 the maximum credit risk exposure of loans and advances to banks amounted to RUB 15,204,041 thousand and RUB 412,588 thousand, respectively.

As at December, 31 2009 the Bank had due from the parent bank (OTP BANK PLC), which exceeded 127% of the Bank's equity.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2009	December 31, 2008
Loans and advances to customers	60,708,111	59,840,205
Loans under reverse repurchase agreements	91,808	457
	60,799,919	59,840,662
Less: allowance for impairment losses	(7,887,337)	(6,078,168)
Total loans to customers	52,912,582	53,762,494

As at December 31, 2009 and 2008 included in loans to customers is accrued interest income, less allowance for impairment losses, of RUB 1,106,583 thousand and RUB 930,627 thousand, respectively.

Movements in allowances for impairment losses on loans to customers for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

The table below shows amounts of collateralized loans, but not the fair value of collateral:

	December 31, 2009	December 31, 2008
Unsecured loans	34,179,319	29,005,066
Loans collateralized by pledge of real estate	19,703,544	21,409,849
Loans collateralized by pledge of motor vehicles	3,280,228	4,728,963
Loans collateralized by goods in turnover	1,991,096	3,044,629
Loans collateralized by pledge of other property	1,085,524	911,416
Loans collateralized by securities	211,717	20,472
Loans collateralized by Bank's promissory notes	131,781	471,421
Loans collateralized by pledge of inventories	20,153	116,217
Loans collateralized by cash	-	70,262
Loans collateralized by other collateral	196,557	62,367
	60,799,919	59,840,662
Less: allowance for impairment losses	(7,887,337)	(6,078,168)
Total loans to customers	52,912,582	53,762,494

	December 31, 2009	December 31, 2008
Analysis by sector:		
Individuals	44,557,395	43,272,867
Real estate and rent	5,972,645	4,046,080
Trade	3,496,763	4,682,275
Construction	2,610,754	3,327,180
Manufacturing	1,692,621	2,164,302
Government authorities	1,003,613	503,347
Financial services	391,669	62,830
Agriculture	314,960	744,367
Services	261,397	285,719
Finance and operating leases	196,418	309,207
Transportation	98,552	149,844
Science	57,198	94,016
Publishing and printing	34,447	68,745
Other	111,487	129,883
	<u>60,799,919</u>	<u>59,840,662</u>
Less: allowance for impairment losses	<u>(7,887,337)</u>	<u>(6,078,168)</u>
Total loans to customers	<u>52,912,582</u>	<u>53,762,494</u>

During 2009 the Bank received financial assets by taking possession of collateral it held as security with fair value of RUB 926 thousand. As at December 31, 2009 part of such assets in the amount of RUB 591 thousand was included in other assets. The remaining part was sold during 2009.

Loans to individuals comprise the following products:

	December 31, 2009	December 31, 2008
Consumer loans	22,240,093	18,647,115
Overdrafts on plastic cards	9,114,706	8,427,450
Mortgage loans	8,722,940	9,563,984
Car loans	2,556,023	3,379,547
Entrepreneurs	954,614	1,523,211
Other	969,019	1,731,560
	<u>44,557,395</u>	<u>43,272,867</u>
Less: allowance for impairment losses	<u>(7,079,980)</u>	<u>(5,613,767)</u>
Total loans to individuals	<u>37,477,415</u>	<u>37,659,100</u>

As at December 31, 2009 and 2008 the Bank granted loans to 4 and 5 borrowers/ groups of related borrowers totaling RUB 6,330,732 thousand and RUB 6,219,327 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at December 31, 2009 and 2008 substantially all loans were granted to companies and individuals operating in the Russian Federation, which represents a significant geographical concentration in one region.

As at December 31, 2009 and 2008 loans granted to 10 borrowers/ groups of related borrowers amounted to 17.75% (RUB 10,792,839 thousand) and 14.2% (RUB 8,496,931 thousand) of the loan portfolio respectively.

As at December 31, 2009 and 2008 the maximum credit risk exposure on loans to customers amounted to RUB 52,912,582 thousand and RUB 53,762,494 thousand, respectively.

As at December 31, 2009 and 2008 the maximum credit risk exposure on loan commitments and overdrafts extended by the Bank to its customers amounted to RUB 8,636,658 thousand and RUB 5,694,793 thousand, respectively.

As at December 31, 2009 and 2008 included in the loans to customers were loans in the amount of RUB 966,294 thousand and RUB 205,742 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

In December 2009 the Bank entered into a transaction with MORGAN&STOUT on the sale of a large portfolio of overdue consumer loans. As at the date of sale this loan portfolio was written off against provisions. Income from sale is recognized in the Income statement and comprises RUB 101,573 thousand.

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2009			December 31, 2008		
	Carrying value before allowance	Provision for impairment losses	Carrying value	Carrying value before allowance	Provision for impairment losses	Carrying value
Loans to customers individually determined to be impaired	12,130,233	(1,002,094)	11,128,139	6,043,935	(517,195)	5,526,740
Loans to customers collectively determined to be impaired	43,602,781	(6,885,243)	36,717,538	44,877,915	(5,560,973)	39,316,942
Unimpaired loans	5,066,905	-	5,066,905	8,918,812	-	8,918,812
Total	60,799,919	(7,887,337)	52,912,582	59,840,662	(6,078,168)	53,762,494

As at December 31, 2009 and 2008 loans amounting to RUB 11,128,139 thousand and RUB 5,526,740 thousand respectively that were individually determined to be impaired were collateralized by the Bank's promissory notes, pledge of real estate, motor vehicles, equipment, goods in turnover and other collateral with fair value of RUB 19,820,436 thousand and RUB 8,409,383 thousand respectively.

Fair value of assets received as collateral and carrying value of loans under reverse repurchase agreements as at December 31, 2009 and 2008 are presented as follows:

	December 31, 2009		December 31, 2008	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Equity securities	14,394	19,370	457	456
Promissory notes of Russian companies	77,414	86,571	-	-
Total	91,808	105,941	457	456

17. INVESTMENTS AVAILABLE-FOR-SALE

In accordance with amendments to IAS 39 and IFRS 7 on October 31, 2008 the Bank's management has made a decision to reclassify debt securities out of investments available-for-sale to investments held-to-maturity effective as at July 1, 2008. As at July 1, 2008 the total value of reclassified securities amounted to RUB 1,549,239 thousand. As at July 1, 2008 the total value of estimated cash flows related to the reclassified securities amounted to RUB 2,647,143 thousand with effective interest rates varying from 10.85% to 17.79% per annum. Without reclassification, the Bank's 2008 and 2009 statement of changes in equity would have included unrealized losses from change in fair value of these reclassified debt securities in the amount of RUB 811,947 thousand and RUB 1,358 thousand respectively.

Investments available-for-sale comprise:

	December 31, 2009	December 31, 2008
Eurobonds	7,302,464	1,947,833
Promissory notes	1,693,956	22
Corporate bonds	130,885	-
Equity securities	6,924	19,048
	9,134,229	1,966,903
Less: allowance for impairment losses	(48,355)	(22)
Total investments available-for-sale	9,085,874	1,966,881

Movements in allowances for impairment for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

As at December 31, 2009 and 2008 investments available-for-sale included accrued interest income on debt securities for the total amount of RUB 300,898 thousand and RUB 58,078 thousand.

As at December 31, 2008 investments available-for-sale also included the Eurobonds pledged under repurchase agreements with the Central Bank of the Russian Federation with the fair value of RUB 904,104 thousand (Note 21).

18. INVESTMENTS HELD TO MATURITY

Investments held to maturity comprise:

	December 31, 2009		December 31, 2008	
	Nominal annual interest rate, %	Amount	Nominal annual interest rate, %	Amount
Eurobonds	7.88-9.38	456,999	7.88-9.75	2,198,902
Corporate bonds	-	-	8.75	500,793
		<u>456,999</u>		<u>2,699,695</u>
Less: allowance for impairment losses		<u>(35,380)</u>		<u>-</u>
Total securities held to maturity		<u>421,619</u>		<u>2,699,695</u>

Movements in allowances for impairment losses for the year ended December 31, 2009 are disclosed in Note 5.

As at December 31, 2009 and 2008 investments held to maturity included accrued interest income for the total amount of RUB 16,245 thousand and RUB 88,793 thousand respectively.

In 2009 securities of JSC Temirbank and JSC Alliance Bank with carrying value of RUB 1,004,898 thousand and RUB 1,393,909 thousand at the date of sale respectively were sold before the maturity date. The securities were sold due to the significant worsening of the financial position of the issuers. The worsening of the financial position of the issuers was of an emergency nature and could not be reasonably anticipated by the Bank. The Bank's management believes that the sale of securities does not contradict the requirements of IFRS and has been carried out in accordance with IAS 39.

19. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

The Bank's property and equipment and intangible assets comprise:

	Land	Buildings	Structures	Construction in progress, capital investments	Vehicles	Other property and equipment	Intangible assets	Total
At initial/indexed/revalued cost								
December 31, 2007	3,738	1,436,572	21,360	33,352	72,402	1,161,315	186,266	2,915,005
Additions	-	158	71,125	55,409	8,651	449,519	50,980	635,842
Transfers	-	6,603	342	(24,727)	-	-	17,782	-
Disposals	-	(3,170)	(981)	-	(1,276)	(54,397)	-	(59,824)
December 31, 2008	3,738	1,440,163	91,846	64,034	79,777	1,556,437	255,028	3,491,023
Additions	-	1,866	118,275	29,583	6,062	210,532	106,186	472,504
Revaluation	-	(169,667)	-	-	-	-	-	(169,667)
Transfers	-	-	43,033	(53,445)	-	(34,710)	45,122	-
Disposals	-	-	(928)	(4,602)	(8,978)	(15,964)	-	(30,472)
December 31, 2009	3,738	1,272,362	252,226	35,570	76,861	1,716,295	406,336	3,763,388
Accumulated depreciation and amortization and impairment								
December 31, 2007	-	123,306	7,024	-	37,982	534,878	22,802	725,992
Charge for the year	-	55,312	9,455	-	11,418	200,865	42,707	319,757
Disposals	-	(328)	(544)	-	(1,276)	(37,048)	-	(39,196)
December 31, 2008	-	178,290	15,935	-	48,124	698,695	65,509	1,006,553
Charge for the year	-	37,478	27,432	-	11,244	240,331	74,506	390,991
Revaluation	-	(17,989)	-	-	-	-	-	(17,989)
Disposals	-	-	(715)	-	(8,201)	(14,588)	-	(23,504)
December 31, 2009	-	197,779	42,652	-	51,167	924,438	140,015	1,356,051
Net book value								
December 31, 2009	3,738	1,074,583	209,574	35,570	25,694	791,857	266,321	2,407,337
December 31, 2008	3,738	1,261,873	75,911	64,034	31,653	857,742	189,519	2,484,470

As at December 31, 2009 and 2008 included in property and equipment was fully depreciated equipment of RUB 568,028 thousand and RUB 380,300 thousand, respectively.

As at December 31, 2009 the Bank revalued its buildings recognized as at this date according to an independent appraiser's report. The revaluation was performed by an independent appraiser whose specialists have recognized qualifications and are experienced in the revaluation of properties with similar location and category. Due to heterogeneity of the revalued buildings, which are located in different regions of the Russian Federation, the revaluation was performed by the independent appraisers using the following methods: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using the different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property and other criteria.

As at December 31, 2009 buildings owned by the Bank were recognized at a revalued amount according to an independent appraiser's report. As a result, the carrying value of these buildings amounted to RUB 1,074,583 thousand. If the buildings were accounted at historical cost restated for inflation less accumulated depreciation their carrying value at December 31, 2009 would be RUB 669,794 thousand.

As at 31 December 2008 the carrying value of buildings including previous revaluation amounted to RUB 1,261,873 thousand. If the buildings were accounted at indexed cost less accumulated depreciation and accumulated impairment, the carrying value would be RUB 683,151 thousand as at 31 December 2008.

20. OTHER ASSETS

Other assets comprise:

	December 31, 2009	December 31, 2008
Other financial assets:		
Insurance coverage of transactions at trading venues	119,954	8,050
Accrued commission income	17,696	12,940
Unsettled transactions with plastic cards	16,722	10,150
Prepayments and receivables on other transactions	11,881	12,410
Spot position	10,334	13,172
Accrued dividends	16	15
Settlement on brokerage operations	-	2,947
	176,603	59,684
Less: allowance for impairment losses	(18,318)	(9,317)
Total other financial assets	158,285	50,367
Other non-financial assets:		
Prepayments and receivables on business transactions	200,865	313,847
Tax settlements, other than income tax	26,879	18,946
Payables to staff	1,466	1,940
Property received under loan	591	-
Precious metals	-	25
	229,801	334,758
Less: allowance for impairment losses	(17,529)	(12,808)
Total other non-financial assets	212,272	321,950
Total other assets	370,557	372,317

Movements in provisions for impairment losses on other assets for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

21. DUE TO BANKS

Due to banks comprise:

	December 31, 2009	December 31, 2008
Loans and deposits from banks	26,096,723	23,895,595
Correspondent accounts of other banks	289,272	395,965
Loans from the Central Bank of the Russian Federation	-	8,098,160
Loans from the Central Bank of the Russian Federation under repurchase agreements	-	1,081,863
Total due to banks	<u>26,385,995</u>	<u>33,471,583</u>

As at December 31, 2009 and 2008 accrued interest expenses included in due to banks was RUB 165,611 thousand and RUB 304,493 thousand, respectively.

As at December 31, 2008 due to banks included loans received under repurchase agreements, with maturities by 11 January 2009.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at December 31, 2008 are presented as follows:

	December 31, 2008	
	Fair value of collateral	Carrying amount of loans
Government bonds:		
Russian State Bonds (OFZ)	320,739	308,804
Eurobonds:		
Moscow city administration	475,321	413,980
OJSC "Promsvyazbank"	154,602	120,507
OJSC "Transneft"	149,984	129,354
OJSC TNK	124,197	109,218
Total	<u>1,224,843</u>	<u>1,081,863</u>

As at December 31, 2009 and 2008, amounts due to banks of RUB 23,237,140 thousand (88.07% of due to banks) and RUB 22,871,306 thousand (68.33% of due to banks) were due to the parent bank, respectively, which represents a significant concentration.

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2009	December 31, 2008
Term deposits	31,997,994	18,107,410
Current/settlement accounts and demand deposits	14,616,545	14,723,889
Total customer accounts	<u>46,614,539</u>	<u>32,831,299</u>

	December 31, 2009	December 31, 2008
Analysis by sectors:		
Individuals	29,469,140	19,565,409
Insurance	3,627,271	977,700
Construction	2,946,283	2,831,897
Trade	2,923,552	3,211,819
Services	1,366,337	1,156,501
Real estate and rent	965,111	846,892
Transport and communications	919,716	489,741
Finance and investments	879,408	604,060
Finance and operating leases	734,097	6,245
Manufacturing and engineering	671,426	717,355
Science, education and IT	666,979	478,675
Marketing and advertising	258,952	399,549
Food	238,218	279,579
Publishing and mass media	171,793	117,992
Public activities and charity	152,409	163,630
Agriculture	81,939	106,843
Power and heat generation and distribution	70,573	13,070
Oil & gas production, refining and transportation	35,206	11,364
Others	436,129	852,978
Total customer accounts	<u>46,614,539</u>	<u>32,831,299</u>

As at 31 December 2009 and 2008 included in customer accounts is accrued interest expense of RUB 320,855 thousand and RUB 223,306 thousand, respectively.

As at 31 December 2009 the Bank raised deposits from two customers/groups of related customers totaling RUB 3,978,434 thousand, which individually exceeded 10% of the Bank's equity.

23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date month/year	Interest rate per annum	December 31, 2009	Maturity date month/year	Interest Rate Per Annum	December 31, 2008
Discounted promissory notes	March 2009 – July 2015	2.02-15.49	2,321,428	January 2009 – July 2015	5.11-13.10	887,635
Interest-bearing promissory notes	December 2009 – January 2011	5.75-15.00	247,336	January 2009 – October 2009	7.75-12.50	372,188
Interest/discount free promissory notes	on demand – April 2010	-	4,580	on demand – January 2009	-	49,030
Total debt securities issued			<u>2,573,344</u>			<u>1,308,853</u>

As at December 31, 2009 and 2008 accrued interest expense included in debt securities issued amounted to RUB 59,077 thousand and RUB 29,411 thousand, respectively.

24. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2009	December 31, 2008
Other financial liabilities:		
Unsettled transactions with plastic cards	19,646	156
Spot position	14,306	48,844
Settlements on other operations	10,328	6,735
Accrued commission expenses	4,562	7,499
Dividends payable to shareholders	-	375
	<u>48,842</u>	<u>63,609</u>
Other non-financial liabilities:		
Salary payable	462,255	408,216
Taxes payable, other than income tax	125,198	91,385
Trade accounts payable and fees payable for professional services	122,657	45,887
Current income tax liabilities	64,842	1,978
Accrued expenses on deposit insurance premiums	26,791	18,557
	<u>801,743</u>	<u>566,023</u>
Total other liabilities	<u>850,585</u>	<u>629,632</u>

25. SUBORDINATED DEBT

	Currency	Interest rate %	Maturity date	Carrying amount as at December 31, 2009	Maturity date	Carrying amount as at December 31, 2008
Subordinated loan from OTP Bank Plc	USD	7.05	2014	1,098,465	2014	1,067,066
Subordinated loan from OTP Financing Cyprus	Swiss franc	4.6	2014	498,200	2014	475,896
Subordinated loan from OTP Bank Plc	RUB	7	2014	199,747	2014	199,742
Subordinated loan from OTP Bank Plc	RUB	7	2015	156,166	2015	156,162
Subordinated loan from OTP Bank Plc	RUB	6.5	2015	128,242	2015	128,239
Subordinated loan from OTP Bank Plc	RUB	6.5	2014	<u>85,696</u>	2014	<u>85,694</u>
Total subordinated debt				<u>2,166,516</u>		<u>2,112,799</u>

As at December 31, 2009 and 2008 accrued interest expense included in subordinated debt was RUB 17,396 thousand and RUB 16,945 thousand, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

The Bank issued subordinated debt in order to comply with its capital adequacy ratio approved by the Central Bank of the Russian Federation and to maintain this ratio at the level established by the major shareholder of OTP BANK PLC.

26. SHARE CAPITAL AND SHARE PREMIUM

As at December 31, 2009 and 2008 the Bank's share capital comprised 261,801,385 thousand and 261,801,385 thousand ordinary shares with par value of 1 kopeck per share:

As at December 31, 2009 the Bank's share capital comprised the following number of shares with par value of 1 kopeck each:

	Share capital authorized, Shares'000	Unpaid share capital, Shares'000	Treasury shares, Share'000	Total share capital, Shares'000
Ordinary shares	261,801,385	-	-	261,801,385

As at December 31, 2008 the Bank's share capital comprised the following number of shares with par value of 1 kopeck each:

	Share capital authorized, Share'000	Unpaid share capital, Share'000	Treasury shares, Share'000	Total share capital, Share'000
Ordinary shares	261,801,385	-	-	261,801,385

The table below provides a reconciliation of the number of shares outstanding as at December 31, 2009 and 2008:

	Ordinary shares, Shares'000
December 31, 2007	211,801,385
New shares issued	50,000,000
December 31, 2008	261,801,385
December 31, 2009	261,801,385

The bank registered the Report on the results of an additional issue of shares of OJSC "OTP Bank" on September 30, 2008. The new issue of shares allowed to increase the Bank's share capital by RUB 500,000 thousand.

Share premium represents an excess of contributions received over the nominal value of shares issued. As the shares were issued at value exceeding the par value, share premium amount was RUB 2,000,000 thousand as at December 31, 2008.

The Bank's distributable reserves among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable funds are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

The Bank uses the same credit policy for the contingent liabilities as it does for balance sheet financial instruments.

Provision for losses on credit commitments was RUB 5,642 thousand and RUB 17,892 thousand as at December 31, 2009 and 2008, respectively.

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

	December 31, 2009 Nominal amount	December 31, 2008 Nominal amount
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	19,399,133	17,826,434
Guarantees issued and similar commitments	65,826	502,518
Total contingent liabilities and credit commitments	19,464,959	18,328,952

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2009 and 2008 such unused credit lines come to RUB 8,642,300 thousand and RUB 5,864,624 thousand, respectively.

Capital commitments – As at December 31, 2009 and 2008, the Bank's capital commitments in respect of rented premises RUB 4,740 thousand and RUB 29,290 thousand, respectively.

Operating lease commitments – The Bank's future minimum lease payments under non-cancelable operating leases of premises and land as at December 31, 2009 and 2008 are as follows:

	December 31, 2009	December 31, 2008
Less than one year	637,650	673,307
Later than 1 year and not later than 5 years	1,419,120	1,160,986
Later than 5 years	493,153	42,502
Total operating lease commitments	2,549,923	1,876,795

As at December 31, 2009 the Bank concluded an operating lease agreement in respect of the central office building, expiring on April 21, 2019.

Fiduciary activities – In the normal course of its business the Bank enters into agreements with customers for their assets management in accordance with specific criteria established by customers. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. As at December 31, 2009 and 2008 total customer accounts in the Bank's management, including unrealized income on the customers' positions did not exceed RUB 3,983 thousand and RUB 2,375 thousand, respectively.

The Bank also provides depositary services to its customers. As at December 31, 2009 and 2008 the Bank held as the nominee holder the customers' securities in the amount of 97,389,844,101 securities and 97,680,559,974 securities, respectively.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. The movements of provisions for legal proceedings are disclosed in Note 5.

Taxation – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing for more than one interpretation, and also due to the probability that tax authorities may make judgments on the Bank's activities which differ from those of the Bank, if a particular treatment based on management's judgment of the Bank's business activities are to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Bank's management believes that all tax payments have already been made, and therefore no provision has been made in the financial statements. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates.

Operating environment – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. 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 continue to change rapidly. Tax, currency and customs legislation within the Russian Federation 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 the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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. Numerous lending institutions and investors reduced their funding facilities that resulted in the global loss of liquidity.

The global financial turmoil has significantly affected Russia's economy. It has resulted in a decrease of Russia's 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 December 31, 2009 and 2008 was 8.8% and 13.3%, respectively). Since the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas in 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's 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 from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Bank's access to capital and cost of capital for the Bank 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 Bank and its counterparties, which could affect the Bank'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 Bank's borrowers' ability to repay the amounts due to the Bank. 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 Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Management is unable to reliably estimate the effects on the Bank'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 Bank's business in the current circumstances.

28. TRANSACTIONS WITH RELATED PARTIES

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

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a)-(d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a)-(e);
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	December 31, 2009		December 31, 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Cash and cash equivalents	3,553	8,401,420	2,427	17,065,786
- shareholders	2,118	-	1,647	-
- entities and banks controlled by the shareholders	1,435	-	780	-
Due from banks	13,972,301	15,204,041	275,490	412,588
- shareholders	13,972,301	-	-	-
- entities and banks controlled by the shareholders	-	-	275,490	-
Loans and advances to customers	86,378	60,799,919	43,600	59,840,662
- key management personnel of the Bank	41,338	-	41,804	-
- entities and banks controlled by the shareholders	44,575	-	-	-
- other related parties	465	-	1,796	-
Allowance for impairment loss on loans and advances to customers	473	7,887,337	42	6,078,168
- key management personnel of the Bank	21	-	38	-
- entities and banks controlled by the shareholders	446	-	-	-
- other related parties	6	-	4	-
Investments available for sale	5,814,437	9,085,874	12,549	1,966,881
- shareholders	5,814,431	-	-	-
- other related parties	6	-	12,549	-
Other assets	3,472	370,557	1,351	372,317
- shareholders	2,142	-	907	-
- key management personnel of the Bank	532	-	444	-
- entities and banks controlled by the shareholders	798	-	-	-
Due to banks	24,571,762	26,385,995	23,036,928	33,471,583
- shareholders	23,237,140	-	22,871,306	-
- entities and banks controlled by the shareholders	1,334,622	-	165,622	-
Customer accounts	430,758	46,614,539	352,420	32,831,299
- shareholders	212,590	-	202,508	-
- key management personnel of the Bank	166,913	-	134,392	-
- entities and banks controlled by the shareholders	24,639	-	-	-
- other related parties	26,616	-	15,520	-
Other liabilities	1,488	850,585	90	629,632
- shareholders	1,488	-	-	-
- key management personnel of the Bank	-	-	90	-
Subordinated debt	2,166,516	2,166,516	2,112,799	2,112,799
- shareholders	1,668,315	-	1,636,904	-
- entities and banks controlled by the shareholders	498,201	-	475,895	-
Commitments on loans and unused credit lines	4,573	8,642,300	2,944	5,864,624
- key management personnel of the Bank	4,358	-	2,944	-
- other related parties	215	-	-	-

The remuneration of directors and other members of key management was as follows:

	December 31, 2009		December 31, 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
Short-term benefits	352,452	2,913,656	326,261	3,080,292
	352,452	2,913,656	326,261	3,080,292

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

	December 31, 2009		December 31, 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	458,602	15,137,767	11,052	12,762,139
- shareholders	433,061	-	2,541	-
- key management personnel of the Bank	4,636	-	3,193	-
- entities and banks controlled by the shareholders	20,768	-	4,950	-
- other related parties	137	-	368	-
Interest expenses	1,382,464	4,325,995	871,488	2,736,032
- shareholders	1,295,753	-	842,851	-
- key management personnel of the Bank	13,083	-	5,412	-
- entities and banks controlled by the shareholders	70,786	-	20,679	-
- other related parties	2,842	-	2,546	-
Net loss on foreign exchange operations	308,540	(293,106)	299,835	(828,952)
- shareholders	306,122	-	296,386	-
- key management personnel of the Bank	1,120	-	660	-
- entities and banks controlled by the shareholders	1,284	-	2,742	-
- other related parties	14	-	47	-
Fee and commission income	3,214	1,391,129	1,586	1,857,952
- shareholders	230	-	353	-
- key management personnel of the Bank	265	-	210	-
- entities and banks controlled by the shareholders	2,556	-	840	-
- other related parties	163	-	183	-
Fee and commission expense	90,412	725,697	6	441,688
- shareholders	90,412	-	3	-
- entities and banks controlled by the shareholders	-	-	3	-
Net loss on investments held to maturity	55,897	55,897	-	-
- shareholders	55,897	-	-	-
Other income	743	47,409	54	37,561
- shareholders	81	-	44	-
- key management personnel of the Bank	2	-	10	-
- entities and banks controlled by the shareholders	642	-	-	-
- other related parties	18	-	-	-
Operating expense other than short-term benefits to key management personnel	6,364	3,211,568	6,271	3,025,949
- key management personnel of the Bank	5,537	-	4,218	-
- entities and banks controlled by the shareholders	818	-	2,053	-
- other related parties	9	-	-	-

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be acquired in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with their carrying amounts is presented below:

	December 31, 2009		December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	8,401,420	8,401,420	17,065,786	17,065,786
Due from banks	15,204,041	15,204,041	412,588	412,588
Loans and advances to customers	52,912,582	50,950,272	53,762,494	53,762,494
Investments held-to-maturity	421,619	431,110	2,699,695	1,784,947
Other financial assets	158,285	158,285	50,367	50,367
Due to banks	26,385,995	26,385,995	33,471,583	33,471,583
Customer accounts	46,614,539	46,614,539	32,831,299	32,831,299
Debt securities issued	2,573,344	2,573,344	1,308,853	1,308,853
Subordinated debt	2,166,516	2,166,516	2,112,799	2,112,799
Other financial liabilities	48,842	48,842	63,609	63,609

Trade securities with change in fair value recognized through profit and loss accounts, derivative financial instruments, investments available-for-sale recorded in the statement of financial position at fair value. As at December 31, 2009 and 2008, equity investments available-for-sale in the amount of RUB 6,924 thousand and RUB 19,048 thousand, respectively, were recorded at cost. The fair value of investments cannot be measured reliably due to time and cost restrictions.

Fair value of instruments with floating interest rate, generally, is equal to their current value. In case of significant changes in the market situation, interest rates on loans to customers and due from other banks issued at fixed interest rates may be revised. As a result, interest rates on loans issued shortly before the reporting date do not differ materially from existing interest rates for new instruments with similar credit risk level and similar maturity. If the Bank considers that interest rates on previously issued loans differ materially from those existing at the reporting date for similar instruments, the Bank determines the estimated fair value of such loans. The estimate is made based on the discounted cash flow method using existing interest rates for new instruments with similar credit risk level and similar maturity. Estimated fair value of other financial assets, including accounts receivable, is equal to their amortized value, taking into account short-term nature of such assets.

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

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank 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, valuation 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 Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

	December 31, 2009			Total fair value	Total carrying amount
	Quoted prices in active market	Valuation techniques based on observable market data	Valuation techniques using information other than observable market data		
	(Level 1)	(Level 2)	(Level 3)		
Financial assets at fair value through profit or loss	586,735	-	-	586,735	586,735
Investments available-for-sale	9,078,950	-	-	9,078,950	9,078,950

	December 31, 2008			Total fair value	Total carrying amount
	Quoted prices in active market	Valuation techniques based on observable market data	Valuation techniques using information other than observable market data		
	(Level 1)	(Level 2)	(Level 3)		
Financial assets at fair value through profit or loss	320,739	-	-	320,739	320,739
Investments available-for-sale	1,947,833	-	-	1,947,833	1,947,833

In 2009 the Bank sold investments available-for-sale which fair value had not been reliably measured and they were recorded at cost. Carrying amount of these investments at the date of sale was RUB 1.5 thousand, the income from sale was RUB 462 thousand.

30. CAPITAL RISK MANAGEMENT

The Bank's policy consists in maintaining the stable capital base to retain the trust of investors, lenders and market participants. The Bank's capital management is aimed at: compliance with capital requirements established by the Central Bank of the Russian Federation, future development of the business, maintenance of the capital base sufficient to ensure capital adequacy ratio. The Bank controls the capital adequacy ratio, determining the ratio value on a daily basis.

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

In accordance with effective requirements established by the Central Bank of the Russian Federation, banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level of 10%. For the purposes of timely management decision-making the Bank established the internal (stricter) value of the ratio as 11%. The said value exceeds the minimum levels established by the Bank Central Bank of the Russian Federation (10%) and the Basel Committee (8%) and allows the Bank to participate in the deposit insurance scheme in accordance with requirements stipulated by Federal Law No.177-FZ "On insurance of individual deposits with the Russian Federation banks" dated December 23, 2003.

In 2009 the Bank complied with all external requirements to the capital. The table below provides the values of capital and capital adequacy ratio based on the Bank's reports prepared in compliance with requirements of the Central Bank of the Russian Federation:

	December 31, 2009	December 31, 2008
Principal capital	8,907,738	8,977,558
Additional capital	<u>2,720,123</u>	<u>3,015,705</u>
Total capital of the Bank	<u>11,627,861</u>	<u>11,993,263</u>
Capital adequacy ratio	13.3%	17.4%

The calculation of the Bank's capital adequacy ratio as at December 31, 2009 and December 31, 2008 performed in compliance with the Basel accord of 1988, and taking into account the subsequent amendments made in November 2005, is as follows:

	December 31, 2009	December 31, 2008
Tier 1 capital	9,677,005	8,937,550
Tier 2 capital	<u>3,450,263</u>	<u>2,002,267</u>
Total capital	<u>13,127,268</u>	<u>10,939,817</u>
Risk weighted assets	69,935,309	63,360,922
Principal capital adequacy ratio	13.84%	14.11%
Total capital adequacy ratio	18.77%	17.27%

As at December 31, 2009 and 2008 the Bank included in the computation of total capital for capital adequacy purposes a subordinated debts received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

31. RISK MANAGEMENT POLICIES

Improvement of risk management quality is one of the priorities of the Bank. In 2009 the Bank continued the work on bringing the Bank's risk management system to the standards of the Bank's parent - OTP BANK PLC.

In 2009 as a part of its risk management procedures integration process the Bank continued the work on implementation of principles of general evaluation and risk acceptance, adopted by the Bank's parent, taking into consideration local peculiarities, regulative base of the Central Bank of the Russian Federation and the Basel Committee's recommendations on banking surveillance and audit companies.

A better transparency of the risk management system is a key task for successful integration of the Bank in the general risk management system within the OTP Group. This task is performed, among other, by means of implementation of information systems used in OTP BANK PLC for risk assessment and control.

The risk management system of the Bank is developed based on continuous processes of risk detection, analysis, evaluation, control and monitoring.

The main risks inherent in the Bank's operations are those related to:

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

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

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation, and, consequently, the other party will incur a financial loss.

The Bank's main priority is credit risk management. Expansion of loan portfolio, a larger market share and launch of new products are performed under obligatory control over credit risk level.

Credit risk management is carried out in compliance with regulative documents approved by the Bank's Main Credit Committee. The regulations envisage a system approach based on risk awareness, differentiation of responsibilities, monitoring and control over the risk run.

In 2009 the Bank's approach to lending to retail customers may be characterized as cautious, and the Bank's priorities in retail lending were to maintain the existing lending volume, liquidity and portfolio quality. For the retail business the approach to assessment of accepted risks was developed using both a statistical estimate (such as a scorecard) and personal information (credit agencies, Federal Migration Service, etc.). In 2009 the set of measures on effective risk management in retail lending included regular monitoring of portfolio quality, implementation of a borrower protection system, new loyalty programs, automated overdue debt collection systems and a debt write-down anti-fraud system.

The corporate borrower credit risk management system is based on impartial and precise assessment of the borrowers' financial position and their business development prospects; regular monitoring of corporate borrowers' financial position and quality of debt service throughout the lending period; and a careful and balanced approach to loan portfolio management.

A conservative corporate credit policy used in 2009 was aimed at restraining lending operations, stabilizing the loan portfolio quality, balancing the loan to deposit ratio and accumulating liquidity reserves in the conditions of the global financial turmoil.

In 2009 the following principles became basic within the credit risk minimization strategy:

- Financing of most promising and profitable lending projects based on the selectivity principle and stricter requirements to borrower's financial situation (especially, for those that are new);
- Modification in the shares of ruble and foreign currency loans due to a change in the savings priorities of the population caused by the devaluation of the national currency;
- Maximum caution used in terms of other banks' loans refinancing;
- Approval of only such loan applications which are secured by most liquid and reliable collateral;
- Prevention of bad debts: a closer monitoring of borrower's business, quarterly acquisition and analysis of all information available on the situation in industries where the borrower operates, documentary reviews of each fact which the Bank, directly or indirectly, becomes aware of, and which confirms possible problems in the borrower's or its major counterparties' operations;
- Restructuring of a loan debt aimed to temporarily help to a customer to ensure its fulfillment of all its obligations to the Bank in the future;
- Diversification of loan portfolio (allocation of credit portfolio among the largest possible number of borrowers and industries).

Successful performance of the goals set in 2009 allowed the Bank create a stable basis for growth of its assets in 2010. However, as before, the priority is to ensure financial stability of the Bank, maintenance of sufficient liquidity reserve and the same/ a better quality of assets.

Maximum credit risk exposure

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

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

As at December 31, 2009:

	Maximum credit risk exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation	3,196,017	-	3,196,017	-	3,196,017
Balances on correspondent accounts and on accounts with non-banking credit institutions	1,312,842	-	1,312,842	-	1,312,842
Financial assets at fair value through profit or loss	586,735	-	586,735	-	586,735
Due from banks	15,204,041	-	15,204,041	-	15,204,041
Loans and advances to customers	52,912,582	(131,781)	52,780,801	(26,488,819)	26,291,982
Investments available-for-sale	9,085,874	-	9,085,874	-	9,085,874
Investments held-to-maturity	421,619	-	421,619	-	421,619
Guarantees issued and other commitments	65,826	(56,566)	9,260	-	9,260
Commitments on loans and unused credit lines	8,642,300	-	8,642,300	-	8,642,300

As at December 31, 2008:

	Maximum credit risk exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation	7,251,044	-	7,251,044	-	7,251,044
Balances on correspondent accounts and on accounts with non-banking credit institutions	6,759,745	-	6,759,745	-	6,759,745
Financial assets at fair value through profit or loss	320,739	-	320,739	-	320,739
Due from banks	412,588	-	412,588	-	412,588
Loans and advances to customers	53,762,494	(541,683)	53,220,811	(22,680,357)	30,540,454
Investments available-for-sale	1,966,881	-	1,966,881	-	1,966,881
Investments held-to-maturity	2,699,695	-	2,699,695	-	2,699,695
Guarantees issued and other commitments	502,518	(32,856)	469,662	(2,350)	467,312
Commitments on loans and unused credit lines	5,864,624	-	5,864,624	-	5,864,624

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2009 and 2008 the balances with the Central Bank of the Russian Federation comprised RUB 3,196,017 thousand and RUB 7,251,044 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2009 corresponded to investment level BBB.

The following table details the credit ratings of financial assets held by the Bank as at December 31, 2009 (this information prepared for all financial assets that are neither past due nor impaired):

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2009 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	-	23,949	405,976	1,927	6,500	874,490	1,312,842
Financial assets at fair value through profit or loss	-	-	-	274,898	311,837	-	586,735
Due from banks	-	-	370,120	400,047	14,433,874	-	15,204,041
Loans and advances to customers	-	-	-	213,496	1,003,613	3,849,796	5,066,905
Investments available-for-sale	-	-	6,551	2,027,494	7,039,260	6	9,073,311
Investments held-to-maturity	-	-	-	-	410,194	-	410,194
Other financial assets	-	-	111,904	-	-	45,750	157,654

As at December 31, 2008:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2008 Total
Balances on correspondent accounts and on accounts with non-banking credit institutions	-	314,614	24,811	3,792,962	17,149	2,610,209	6,759,745
Financial assets at fair value through profit or loss	-	-	-	320,739	-	-	320,739
Due from banks	-	137,070	6	2	275,508	2	412,588
Loans and advances to customers	-	-	-	-	-	8,918,812	8,918,812
Investments available-for-sale	-	-	6,364	625,305	1,322,528	12,549	1,966,746
Investments held-to-maturity	-	-	-	-	2,699,695	-	2,699,695
Other financial assets	-	-	-	-	-	49,899	49,899

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. With regard to the loans to customers this risk exposure is generally concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are complied with.

All overdue financial assets are impaired.

Geographical concentration

Country (regional) risk is a risk that a credit institution may incur losses due to the failure of foreign counterparties to fulfill their obligations due to economic, political or social changes, as well as due to specific provisions of national legislation. This risk is controlled by the Bank's Credit Committee. When handling loan applications, market work technologies, the Bank pays a special attention to residence of a potential borrower and to the impact of regional factor on functioning of the technology. More severe requirements are in effect for non-residents as compared to the residents of the Russian Federation. The Bank continuously monitors the recent developments in the world in order to be able to react to the relevant changes in a timely manner. The Bank limits the country risk value in accordance with requirements of the OTP Group.

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

	Russian Federation	OECD countries	Other countries	December 31, 2009 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	7,965,150	434,047	2,223	8,401,420
Financial assets at fair value through profit or loss	586,735	-	-	586,735
Due from banks	861,621	14,342,420	-	15,204,041
Loans and advances to customers	52,870,130	31,504	10,948	52,912,582
Investments available-for-sale	3,264,526	5,821,348	-	9,085,874
Investments held-to-maturity	-	-	421,619	421,619
Other financial assets	46,381	111,904	-	158,285
TOTAL FINANCIAL ASSETS	65,594,543	20,741,223	434,790	86,770,556
FINANCIAL LIABILITIES:				
Due to banks	3,115,772	23,237,140	33,083	26,385,995
Customer accounts	46,106,679	175,948	331,912	46,614,539
Debt securities issued	2,332,426	-	240,918	2,573,344
Other financial liabilities	47,027	886	929	48,842
Subordinated debt	-	1,668,316	498,200	2,166,516
TOTAL FINANCIAL LIABILITIES	51,601,904	25,082,290	1,105,042	77,789,236
NET POSITION	13,992,639	(4,341,067)	(670,252)	

	Russian Federation	OECD countries	Other countries	December 31, 2008 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	16,702,923	351,045	11,818	17,065,786
Financial assets at fair value through profit or loss	320,739	-	-	320,739
Due from banks	275,512	137,076	-	412,588
Loans and advances to customers	53,687,329	39,021	36,144	53,762,494
Investments available-for-sale	1,960,493	6,388	-	1,966,881
Investments held-to-maturity	500,793	-	2,198,902	2,699,695
Other financial assets	50,367	-	-	50,367
TOTAL FINANCIAL ASSETS	73,498,156	533,530	2,246,864	76,278,550
FINANCIAL LIABILITIES:				
Due to banks	10,588,909	22,871,306	11,368	33,471,583
Customer accounts	32,210,932	295,384	324,983	32,831,299
Debt securities issued	1,308,853	-	-	1,308,853
Other financial liabilities	63,603	-	6	63,609
Subordinated debt	-	1,636,904	475,895	2,112,799
TOTAL FINANCIAL LIABILITIES	44,172,297	24,803,594	812,252	69,788,143
NET POSITION	29,325,859	(24,270,064)	1,434,612	

Liquidity risk

Liquidity risk is the risk that the Bank will fail to fulfill timely its obligations to its customers and counterparties, or to meet its customers' and counterparties' and own needs in funds.

The Bank determines own rules to manage assets with different maturities by means of directing them into financial instruments whose placement periods correspond to the liability maturities, or if their liquidity allows to sell them within 2-30 bank days. These rules are subject to permanent analysis and review. When analyzing and revising the liquidity management model, the Bank uses stress-testing and recommendations of the Bank's parent. In the course of liquidity management the Bank pays sufficient attention to evaluation of stress-testing of the core deposit stability level. The Bank ensures that there were no substantial liquidity gaps taking into account results of these researches. Liquidity risk is managed by the Bank's Asset and Liability Management Committee (the "ALMC").

In order to manage liquidity risk, an independent department of the Bank in charge of evaluation and control over risk exposure performs its continuous (daily) monitoring. The monitoring results are considered by the ALMC. Current liquidity is managed by the Bank's Treasury Directorate, which deals in the money markets for current liquidity support and cash flow optimization, based on tasks and decisions approved by the Bank's ALMC.

The Bank carries out the following liquidity risk mitigation activities:

- Balancing the balance sheet structure by currencies and maturities of assets and liabilities;
- Limiting positions on all financial instruments,
- Determining inter-bank market transactions policies,
- Control over observance of credit organizations liquidity norms established by the Central Bank of the Russian Federation,
- Continuous tracking of current and instant liquidity.

Further is analysis of liquidity and interest rate risks:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2009 Total
FINANCIAL ASSETS								
Cash and cash equivalents	0.01%	383,309	-	-	-	-	-	383,309
Financial assets at fair value through profit or loss	8.12%	1,956	315,190	-	174,859	94,730	-	586,735
Due from banks	2.49%	14,992,496	53,531	46,364	111,650	-	-	15,204,041
Loans and advances to customers	30.44%	3,214,764	5,054,572	19,826,367	16,212,396	8,604,483	-	52,912,582
Investments available-for- sale	8.75%	1,200	661,425	3,085,190	1,082,158	4,248,977	-	9,078,950
Investments held-to-maturity	10.95%	6,256	5,512	9,979	399,872	-	-	421,619
Total interest bearing financial assets		18,599,981	6,090,230	22,967,900	17,980,935	12,948,190	-	78,587,236
Cash and cash equivalents		8,018,111	-	-	-	-	-	8,018,111
Investments available-for- sale		-	-	-	6,924	-	-	6,924
Other financial assets		36,200	905	1,222	119,958	-	-	158,285
Total financial assets		26,654,292	6,091,135	22,969,122	18,107,817	12,948,190	-	86,770,556
Minimum reserve deposit with the Central Bank of the Russian Federation		354,935	-	-	-	-	-	354,935
Property and equipment and intangible assets		-	-	-	-	-	2,407,337	2,407,337
Current income tax assets		-	3,103	-	-	-	-	3,103
Deferred income tax assets		-	50,169	-	104,688	-	-	154,857
Other non-financial assets		51,269	25,299	20,962	45,786	68,956	-	212,272
Total non-financial assets		406,204	78,571	20,962	150,474	68,956	2,407,337	3,132,504
Total assets		27,060,496	6,169,706	22,990,084	18,258,291	13,017,146	2,407,337	89,903,060
FINANCIAL LIABILITIES								
Due to banks	4.68%	2,480,776	307,293	8,521,760	15,069,654	-	-	26,379,483
Customer accounts	10.31%	15,925,005	5,370,522	10,544,465	2,996,766	-	-	34,836,758
Debt securities issued	7.61%	368,410	648,705	1,469,404	77,835	4,410	-	2,568,764
Subordinated debt	6.42%	-	17,396	-	1,867,120	282,000	-	2,166,516
Total interest bearing financial liabilities		18,774,191	6,343,916	20,535,629	20,011,375	286,410	-	65,951,521
Due to banks		6,512	-	-	-	-	-	6,512
Customer accounts		11,772,235	3,827	1,698	21	-	-	11,777,781
Debt securities issued		4,244	124	212	-	-	-	4,580
Other financial liabilities		48,703	119	19	1	-	-	48,842
Total financial liabilities		30,605,885	6,347,986	20,537,558	20,011,397	286,410	-	77,789,236
Other provisions		7,459	-	-	-	-	-	7,459
Deferred income tax liabilities		-	-	-	-	222,967	103,507	326,474
Other non-financial liabilities		72,960	516,289	211,716	778	-	-	801,743
Total non-financial liabilities		80,419	516,289	211,716	778	222,967	103,507	1,135,676
Total liabilities		30,686,304	6,864,275	20,749,274	20,012,175	509,377	103,507	78,924,912
Liquidity gap		(3,625,808)	(694,569)	2,240,810	(1,753,884)	12,507,769		
Interest sensitivity gap		(174,210)	(253,686)	2,432,271	(2,030,440)	12,661,780		
Cumulative interest sensitivity gap		(174,210)	(427,896)	2,004,375	(26,065)	12,635,715		
Cumulative interest sensitivity gap as a percentage of total assets		(0.19%)	(0.48%)	2.23%	(0.03%)	14.05%		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2008 Total
FINANCIAL ASSETS								
Cash and cash equivalents	0.09%	4,053,913	-	-	-	-	-	4,053,913
Financial assets at fair value through profit or loss	7.22%	320,739	-	-	-	-	-	320,739
Due from banks	8.51%	208,595	174,383	-	29,610	-	-	412,588
Loans and advances to customers	25.39%	4,965,023	8,872,781	14,744,061	16,028,730	9,151,899	-	53,762,494
Investments available-for-sale	7.83%	-	13,493	103,061	1,098,017	733,262	-	1,947,833
Investments held-to-maturity	9.69%	6,004	63,892	18,897	1,585,915	1,024,987	-	2,699,695
Total interest bearing financial assets		9,554,274	9,124,549	14,866,019	18,742,272	10,910,148	-	63,197,262
Cash and cash equivalents		13,011,873	-	-	-	-	-	13,011,873
Investments available-for-sale		-	-	-	19,048	-	-	19,048
Other financial assets		44,637	4,550	1,180	-	-	-	50,367
Total financial assets		22,610,784	9,129,099	14,867,199	18,761,320	10,910,148	-	76,278,550
Minimum reserve deposit with the Central Bank of the Russian Federation		49,975	-	-	-	-	-	49,975
Property and equipment and intangible assets		-	-	-	-	-	2,484,470	2,484,470
Current income tax assets		-	92,392	-	-	-	-	92,392
Deferred income tax assets		-	-	155,069	-	-	-	155,069
Other non-financial assets		36,495	22,412	72,435	189,513	1,095	-	321,950
Total non-financial assets		86,470	114,804	227,504	189,513	1,095	2,484,470	3,103,856
Total assets		22,697,254	9,243,903	15,094,703	18,950,833	10,911,243	2,484,470	79,382,406
FINANCIAL LIABILITIES								
Due to banks	7.05%	5,817,588	1,215,948	4,034,289	22,376,922	-	-	33,444,747
Customer accounts	10.40%	9,328,173	3,792,019	7,309,969	290,692	-	-	20,720,853
Debt securities issued	6.12%	639,733	294,070	202,173	119,734	4,113	-	1,259,823
Subordinated debt	6.43%	-	16,945	-	-	2,095,854	-	2,112,799
Total interest bearing financial liabilities		15,785,494	5,318,982	11,546,431	22,787,348	2,099,967	-	57,538,222
Due to banks		26,836	-	-	-	-	-	26,836
Customer accounts		12,108,590	429	1,411	16	-	-	12,110,446
Debt securities issued		49,030	-	-	-	-	-	49,030
Other financial liabilities		63,608	-	-	1	-	-	63,609
Total financial liabilities		28,033,558	5,319,411	11,547,842	22,787,365	2,099,967	-	69,788,143
Other provisions		17,417	594	248	-	-	-	18,259
Deferred income tax liabilities		-	-	-	-	-	166,017	166,017
Other non-financial liabilities		78,431	93,175	394,082	335	-	-	566,023
Total non-financial liabilities		95,848	93,769	394,330	335	-	166,017	750,299
Total liabilities		28,129,406	5,413,180	11,942,172	22,787,700	2,099,967	166,017	70,538,442
Liquidity gap		(5,432,152)	3,830,723	3,152,531	(3,836,867)	8,811,276	-	-
Interest sensitivity gap		(6,231,220)	3,805,567	3,319,588	(4,045,076)	8,810,181	-	-
Cumulative interest sensitivity gap		(6,231,220)	(2,425,653)	893,935	(3,151,141)	5,659,040	-	-
Cumulative interest sensitivity gap as a percentage of total assets		(7.85%)	(3.06%)	1.13%	(3.97%)	7.13%	-	-

While preparing the liquidity analysis disclosure the amounts below minimum balances on deposits of customers were split by the contractual terms of maturity but the amounts exceeding the minimum balances were considered as liabilities with a maturity of up to 1 month.

The further analysis of maturities of financial liabilities is represented in accordance with a requirement of clause 39 (a) of IFRS 7. The amounts disclosed in the maturity analysis represent non-discounted cash flows under the contracts and do not concur with the balance sheet amounts as a carrying amount is based on discounted cash flows:

- (a) Term to maturity of financial liabilities, that are non-derivatives, is calculated for non-discounted cash flows (principal debt and interest) on the earliest date, when the Bank will be liable to redeem the liability;
- (b) Term to maturity of financial liabilities, that are derivatives, is calculated for non-discounted cash flows on the earliest date, when the Bank will be liable to redeem the liability;
- (c) When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

	Up to 1 month	1 month to 3 months	3 months to -1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES						
Due to banks	2,484,109	760,531	8,998,635	15,830,252	-	28,073,527
Customer accounts	16,007,419	5,559,102	11,335,149	3,342,879	-	36,244,549
Debt securities issued	369,886	658,590	1,530,818	96,353	6,483	2,662,130
Subordinated debt	-	35,170	103,242	2,380,608	287,600	2,806,620
Total interest bearing financial liabilities	18,861,414	7,013,393	21,967,844	21,650,092	294,083	69,786,826
Due to banks	6,512	-	-	-	-	6,512
Customer accounts	11,772,235	3,827	1,698	21	-	11,777,781
Debt securities issued	4,244	124	212	-	-	4,580
Derivative instruments	14,305	-	-	-	-	14,305
Financial guaranties	65,826	-	-	-	-	65,826
Unused credit lines	8,642,300	-	-	-	-	8,642,300
Total financial liabilities	39,366,836	7,017,344	21,969,754	21,650,113	294,083	90,298,130
	Up to 1 month	1 month to 3 months	3 months to -1 year	1 year to 5 years	Over 5 years	December 31, 2008 Total
FINANCIAL LIABILITIES						
Due to banks	5,847,145	1,383,068	5,146,149	24,665,456	-	37,041,818
Customer accounts	9,379,020	3,922,829	7,761,146	305,866	-	21,368,861
Debt securities issued	642,482	299,825	211,482	150,141	6,483	1,310,413
Subordinated debt	-	33,936	100,839	539,287	2,199,134	2,873,196
Total interest bearing financial liabilities	15,868,647	5,639,658	13,219,616	25,660,750	2,205,617	62,594,288
Due to banks	26,836	-	-	-	-	26,836
Customer accounts	12,108,590	429	1,411	16	-	12,110,446
Debt securities issued	49,030	-	-	-	-	49,030
Derivative instruments	48,844	-	-	-	-	48,844
Financial guaranties	502,518	-	-	-	-	502,518
Unused credit lines	5,864,624	-	-	-	-	5,864,624
Total financial liabilities	34,469,089	5,640,087	13,221,027	25,660,766	2,205,617	81,196,586

Market risk

Market risk is the risk of losses due to changes in market prices of a financial instrument. Market risk includes currency, interest rate and other pricing risks.

The Bank is exposed to market risks associated with its interest rate, currency and equity instruments which are subject to general and specific market fluctuations. ALMC of the Bank proposes the main approaches to the assessment, control and estimation of the maximum exposure to the risks (by setting the limits on each risk). Limits on risk exposure are set by the Bank's ALMC, the compliance with these limits is monitored on a daily basis by a separate subdivision responsible for assessment of the risk run.

However, this approach does not allow fully avoiding losses which exceed the limits in case of unusual market fluctuations. The Bank's existing techniques for evaluation and control over market risks minimized the probability of a loss which would exceed the set limits.

Interest rate sensitivity

Interest rate risk refers to the possibility of adverse changes in interest rates in view of the gap between maturities of assets, liabilities and off-balance sheet instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may cause a decrease in the interest margin or lead to losses. To minimize the cash flow interest rate risk, the Bank developed a code of regulations to manage liabilities and assets of the Bank according to their terms and liquidity. The interest rate risk is monitored continuously by the Bank's ALMC. Interest rates on raising and placing funds are revised regularly (at least quarterly) and approved by collective bodies of the Bank.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable".

Impact on profit and capital as at December 31, 2009 and 2008 is as follows:

Impact on profit and capital of a change in interest rate by +1%

	Up to 1 month	1 to 3 months	3 months to 1 year	Total
2009	(1,670)	(2,114)	9,121	5,337
2008	(52,058)	31,923	11,822	(8,313)

Impact on profit and capital of a change in interest rate by -1%

	Up to 1 month	1 to 3 months	3 months to 1 year	Total
2009	1,670	2,114	(9,121)	(5,337)
2008	52,058	(31,923)	(11,822)	8,313

Currency risk

Currency risk is defined as a market risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

General management of the Bank's currency positions (in terms of maturity and currency) is carried out by the Bank's collective bodies (ALMC, Credit Committee, Management Board). Presently, the Bank makes a special effort to avoid significant imbalances in the maturity structure of its balance sheet by employing various risk mitigation instruments (borrowing from the parent Bank and use of derivatives).

On-going management of net foreign currency position is performed by the Bank's Treasury Directorate on the basis of limits set by the Bank's collective bodies and limitations set by the Central Bank of the Russian Federation.

The Bank's exposure to currency risk is as follows:

	RUB	USD USD 1 = RUB 30.2442	EUR EUR 1 = RUB 43.3883	Other currency	December 31, 2009 Total
Assets:					
Cash and cash equivalents	4,930,241	1,406,014	1,793,947	271,218	8,401,420
Minimum reserve deposit with the Central Bank of the Russian Federation	354,935	-	-	-	354,935
Financial assets at fair value through profit or loss	274,898	311,837	-	-	586,735
Due from banks	650,074	14,389,276	164,691	-	15,204,041
Loans and advances to customers	36,107,678	12,684,060	971,912	3,148,932	52,912,582
Investments available-for-sale	1,374,203	1,608,406	6,013,245	90,020	9,085,874
Investments held-to-maturity	-	410,194	11,425	-	421,619
Property and equipment and intangible assets	2,407,337	-	-	-	2,407,337
Current income tax assets	3,103	-	-	-	3,103
Deferred income tax assets	154,857	-	-	-	154,857
Other assets	252,025	115,470	2,507	555	370,557
Total assets	46,509,351	30,925,257	8,957,727	3,510,725	89,903,060
Liabilities:					
Due to banks	2,809,861	20,436,528	149,188	2,990,418	26,385,995
Customer accounts	32,215,104	7,448,784	6,296,294	654,357	46,614,539
Debt securities issued	1,324,978	731,025	517,341	-	2,573,344
Other reserves	7,459	-	-	-	7,459
Deferred income tax liabilities	326,474	-	-	-	326,474
Other liabilities	813,363	14,979	22,231	12	850,585
Subordinated debt	569,851	1,098,465	-	498,200	2,166,516
Total liabilities	38,067,090	29,729,781	6,985,054	4,142,987	78,924,912
OPEN BALANCE SHEET POSITION	8,442,261	1,195,476	1,972,673	(632,262)	
	RUB	USD USD 1 = RUB 29.3804	EUR EUR 1 = RUB 41.4411	Other currency	December 31, 2008 Total
Assets:					
Cash and cash equivalents	4,589,667	11,154,878	1,149,610	171,631	17,065,786
Minimum reserve deposit with the Central Bank of the Russian Federation	49,975	-	-	-	49,975
Financial assets at fair value through profit or loss	320,739	-	-	-	320,739
Due from banks	245,898	166,680	-	10	412,588
Loans and advances to customers	37,509,763	12,471,718	193,483	3,587,530	53,762,494
Investments available-for-sale	12,660	1,233,555	720,666	-	1,966,881
Investments held-to-maturity	500,793	1,297,336	820,432	81,134	2,699,695
Property and equipment and intangible assets	2,484,470	-	-	-	2,484,470
Current income tax assets	92,392	-	-	-	92,392
Deferred income tax assets	155,069	-	-	-	155,069
Other assets	363,052	6,505	1,470	1,290	372,317
Total assets	46,324,478	26,330,672	2,885,661	3,841,595	79,382,406
Liabilities:					
Due to banks	9,997,413	19,899,312	430,271	3,144,587	33,471,583
Customer accounts	23,732,609	5,294,738	3,401,480	402,472	32,831,299
Debt securities issued	987,577	297,582	23,694	-	1,308,853
Other reserves	18,202	57	-	-	18,259
Deferred income tax liabilities	166,017	-	-	-	166,017
Other liabilities	625,674	3,848	109	1	629,632
Subordinated debt	569,837	1,067,066	-	475,896	2,112,799
Total liabilities	36,097,329	26,562,603	3,855,554	4,022,956	70,538,442
OPEN BALANCE SHEET POSITION	10,227,149	(231,931)	(969,893)	(181,361)	

Derivative financial instruments and spot contracts

Derivatives used by the Bank to mitigate risks are traded through organized markets that require depositing an initial margin before trading in derivatives, thus minimizing the risk of losses in case of counterparty default.

Fair values of derivative instruments and spot contracts are included in the currency analysis presented above. The analysis of currency risk with respect to derivatives and spot contracts is presented in the table below:

	RUB	USD USD 1 = RUB 30.2442	EUR EUR 1 = RUB 43.3883	Other currency	December 31, 2009 Total
Net balance sheet position	8,442,261	1,195,476	1,972,673	(632,262)	
Receivables on spot contracts and derivatives	2,378,467	1,361,345	1,318,410	649,273	5,707,495
Payables on spot contracts and derivatives	(834,803)	(2,790,750)	(2,038,723)	(43,219)	(5,707,495)
NET POSITION ON SPOT CONTRACTS AND DERIVATIVE FINANCIAL INSTRUMENTS	1,543,664	(1,429,405)	(720,313)	606,054	
TOTAL NET POSITION	9,985,925	(233,929)	1,252,360	(26,208)	

	RUB	USD USD 1 = RUB 29.3804	EUR EUR 1 = RUB 41.4411	Other currency	December 31, 2008 Total
Net balance sheet position	10,227,149	(231,931)	(969,893)	(181,361)	
Receivables on spot contracts and derivatives	1,461,006	2,442,985	787,324	394,128	5,085,443
Payables on spot contracts and derivatives	(2,278,571)	(2,630,802)	-	(176,070)	(5,085,443)
NET POSITION ON SPOT CONTRACTS AND DERIVATIVE FINANCIAL INSTRUMENTS	(817,565)	(187,817)	787,324	218,058	
TOTAL NET POSITION	9,409,584	(419,748)	(182,569)	36,697	

Currency risk sensitivity

The table below details the Bank's sensitivity to a 10% or 15% increase and decrease in the USD and the EUR against the RUB. 15% and 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel of the Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 15% and 10% change in foreign currency rates.

	December 31, 2009		December 31, 2008	
	RUB/USD +15%	RUB/USD -15%	RUB/USD +15%	RUB/USD -15%
Impact on profit	(3.71%)	3.71%	(3.33%)	3.33%
Impact on equity	(0.32%)	0.32%	(0.71%)	0.71%

	December 31, 2009		December 31, 2008	
	RUB/Euro +10%	RUB/Euro -10%	RUB/Euro +10%	RUB/Euro -10%
Impact on profit	13.23%	(13.23%)	(0.96%)	0.96%
Impact on equity	1.71%	(1.71%)	(0.21%)	0.21%

Limitations of sensitivity analysis

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

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

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in equity and debt securities at the reporting date.

The results of the analysis of the sensitivity of the Bank profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 1% symmetrical increase or decrease in all securities prices are given in the table below:

	December 31, 2009		December 31, 2008	
	1% increase in securities price	1% decrease in securities price	1% increase in securities price	1% decrease in securities price
Impact on profit before tax	5,745	(5,745)	3,143	(3,143)
Impact on equity	78,398	(78,398)	22,224	(22,224)

32. SUBSEQUENT EVENTS

In February 2010 the reorganization of OJSC "OTP Bank" in the form of merger with CJSC "Donskoy Narodny Bank" was completed. As a result of the reorganization, the Rostov branch was established on the basis of CJSC "Donskoy Narodny Bank". In connection with the reorganization of the Bank, on February 05, 2010 a new share issue was registered. The issue comprised 17,987,400 thousand ordinary shares with par value 1 kopeck each. The placement was performed through a conversion of ordinary registered uncertified shares of CJSC "Donskoy Narodny Bank" into additional ordinary registered uncertified shares of OJSC "OTP Bank".