

**Novosibirsk Social Commercial Bank “Levoberezhny”
(Open Joint Stock Company)**

Financial Statements and Auditors’ Report

31 December 2009

Bank “Levoberezhny” (OJSC)
Financial Statements and Auditors’ Report
for the year ended 31 December 2009

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of the Novosibirsk Social Commercial Bank "Levoberezhny" OJSC ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Approved on behalf of the Board on ___April 2010


Shaporenko V.V.
General Director




Kolesnikova S. V.
Chief Accountant

**Bank "Levoberezhny" (OJSC)
Financial Statements and Auditors' Report
for the year ended 31 December 2009**

AUDITORS' REPORT

To the Management and Board of Directors of Bank "Levoberezhny" OJSC:

We have audited the accompanying financial statements of Bank "Levoberezhny" OJSC ("the Bank") which comprise the statement of financial position as of 31 December 2009, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ('IFRS'). 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 accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express opinion on these financial statements based on 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 auditors' 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 opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with IFRS.



OOO Moore Stephens
38, Stremyanny Pereulok
Moscow, 115054
Russian Federation

Bank "Levoberezhny" (OJSC)
Statement of Financial Position as at 31 December 2009
In thousands of Russian Roubles (unless otherwise indicated)

	Notes	2009	2008
Assets			
Cash and cash equivalents	5	3,025,973	2,134,705
Mandatory cash balances with the CBRF	6	54,497	9,267
Due from financial institutions	7	390,590	175,896
Financial assets at fair value through profit or loss	8	1,444,601	91,861
Financial assets held to maturity	9	375,075	218,007
Loans and advances to customers	10	4,454,740	5,400,678
Property, plant and equipment	11	685,414	458,625
Other assets	12	73,574	30,996
Total assets		10,504,464	8,520,035
Liabilities			
Due to financial institutions	13	275,613	382,636
Customer accounts	14	8,670,749	6,742,152
Debt securities issued	15	38,522	54,318
Subordinated loan	16	35,000	35,000
Deferred tax liability	27	69,924	61,226
Other liabilities	17	31,722	39,651
Total liabilities		9,121,530	7,314,983
Equity			
Share capital	18	549,956	549,956
Fixed assets revaluation reserve		178,305	188,992
Retained earnings		654,673	466,104
Total equity		1,382,934	1,205,052
Total liabilities and equity		10,504,464	8,520,035

Approved on behalf of the Board on ___April 2010


 Shaparenko V.V.
 General Director




 Kolesnikova S.V.
 Chief Accountant

Bank "Levoberezhny" (OJSC)
Statement of Comprehensive Income for the year ended 31 December 2009
In thousands of Russian Roubles (unless otherwise indicated)

	Notes	2009	2008
Interest income	20	1,518,249	1,512,706
Interest expense	20	(507,341)	(389,577)
Net interest income		1,010,908	1,123,129
Allowance for impairment of interest bearing assets	7, 10	(592,118)	(482,952)
Net interest income after allowance for impairment of interest bearing assets		418,790	640,177
Net gains / (losses) from dealing with securities	21	50,105	(213)
Net gains from operations with foreign currencies	22	63,462	70,982
Net gains from revaluation of assets / liabilities denominated in foreign currencies		24,559	13,477
Transfer value on loans given and promissory notes purchased at less than commercial rates		269	(701)
Commission income	23	273,196	366,060
Commission expense	23	(49,770)	(55,725)
Net (losses) / gains arising from sales of mortgage loans		(462)	18,089
Other operating income	24	36,186	75,070
Net operating income		816,335	1,127,216
Staff costs	25	(328,601)	(409,982)
Operating expenses	26	(262,742)	(356,257)
Movement on allowance for other assets	12	(494)	164
Profit before taxation		224,498	361,141
Income tax	27	(46,616)	(88,743)
Net profit	19	177,882	272,398
Other comprehensive income			
Transfer of revaluation of premises to retained earnings upon disposal		5,886	-
Transfer of revaluation of premises upon disposal		(5,886)	-
Annual release from revaluation reserve for premises to retained earnings		4,801	4,888
Annual release from revaluation reserve for premises		(4,801)	(4,888)
Other comprehensive income, net of tax		-	-
Comprehensive income		177,882	272,398

Approved on behalf of the Board on ___ April 2010


 Shaporenko Y.V.
 General Director

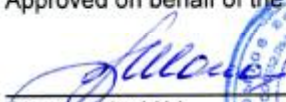



 Kolesnikova S.V.
 Chief Accountant


Bank "Levoberezhny" (OJSC)
Statement of Cash Flows for the year ended 31 December 2009
In thousands of Russian Roubles (unless otherwise indicated)

	Notes	2009	2008
Cash flow from operating activities			
Interest received		1,454,084	1,465,119
Interest paid		(507,341)	(389,577)
Commissions received		273,196	367,096
Commissions paid		(49,770)	(55,725)
Gains from dealing with securities		35,575	13,257
Gains from dealing with foreign currency		63,462	70,982
Other operating income		36,186	74,461
Operating expense		(513,628)	(723,588)
Income tax charge		(37,918)	(86,780)
Operating profit before changes in operating assets and liabilities		753,846	735,245
Cash flows from changes in operating assets and liabilities			
Net (increase) / decrease in assets:			
Mandatory cash balances with the Central Bank of Russian Federation		(45,230)	69,235
Financial assets at fair value through profit or loss		(1,338,854)	430,643
Due from financial institutions		(214,047)	(156,646)
Loans and advances to customers		164,504	(1,077,655)
Other assets		(42,595)	17,687
Net (decrease) / increase in liabilities:			
Due to financial institutions		(107,023)	284,953
Customer accounts		1,928,597	804,302
Debt securities issued		(15,796)	(113,527)
Other liabilities		(49,213)	(61,182)
Net cash received from operating activities		1,034,189	933,055
Cash flow from investing activities			
Purchase of financial assets held to maturity		(157,284)	(218,007)
Purchase of fixed assets		(31,935)	(96,867)
Sale of fixed assets		21,739	90,482
Net cash used in investing activities		(167,480)	(224,392)
Cash flow from financing activities			
Increase in share capital		-	200,000
Net cash received from financing activities		-	200,000
Effect of foreign exchange movements on cash and cash equivalents		24,559	13,477
Net increase of cash and cash equivalents		891,268	922,140
Cash and cash equivalents at the beginning of the period	5	2,134,705	1,212,565
Cash and cash equivalents at the end of the period	5	3,025,973	2,134,705

Approved on behalf of the Board on April 2010


 Shaporenko V.V.
 General Director




 Kolesnikova S.V.
 Chief Accountant

The accompanying notes on pages 5 to 70 form an integral part of these financial statements

Bank «Levoberezhny» (OJSC)
Statements of Changes in Equity for the year ended 31 December 2009
In thousands of Russian Roubles (unless otherwise indicated)

	Notes	Share capital	Fixed assets revaluation reserve	Retained earnings	Total equity
31 December 2007		349,956	184,430	188,818	723,204
Total comprehensive income		-	(4,888)	277,286	272,398
Share issue		200,000	-	-	200,000
Impact of the change in tax rate on deferred tax	27	-	9,450	-	9,450
31 December 2008		549,956	188,992	466,104	1,205,052
Total comprehensive income		-	(10,687)	188,569	177,882
31 December 2009		549,956	178,305	654,673	1,382,934

Approved on behalf of the Board on __April 2010


 Shaporenko V.V.
 General Director




 Kolesnikova S.V.
 Chief Accountant

Bank «Levoberezhny» (OJSC)
Notes to Financial Statements - 31 December 2009
In thousands of Russian Roubles (unless otherwise indicated)

1. Principal Activities

The Bank is a commercial bank owned by shareholders whose liability is limited. The Bank was established in 1991.

As at 31 December 2009, the Bank held the following licenses:

- § License № 1343 dated 27 August 2002 to carry out banking and foreign exchange activities; issued by the Central Bank of Russian Federation.
- § License № 1343 dated 27 August 2002 to carry out activities on receiving deposits from individuals in Russian Roubles ("RUB") and foreign currency; issued by the Central Bank of Russian Federation.
- § License as professional participant of the securities' stock exchange №054-02932-100000 dated 27 November 2000 to carry out broker activity; issued by the Federal Commission for the Securities' Stock Exchange.
- § License as professional participant of the securities' stock exchange №054-03039-010000 dated 27 November 2000 to carry out dealing activity; issued by the Federal Commission for the Securities' Stock Exchange.
- § License of professional participant of the securities' stock exchange №054-03158-000100 dated 4 December 2000 to carry out deposit activity; issued by the Federal Commission for the Securities' Stock Exchange.

The General Director of the Bank is Mr. Vladimir Viktorovich Shaporenko and the Board of Directors is headed by Mr. Dmitriy Borisovich Yarovoy.

The major shareholders of the Bank as at 31 December 2009 and 31 December 2008 were:

Shareholder	2009 %	2008 %
Dmitriy Borisovich Yarovoy	61.81	61.81
Ratto Holdings Limited	10.00	10.00
Forseti-2003 (LLC)	8.55	8.55
Primorsk Social Company (LLC)	5.35	5.35
Vyacheslav Mikhailovich Pertsev	5.00	5.00
Mikhail Fyodorovich Robkanov	5.00	5.00
Nadezda Pavlovna Ivashchenko	4.12	4.04
Other	0.17	0.25
	100.00	100.00

Mr. Dmitriy Borisovich Yarovoy is the ultimate controlling party by virtue of his shareholding.

The main activities of the Bank include cash services, loan transactions, dealing with securities, attraction of deposits, and dealing in foreign currencies. The main locations where the Bank actively operates are Novosibirsk city and Novosibirsk region. The headquarters of the Bank is situated at 25/1 Plakhotnogo Street, Novosibirsk, 630054, Russian Federation. The Bank also has one branch situated at 1 Rogachyova street, Berdsk, Novosibirskaya Oblast, 633009, and 38 additional offices, 4 credit – cash offices and 2 operational outlets.

In 2009 the average number of employees of the Bank was 883 (2008: 889).

As at 31 December 2009 the Bank employed 979 members of staff (2008: 993).

2. Operating Environment of the Bank

In 2008 Russia was seriously affected by the economic crisis that affected a large number of countries in the world. Oil and many commodity prices dropped sharply there were capital outflows and a sharply depreciating exchange rate. Stock market indexes were also adversely affected. The impact on the banking sector was severe, and interbank market disappeared and there were heavy withdrawals by individuals from the system along with many mergers and takeovers.

In 2009 however the picture reversed in many ways, the Russian Rouble has appreciated strongly again, stock markets have increased substantially and commodity prices most notably gold and oil have also risen sharply. GDP which went through accelerating decline in the first half of 2009 has begun to recover and overall for 2009 was approximately 8% negative primarily thanks to gains in the second half of the year. Liquidity is still at substantially lower levels than pre 2008 but is improving, there has been widespread loan restructuring and non performing loans are believed to be peaking. Progressive cuts to the Central Bank of Russian Federation rate, from 13% to 8.75% at the end of 2009 have provided a form of stimulus and made credit more affordable and this policy is likely to continue.

Although, at the date of signing these financial statements Management, cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management's assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management's assessment. They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) Basis of Presentation

These financial statements have been prepared on a going concern basis in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing Interpretations Committee Interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

These financial statements are based on the Bank's RAS records adjusted and reclassified in order to comply with IFRS.

The Bank does not have any subsidiary companies and therefore does not prepare consolidated financial statements.

Use of estimates

In these financial statements, the Bank uses a number of different methods of estimation in different proportion and combination:

- § Cost method (actual cost of purchase). Assets are recorded at the amount of cash paid or their current cost set by mutual agreements between parties. Liabilities are recorded at the amount of assets or rights received in return of an obligation or in some circumstances at the amount of cash that will be necessary to repay the obligations in the normal course of business.
- § Current cost (recovery cost). Assets are recorded at the amount of cash that would need to be paid if these assets were purchased at the present date. Liabilities are recorded at the amount of non-discounted cash that will be required to settle the liability.
- § Realisable value (possible selling / repurchase price (fair value)). Assets are recorded at the amount of cash that can be received from sale. Liabilities are recorded at settlement value, which is the undiscounted amount of cash required for settling the liabilities.

3. Basis of presentation (continued)

a) Basis of Presentation (continued)

- § Amortised cost / (expenses), assets / (liabilities) are recorded at the current estimate of future net receipt (disposals) of cash in the normal course of business according to market interest rates effective at the moment of transaction.
- § Book value. This is the value of assets and liabilities recorded in the balance sheet at the reporting date.

It is assumed that the future cash flows and the term of a pool of similar financial instruments can be reliably estimated. However, when cash flows or the term of a financial instrument is impossible to estimate, the Bank uses the contractual estimated cash flows under the term determined by the agreement.

In the opinion of the Bank, the market interest rate is defined as the “best” interest rate (the highest interest rate for financial assets and the lowest one for financial liabilities) between the two following rates:

- § Interest rate on similar financial instruments operating in an active markets;
- § Interest rate on similar financial instruments in the portfolio of the Bank at the reporting date or transactions performed during the reporting period.

Under similar financial instruments stand financial instruments which have similar conditions including borrowing capacity of a debtor, remaining maturity period, currency of repayment and so on.

b) Impairment of assets

The Bank creates allowance for possible impairment for all types of financial assets, except for financial assets at fair value through profit or loss.

Financial assets are considered impaired and losses from the impairment occur if objective factors of impairment occurred as a result of one or more events taking place after the initial recognition of assets (“loss event”); and the event can impact the expected future cash flows of the financial assets and its effect can be reliably estimated.

The main factors according to which the Bank considers a financial asset to be impaired or not are the existence of overdue amounts and, eventually, the possibility of realisation of the corresponding collateral. A financial asset is considered overdue if the counterpart did not fulfil its payment obligations at the date stated in the contract.

Among other main factors of determination of objective evidence of impairment are the following:

- § Delinquency in contractual payments of principal or interest not related to technical problems in the payment system
- § A borrower or an issuer has serious financial problems that can be evident from their financial statements received by the Bank
- § Initiation of bankruptcy proceedings
- § Deterioration of the borrower’s competitive position
- § Deterioration in the value of the collateral
- § An active market for the particular financial asset has disappeared as a result of financial difficulties of an issuer (not due to the fact that the asset does not operate on the market any more)
- § There is information that an issuer or a borrower has a tendency to violate the conditions of contracts on similar financial assets.

3. Basis of presentation (continued)

b) Impairment of assets (continued)

Losses from impairment of financial assets reflected at amortised cost are recognised in the statement of comprehensive income as they occur because of one or more events ("loss event") taking place after the original recognition of an asset. The Bank does not recognise losses from impairment at initial recognition.

Subsequently, the Bank assesses whether objective evidence of impairment exists individually for financial assets which are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The current methodology for assessing the impairment of financial assets are combined them into groups of financial assets based on indicators of credit risk. The estimated future cash flows of each group are subject to changes depending on the risk factors that could reduce the capacity of the customers to repay the debts under the contractual terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for the assets with credit risks characteristics similar to those in the group. They can also be determined on the basis of management's statistics about the volumes of overdue debts that can occur as result of loss events and also about the possibility of recovery of overdue debts. Previous year's statistics are adjusted on the basis of current observable data to reflect the effects of current conditions that did not influence the previous periods as well to eliminate the effect of previous events that do not currently exist.

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 recognised (such as an improvement in the debtor's payment ability), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income as part of the movement in impairment charge for credit losses.

Uncollectible financial assets in respect of which all necessary procedures are finished for the purpose of full or partial recovery and the final amount of loss is defined, are written off against the allowance for impairment created in the balance sheet.

Losses from impairment of financial assets available for sale are recognised in the statement of comprehensive income as they occur as a result of one or more events ("loss event") taking place after the initial recognition of assets available for sale.

3. Basis of presentation (continued)

b) Impairment of assets (continued)

The Bank assesses at least at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as available for sale is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised as profit or loss – is removed from equity and recognised in the statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

In respect of debt instruments classified as available for sale, evidence of impairment is estimated in accordance with the same criteria (“loss events”) as in respect of financial assets at amortised cost. The amount of loss that is to be transferred to statement of comprehensive income is equal to the difference between initial cost of the asset (less repayments of principal debt and adjusted for amortisation on assets estimated with the use of effective interest rate method) and the current fair value less losses from impairment on the asset, recognised earlier in statement of comprehensive income. Interest income on impaired assets is charged according to amortised expenses taking into account recognition of loss from impairment with the interest rate used for discounting of future cash flows to evaluate losses from impairment. Interest income is reflected within “Interest income” in the statement of comprehensive income. When in the next reporting period the fair value of a debt instrument classified as available for sale increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

c) Functional and presentation currency

The Bank considers the Russian Rouble (“RUB”) to be its functional currency given the fact that all operations of the Bank are carried out in the Russian Federation and significant part of them and its cash flows are denominated in Russian Roubles. Management of the Bank believe this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank.

The RUB has been selected as the presentation currency for the financial statements of the Bank and amounts have been rounded to the nearest thousand.

d) Adoption of new and revised International Financial Reporting Standards

During the reporting year no new standards became effective; and the following Interpretations have come into force:

New International Financial Reporting Standard

IFRS 8 Operating Segments

3. Basis of presentation (continued)

d) Adoption of new and revised International Financial Reporting Standards (continued)

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers

Amendments to existing standards

IAS1	Presentation of Financial Statements
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 5	Non-Current Assets held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures

3. Basis of presentation (continued)

d) Adoption of new and revised International Financial Reporting Standards (continued)

Of the above, only the following have had a significant impact on the financial statements:

IAS 1, Presentation of Financial Statements

IAS1 Presentation of Financial Statements has had an impact on the financial statements. The standard has made substantial changes to the disclosure required in financial statements, as well as changing the presentation of performance. The Bank has opted to present a single statement of comprehensive income.

IFRS 7, Financial Instruments: Disclosures.

The major changes to IFRS 7 arise out of the introduction to IFRS 9 (see below). The changes to the standard reflect the replacement of the four categories of financial assets under IAS 39 with the two under IFRS 9. All of the IFRS 7 disclosures by category of financial asset will be altered to reflect the new categorisation. There are also changes associated with the potentially different measurement bases applied by IFRS 9. IFRS 7 also has a number of disclosures which deal with the transition from IAS 39 to IFRS 9 for financial assets.

e) Standards, interpretations and amendments that are not yet effective

The following standards, amendments to standards and interpretations were issued, but their application was not mandatory for the period:

New International Financial Reporting Standard

IFRS 9	Financial Instruments	1 January 2013
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International Financial Reporting Interpretations Committee (IFRIC) Interpretations

IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009
IFRIC 14 –	The Limit on a Defined Benefit Asset, Minimum Funding	
IAS 19	Requirements and their Interaction	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Amendments to existing standards

IAS 1	Presentation of Financial Statements	1 July 2009
IAS 7	Statement of Cash Flows	1 July 2009
IAS 12	Income Taxes	1 July 2009
IAS 16	Property, Plant and Equipment	1 January 2010
IAS 17	Leases	1 January 2010
IAS 21	The Effects of Changes in Foreign Exchange Rates	1 July 2009
IAS 24	Related Party Disclosures	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 28	Investments in Associates	1 July 2009
IAS 31	Interests in Joint Ventures	1 July 2009
IAS 32	Financial Instruments: Presentation	1 July 2009

3. Basis of presentation (continued)

e) Standards, interpretations and amendments that are not yet effective (continued)

IAS 33	Earnings Per Share	1 July 2009
IAS 36	Impairment of Assets	
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 July 2009
IAS 38	Intangible Assets	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement	1 July 2009
IFRS 2	Share-Based Payment	1 July 2009
IFRS 3	Business Combinations	1 July 2009
IFRS 5	Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IFRS 7	Financial Instruments: Disclosures	1 July 2009

Management has decided not to early adopt any of the Standards, Interpretations and Amendments. Of the above Management believes that only the following will have a significant impact on the Bank's financial statements:

IAS 1, Presentation of Financial Statements

The changes to the Standard for periods starting on or after 1 July 2009 introduce changes to the disclosures in the Statement of Changes in Equity. There are also changes to IAS 1, which come into force for accounting periods beginning on or after 1 January 2010, with regard to the classification of liabilities as current or non-current.

IAS 24, Related Party Disclosures

IAS 24 has been amended effective for accounting periods beginning on or after 1 January 2011, on a retrospective basis. The main changes are to provide a partial exemption from the requirements of the standard for entities that are controlled or influenced by government, and to clarify the definition of a related party.

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* changes requirements for the classification and measurement of financial assets. The four categories of financial asset set out in IAS 39 are reduced to two by IFRS 9: those that are carried at amortised cost and those that are not, and must be carried at fair value. In deciding into which category a financial asset falls, an entity must normally take account of:

- § the entity's business model for managing the financial assets; and
- § the contractual cash flow characteristics of the financial asset.

Financial assets are measured at amortised cost if:

- § the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- § the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets which do not fall into this category must be stated at fair value.

As the Bank does not have a complex range of financial instruments at present the anticipated changes are expected largely to relate to disclosure requirements under IFRS 7.

3. Basis of presentation (continued)

e) Standards, interpretations and amendments that are not yet effective (continued)

Management has considered the issue of interpretations of the standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Bank. The Bank will adopt these standards when they become effective.

f) Foreign currency translation

Transactions denominated in currencies other than Russian Roubles are recorded at the exchange rate prevailing at the date of transaction. Translation differences occurring as a result of transactions performed in foreign currencies are recorded in the statement of comprehensive income at the exchange rate prevailing on that date.

The official exchange rates of the CBRF as at 31 December 2009 were RUB 30.2442 for 1 USD (2008: RUB 29.3804) and RUB 43.3883 for 1 EUR (2008: RUB 41.4411).

Translation differences related to debt securities and other monetary financial assets denominated in foreign currencies recorded at fair value are included in the statement of comprehensive income in the line of gains less losses arising from revaluation of assets / liabilities denominated in foreign currencies. Translation differences related to non-monetary items such as equity securities, included in financial assets carried at fair value through profit or loss are recorded as part of gains less losses from revaluation at fair value. Translation differences on non-monetary financial assets available for sale are recorded in equity through revaluation reserve of financial assets available for sale.

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash in one day. They include cash balances, non mandatory cash balances with the CBRF, cash in correspondent accounts with Banks of high reliability and non-bank credit institutions, as well as deposits in other Banks with maturity date not later than the first working day following the reporting date. All other inter-Bank deposits are disclosed as due from financial institutions. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

b) Mandatory cash balances with the CBRF

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

c) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if its acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. The Bank classifies financial assets as trading in case it aims to sell them in less than 180 days from the moment of purchase.

4. Significant Accounting Policies (continued)

c) Financial assets at fair value through profit or loss (continued)

Trading financial assets that operate on the Moscow Interbank Currency Exchange ('MICEX') and the Siberian Interbank Currency Exchange ('SICEX') apart from those mentioned in the paragraph below are measured on the basis of market prices set by MICEX or SICEX.

Trading financial assets whose nominal value is denominated in foreign currency, operating on the currency exchanges of European countries (financial assets of the Russian Federation, of entities of the Russian Federation, other Russian issuers, or financial assets issued under the guarantee of the above mentioned entities), are measured on the basis of sale prices, quoted by Reuters or (if these data are unavailable) on the basis of other information agencies or leading market operators that publish their information on sale and purchase rates daily.

Trading financial assets which are recognised as debt instruments and are not mentioned above are measured according to market conditions current on the date of their acquisition and using the interest rates set by the Bank or by leading participants of the market for similar debt instruments and which are published by these participants daily. Subsequently if the credit risk of the debtor remains the same the estimation of the current market interest rate is made based on a benchmark interest rate.

The benchmark interest rate records the yield of debt instruments measured considerably equally (with similar maturity dates, schedule of cash payments, currency of payments etc.) but with a higher level of borrowing capacity. The current level of the benchmark interest rate on the date of estimation is set based on objective data from independent sources. The interest rate that is used for calculating the fair value of a financial asset is measured by summarising the current benchmark interest rate and the spread between the rate at which this financial asset was purchased and the benchmark interest rate which was effective on the date of the asset's acquisition. Costs of acquisition of financial instruments at fair value through profit or loss are not added to the fair value of the respective financial instruments at their initial recognition.

Changes in fair value are recognised in the statement of comprehensive income at the period when they occurred as net gains or losses from transactions with trading financial assets. Coupon and interest income on trading financial assets are recorded in the statement of comprehensive income as interest income on financial assets. Dividends received are recorded as other operating income.

Sale and purchase of trading financial assets whose delivery is to be performed in terms set by the legislation or by rules of the current market are recorded on the date of transaction, which is considered for the Bank the date of recognition of its obligations on asset's sale or purchase. In all other cases, such transactions are recorded as derivative financial instruments until the moment of settling the accounts.

Bank's management, using its professional judgement and based on reliable objective information of specific operations and transactions, decided to refer all debt and equity securities to the category of financial assets and liabilities at the fair value through profit or loss except those investments into equity securities which have no market prices and are not quoted in active markets, loans granted and instruments held to maturity. Assets are allocated into this category on the date of initial recognition and then are remeasured at fair value based on market value. For determining its market value, all financial assets at fair value through profit or loss are measured according to the latest bid price.

At initial recognition a financial asset or liability is classified by the Bank as at fair value through profit or loss if the economical specifications of any embedded derivative are not connected to the economical specifications and risks of the principal agreement.

Financial assets classified into this category cannot be reclassified.

4. Significant Accounting Policies (continued)

c) Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss include mortgage loans designated to be sold to other financial institutions under specific existing agreements.

The fair value of these loans is estimated based on the discounted anticipated sale price less the discounted value of the guarantee that would be given plus or minus the present value of any cash flows anticipated to occur between the current time and the anticipated sale date.

The gain or loss from the sale of these mortgage loans is equal to the received cash funds less the fair value of the guarantee and the present value of the loans.

d) Sale and purchase agreements and borrowing of debt securities

Securities sold subject to repurchase agreements (“repos”) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to other banks or customers, as appropriate. When these securities are sold to third parties the financial result from purchase and resale is recorded in “Net gains from dealing with securities and derivative financial instruments”. Liabilities on repurchase of securities are recorded at fair value as trading liabilities.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

Securities provided by the Bank as loans to counterparties continue to be treated as securities in the financial statements of the Bank. Securities received as loans are not recorded in the financial statements apart from the case when these securities are sold to third parties. In this case the financial result from purchase and resale of securities is recorded in the statement of comprehensive income as part of net gains from dealing with trading securities. Liabilities on repurchase of these securities are recorded at fair value as trading financial liabilities.

e) Amounts due from financial institutions

In the normal course of business, the Bank maintains current accounts or deposits for various terms in other credit institutions. Amounts granted are recorded from the moment of granting funds to a borrower. Initially items with a fixed maturity term are measured at fair value calculated based on the amount of discounted cash flows using market interest rates for instruments with similar level of credit risk and maturity term. Subsequently these loans are measured at amortised cost less allowance for impairment. Amortised cost is measured based on the yield to maturity calculated using the effective interest rate method.

Those loans that do not have fixed maturities (granted according to their agreements “on demand” or as a credit line) are carried at cost, which is considered a reasonable approximation to their fair value.

The amounts outstanding from credit institutions are carried less the allowance for impairment, calculated in accordance with the internal documents regulating the creation of allowances for possible losses on loans and other similar debts according to IFRS.

4. Significant Accounting Policies (continued)

f) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable schedule of payments that are not quoted in an active market apart from those:

- § intended for sale directly or in the near future and which should be recognised as trading measured at initial recognition at fair value through profit or loss;
- § that after initial recognition are classified as available for sale;
- § for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

Application of impairment is discussed under Note 3 (b).

g) Promissory notes purchased

The Bank also purchases promissory notes from its customers and on the stock exchange. These promissory notes are included in either of the following categories: loans and receivables, financial assets carried at fair value through profit or loss, investments held to maturity or available-for-sale securities, depending on their substance. Subsequently they are remeasured and accounted for in accordance with the accounting policies of the respective categories.

h) Financial assets available for sale

This category includes non-derivative financial assets that are designated as available for sale or not classified as loans, financial assets held to maturity or financial assets at fair value through profit or loss. The Bank classifies financial assets into the relative category at the date of their purchase.

This category includes debt and equity investment securities, which the Bank commits to, held within indefinite period of time and which can be sold (exchanged) depending on the liquidity requirements or as a result of changes in interest rates, exchange rates or prices for financial assets.

Financial assets available for sale are initially recognised at fair value plus transaction costs related to the purchase of the financial asset. Normally fair value is the transaction cost on the purchasing date of the financial asset. Subsequently available for sale financial assets are carried at fair value based on the quotes on purchasing of financial assets. Some available for sale investments that do not have quotes from external independent resources are carried by the Bank at fair value based on the results of recent sale of similar equity securities to non related parties, on analyses of other information such as discounted cash flows and financial information about the investment objects and also on use of other evaluation methods.

Depending on the circumstances, different valuation methods can be used. Estimation by initial cost is used only in respect of investments in equity instruments, that do not have market quotes and whose fair value can not be reliably estimated.

Unrealised gains and losses arising as a result of changes in fair value of available for sale financial assets are included in the financial statements within "changes in equity".

By disposals of available for sale assets corresponding accumulated unrealised gains and losses are included in the statement of comprehensive income within "gains less expenses from transactions with available for sale assets".

4. Significant Accounting Policies (continued)

h) Financial assets available for sale (continued)

Interest income on available for sale assets are calculated on the bases of effective interest rate method and are recognised in the statement of comprehensive income as interest income on available for sale financial assets.

i) Financial assets held to maturity

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the balance sheet value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in profit or loss for the period.

j) Financial guarantee contracts and other credit related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the statement of comprehensive income under other operating expenses.

In the normal course of business, the Bank enters into other credit related commitments including loan commitments.

k) Property, plant and equipment

Land and buildings comprise mainly branches and offices. Property, plant and equipment are recorded at purchase cost adjusted (where appropriate) to the equivalent of the purchase power of the Russian Rouble as at 31 December 2002 or at revalued cost less accumulated depreciation and allowance for impairment. Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down to its recoverable amount and the difference after eliminating any revaluation reserve balances, is charged to the statement of comprehensive income.

The estimated recoverable amount is the higher of the assets' net realisable value and its value in use.

4. Significant Accounting Policies (continued)

k) Property, plant and equipment (continued)

An independent appraiser regularly values the premises of the Bank. The frequency of revaluations depends on changes of the estimated fair value of the revalued items. The balance of revaluation reserve included in equity is transferred directly to retained earnings on the date of assets' disposals or realisation. The amount of realised gain arising from revaluation is the difference between the depreciation calculated based on the revalued cost of the asset and the depreciation calculated based on its historical cost. If an individual item is revalued the entire group of property and equipment to which it relates is also revalued.

At the end of construction, assets are transferred into premises and are recognised at their carrying value at the date of transfer. Construction in progress is not depreciated until introduction into use of respective assets.

Gains and losses arising as a result of disposal or sale of fixed assets are determined by comparing proceeds with carrying amount. Repair and maintenance cost are charged to other operating expenses when the expenditure is incurred.

l) Depreciation

Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following number of years:

Premises	50
Improvement of rented premises	10
Intangible assets	10
Vehicles	6
Office and computer equipment	3 to 6
Other	5 to 20

Land and assets under construction are not depreciated.

Depreciation is charged from the month following the month of introduction into service of a fixed or intangible asset.

Depreciation is charged to the statement of comprehensive income as operating expense.

m) Software maintenance

Expenses related directly to an identified and unique software that is controlled by the Bank, are capitalised and an intangible asset is recognised only in the case of high probability of economic benefits, during a period exceeding 1 year exceeding the expenses for their development and if the expenses for their development can be reliably estimated. An intangible asset is recognised only if the Bank has technical possibilities, recourses and intention to finish its development and to use the final product. Direct expenses include payroll of software engineers and the respective portion of general and administrative cost. Expenses related to the research activity are recognised as expenses in the period when they occurred.

All future expenses related to intangible assets are capitalised only when they increase any future economic benefits connected with the object to which they relate.

4. Significant Accounting Policies (continued)

m) Software maintenance (continued)

Expenses connected with software development or technical maintenance are recognised as expenses as they occur.

Intangible assets with the limited useful life are recorded in accordance with the actual expenditure less accumulated depreciation and impairment losses.

n) Borrowed funds

Borrowed funds include amounts due to customers, due to Banks and other borrowed funds. Borrowed funds are initially carried at fair value, which includes the amount of received funds less transaction costs. Subsequently borrowed funds are recorded at amortised cost and the difference between the amount of received funds and the amount of repayments is charged to the statement of comprehensive income during the period of borrowing using the effective interest method. Fair value of borrowed funds with interest rate different from market interest rates is estimated at the date of inception, with reference to future interest payments and principal discounted at market interest rates for similar borrowings. The difference between fair value and nominal cost at the date of inception is recorded in the statement of comprehensive income as gain from attracting borrowed funds at rates less than commercial or as losses from attracting borrowed funds at rates higher than commercial. Subsequently the carrying value of borrowed funds is adjusted for the amortisation of their initial gain or loss and the corresponding expenses are recorded as interest expenses in the statement of comprehensive income using the effective interest rate method.

o) Debt securities issued

The Bank issues promissory notes and deposit certificates to its customers. Debt securities issued by the Bank are recognised initially at sale cost that includes proceeds from selling those securities (fair value of the consideration received) less transaction costs. Subsequently debt securities are carried at amortised cost, and the difference between the consideration received from the sale of those debt securities and their redemption amount is recorded in the statement of comprehensive income along its term, using the effective interest rate method.

When the Bank repurchases its own debt securities issued before their maturity date, the income received is recorded as commission income in the statement of comprehensive income.

p) Share capital

Share capital is recorded at the adjusted value taking into account the purchasing power of the Russian Rouble as at 31 December 2002.

q) Dividends

When dividends are declared after the reporting date but before the approval of the financial statements, the information on dividends is disclosed in the notes to the financial statements. Outstanding dividends are recorded in the statements of changes in equity in the period when they were approved by the general shareholders' meeting.

4. Significant Accounting Policies (continued)

r) Operating leases

An operating lease is defined as one where the lessor reserves risks and gains related to the asset. When the Bank acts as lessee, the amount of payments due to the agreements of operating lease is recorded in the statement of comprehensive income using the method of amortisation on a straight-line basis during the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

s) Taxes

Taxation is recorded in the financial statements in accordance with Russian legislation currently in force. Tax charges in the statement of comprehensive income of the period comprise current profit tax and changes in deferred tax. Current profit tax is calculated on the basis of expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than profit tax, are recorded in operating expenses in the statement of comprehensive income.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the value of taxable assets and liabilities and their carrying values according to these financial statements. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised in full. Deferred tax assets and liabilities are determined at tax rates that are expected to be applied in the period when the assets would be realised or the liabilities settled, based on tax rates that would be effective in that period.

Deferred tax liabilities arising from revaluation of premises are recorded directly to the revaluation reserve in equity. Changes of deferred tax arising as a result of decreasing the amount of revaluation reserve are recorded against retained earnings. Changes of deferred tax occurring due to reasons other than changes of the revaluation reserve are recorded in the statement of comprehensive income.

Deferred tax arising from revaluation of available for sale securities to their fair value by recording it as decrease or increase of equity is also recognised in the equity. When realising such securities the corresponding amounts of deferred tax are recorded in the statement of comprehensive income.

t) Income and expense recognition

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

This calculation includes all commissions and fees paid or received by the parties according to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Significant Accounting Policies (continued)

t) Income and expense recognition (continued)

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for third parties, such as the arrangement for the acquisition of loans, shares or other securities or sell or purchase of businesses- are recognised on completion of the underlying transaction.

Commission and fee income from management of investment portfolio and from other managing and consulting services is recognised based on the applicable service contracts, usually on a time-proportional basis.

Fee income arising from services related to management of assets and investment funds is recognised in accordance with the agreement at the date when the Bank receives the right on receipt of income and the amount of income can be reliably determined. Income from rendering long term services is recognised in each reporting period proportionally to the volume of services rendered.

Accrued interest income and expenses including accrued coupon and discount are included in the carrying value of corresponding assets and liabilities.

Expenses on audit services and payments for the deposit insurance scheme are recognised when occurred on accrual basis.

Supplies are accounted as they acquired and are included in operating expenses.

u) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

v) Staff costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and medical insurance funds in respect of its employees. These costs are expensed as incurred and are included in staff costs.

w) Changes in comparatives

Certain non material comparative information has been adjusted in terms of presentation to comply with current presentation. These changes have had no effect on profit or equity for either year.

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4. Significant Accounting Policies (continued)

x) Gains arising on mortgage loans sold

The Bank periodically sells portfolios of mortgages that it has written, to third parties, simultaneously providing a guarantee on the credit risk of the mortgages sold for a limited, defined period of time. The gain or loss arising on sale is defined as the fair value of consideration received for the mortgages less the amortised cost of the mortgage portfolio less the fair value of the guarantee it has written on the sold mortgages. The nominal value of the amounts under guarantee is disclosed under credit related commitments and the fair value of the guarantee is treated in accordance with Note 4 (j).

5. Cash and Cash Equivalents

	<u>2009</u>	<u>2008</u>
Cash on hand	1,719,230	835,228
Deposits placed with CBRF	950,137	850,386
Cash balances with CBRF (other than mandatory reserve deposits)	304,250	431,122
Correspondent accounts and overnight deposits with other banks:		
Russian Federation	14,072	5,679
Other countries	38,284	12,290
	<u>52,356</u>	<u>17,969</u>
	<u>3,025,973</u>	<u>2,134,705</u>

As at 31 December 2009 deposits were placed with CBRF under the following conditions:

	<u>Maturity date</u>	<u>Interest rate (%)</u>	<u>31 December 2009</u>
CBRF	11.01.2010	4.0	300,066
CBRF	11.01.2010	4.0	<u>650,071</u>
			<u>950,137</u>

As at 31 December 2008 deposits were placed with CBR under the following conditions:

	<u>Maturity date</u>	<u>Interest rate (%)</u>	<u>31 December 2008</u>
CBRF	11.01.2009	7.3	350,069
CBRF	11.01.2009	7.3	300,119
CBRF	11.01.2009	7.3	<u>200,198</u>
			<u>850,386</u>

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5. Cash and Cash Equivalents (continued)

Information about credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	<u>2009</u>	<u>2008</u>
Rated A+	36,508	12,243
Rated A	1,512	-
Rated BBB+	-	154
Rated BBB	5,233	3,104
Rated BBB-	263	47
Rated B+	3,048	2,372
Rated B-	5,788	47
Other (including banks that do not have a credit rating)	4	2
	<u>52,356</u>	<u>17,969</u>

Geographical, currency, maturity and interest rate analysis on cash and cash equivalents are disclosed in Note 29.

6. Mandatory Balances with the CBRF

Mandatory balances represent amounts deposited with the CBRF and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposits is significantly restricted by legislation.

The ratio of such deposits required to be kept was increased by the CBRF in 2009.

7. Due from Financial Institutions

	<u>2009</u>	<u>2008</u>
Term deposits in other banks	64,103	145,803
Other funds:		
American Express Bank GMBH (letter of credit)	-	36,499
RNKO Payment Centre	12,851	10,490
MMVB (CJSC)	30,244	6,735
Russian Commercial Bank Limited	756	735
KTs RTS (CJSC)	250	250
RTs ORTsB	46	91
NKC (CJSC)	306,443	43
Less: Allowance for impairment	<u>(24,103)</u>	<u>(24,750)</u>
	<u>390,590</u>	<u>175,896</u>

As at 31 December 2008 balances due from financial institutions include funds placed for a letter of credit confirmed through the Bank.

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7. Due from Financial Institutions (continued)

As at 31 December 2009 term deposits in other banks were placed in the following financial institutions:

	<u>Maturity date</u>	<u>Interest rate (%)</u>	<u>31 December 2009</u>
Sibirsky Bank of SberBank	11.01.2010	2.0	40,000
Rybkhozbank (CJSC)	06.02.2008	7.0	12,053
Rybkhozbank (CJSC)	07.02.2008	7.0	12,050
			64,103

As at 31 December 2008 term deposits in other banks were placed in the following financial institutions:

	<u>Maturity date</u>	<u>Interest rate (%)</u>	<u>31 December 2008</u>
SibSotsBank (LLC)	09.02.2009	12.0	28,900
SibSotsBank (LLC)	25.02.2009	12.0	17,800
Kemsotsinbank (OJSC)	28.01.2010	14.0	75,000
Rybkhozbank (CJSC)	06.02.2008	7.0	12,053
Rybkhozbank (CJSC)	07.02.2008	7.0	12,050
			145,803

The table below shows movement of the allowance for impairment of amounts due from financial institutions:

	<u>2009</u>	<u>2008</u>
Balance at 1 January	24,750	-
Movement on allowance for impairment of balances due from financial institutions during the year	(647)	24,750
Balance at 31 December	24,103	24,750

Included in the allowance for impairment is an allowance for term deposits placed with Rybkhozbank (CJSC). Management of the Bank estimated the financial position of Rybkhozbank (CJSC) as poor due to their banking licence being cancelled by CBRF.

Geographical analysis, currency and maturity analyses as well as interest rate analysis on due from financial institutions are disclosed in Note 29.

The information on related party balances and transactions is disclosed in Note 32.

8. Financial Assets at Fair Value through Profit or Loss

	<u>2009</u>	<u>2008</u>
Bonds of other banks	255,592	40,134
Corporate bonds	246,623	6,307
Promissory notes	938,174	-
Corporate shares	1,262	1,495
Mortgage portfolio for sale	2,950	44,821
Less: allowance for impairment	-	(896)
	1,444,601	91,861

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8. Financial Assets at Fair Value through Profit or Loss (continued)

Bonds of other banks comprise interest bearing securities issued by Russian banks and denominated in RUB.

Corporate bonds comprise interest bearing securities issued by non bank legal entities and are denominated in RUB and USD.

Promissory notes comprise debt securities of the biggest Russian credit institutions of federal level denominated in RUB and issued at a discount to nominal value.

Corporate shares include shares of Russian banks traded in the Siberian Interbank Currency Exchange ('SICEX') or the Moscow Interbank Currency Exchange ('MICEX').

Mortgage portfolio for sale comprises mortgages of individuals and denominated in RUB. The Bank has the intent and ability to sell them in the foreseeable future.

The following table provides details of the Bank's trading securities as at 31 December 2009:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Bonds of other banks	19.01.2010	28.10.2010	7.3	16.0	8.2	13.8
Corporate bonds	12.04.2010	29.11.2012	7.4	18.0	8.1	12.1
Promissory notes	11.02.2010	14.12.2010	-	-	9.0	14.3

The following table provides details of the Bank's trading securities as at 31 December 2008:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Bonds of other banks	15.05.2009	22.02.2010	7.3	9.9	14.7	16.0
Corporate bonds	10.11.2010	10.11.2010	7.4	7.4	12.3	12.3

Following the amendments to IAS 39 and IFRS 7, the Bank in 2008 reclassified certain trading securities into investment securities held-to-maturity as the Bank no longer held these securities for the purpose of selling or repurchasing in the near term. These financial assets were reclassified upon occurrence of "rare circumstances". The Asset and Liability Management Committee of the Bank acknowledged the occurrence of "rare circumstances" due to the crisis in the international financial markets. The declines in market prices that occurred in the third quarter of 2008 represented a rare event, as they significantly exceeded historical volatilities observed in financial markets. Therefore the Bank made reclassification effective from 1 July 2008.

The table below shows the financial effects of the reclassification as at 31 December 2009:

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation gain / (loss) that would have been recognised if not reclassified	Effective interest rate (%)	Cash flow expected to be received
FVPL to HTM	OFZ	150,631	150,421	12,938	16,385	6.6	150,016
FVPL to HTM	Mikhailovsky Broiler (CJSC)	61,358	61,352	7,726	(6,639)	12.0	67,991

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8. Financial Assets at Fair Value through Profit or Loss (continued)

The table below shows the financial effects of the reclassification as at 31 December 2008:

Reclassified	Issuer	Carrying value	Fair value	Interest income	Revaluation gain/(loss) that would have been recognised if not reclassified	Effective interest rate (%)	Cash flow expected to be received
FVPL to HTM	OFZ	150,016	134,036	13,593	(15,980)	6.6	150,016
FVPL to HTM	Mikhailovskiy Broiler (CJSC)	67,991	67,991	4,380	-	12.0	67,991

The table below shows the movement of the allowance for impairment of financial assets at fair value through profit or loss:

	2009	2008
Balance at 1 January	896	4,845
Recovery of allowance for impairment of financial assets at fair value through profit or loss	(896)	(3,949)
Balance at 31 December	-	896

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets at fair value through profit and loss are disclosed in Note 29.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The hierarchy is as follows:

- § Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- § Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- § Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

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8. Financial Assets at Fair Value through Profit or Loss (continued)

The following table provides information on the classification of financial assets at fair value through profit and loss as at 31 December 2009 based on data obtained from the sources of information about their fair values:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds of other banks	255,592	-	-	255,592
Corporate bonds	246,623	-	-	246,623
Promissory notes	-	938,174	-	938,174
Corporate shares	-	-	1,262	1,262
Mortgage loan portfolio for sale	-	-	2,950	2,950
	502,215	938,174	4,212	1,444,601

Reconciliation of Level 3 items in 2009 is presented below:

	<u>Corporate shares</u>	<u>Mortgage loan portfolio for sale</u>	<u>Total</u>
At 1 January 2009	1,495	44,821	46,316
Total losses			
Losses for the year	(233)	(462)	(695)
Purchases	-	-	-
Settlements and disposals	-	(41,409)	(41,409)
Transfers into or out of Level 3	-	-	-
At 31 December 2009	1,262	2,950	4,212
Total losses for the year included in profit for assets held at 31 December 2009	(233)	-	(233)

9. Financial Assets Held to Maturity

	<u>2009</u>	<u>2008</u>
Federal bonds (OFZ)	249,595	150,016
Bonds of other banks	36,424	-
Corporate bonds	89,056	67,991
	375,075	218,007

Russian Federal loan bonds ("OFZ") are securities issued by the Government of the Russian Federation and denominated in RUB.

Bonds of other banks are interest bearing securities issued by Russian banks and denominated in RUB.

Corporate bonds are interest bearing securities issued by non bank legal entities and denominated in RUB and USD.

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9. Financial Assets Held to Maturity (continued)

The following table provides details of the Bank's financial assets held to maturity as at 31 December 2009:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
OFZ	20.01.2010	17.07.2013	5.8	8.0	6.2	8.1
Bonds of other banks	15.06.2010	24.06.2010	7.3	16.0	8.7	10.8
Corporate bonds	16.05.2010	15.07.2015	7.0	12.0	3.5	12.0

The following table provides details of the Bank's financial assets held to maturity as at 31 December 2008:

	Maturity		Coupon rate per annum (%)		Yield to maturity (%)	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
OFZ	05.05.2010	17.07.2013	5.8	9.0	7.4	11.7
Corporate bonds	01.11.2009	15.07.2015	12.0	12.0	12.0	12.0

Geographical analysis, currency and maturity analyses as well as interest rate analysis on financial assets at fair value through profit and loss are disclosed in Note 29.

10. Loans and Advances to Customers

	<u>2009</u>	<u>2008</u>
Current loans	4,871,399	5,612,404
Overdue loans	733,604	375,307
Promissory notes	233	10,621
Less: Allowance for impairment of loan portfolio	<u>(1,150,496)</u>	<u>(597,654)</u>
	<u>4,454,740</u>	<u>5,400,678</u>

Overdue loans represent the portion of principal and interest accrued in arrears at the balance sheet date.

The table below shows the movement in allowance for impairment of the loan portfolio:

	<u>2009</u>	<u>2008</u>
Balance as at 1 January	597,654	160,174
Charge for allowance for impairment of loan portfolio	592,765	458,202
Loans and advances to customers written off during the year as unrecoverable	<u>(39,923)</u>	<u>(20,722)</u>
Balance as at 31 December	<u>1,150,496</u>	<u>597,654</u>

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10. Loans and Advances to Customers (continued)

In the year 2009 the following debts have been written off against the existing allowance: debts of individuals of 33,560, commissions on loans to individuals of 6,200 and debt of Sibelektropribor-N (CJSC) of 163.

In the year 2008 the following debts have been written off against the existing allowance: debt of Prominfo (LLC) of 18,529, debt of V.N. Makasheva of 888, debt of GOO Innovatcionny Centre of Culture of 800, debt of Zvezda (LLC) of 54 and debts of individuals (Zolotaya Corona operations) of 451.

Geographical analysis, currency and maturity analyses, as well as interest rate analysis on loans and advances to customers are disclosed in Note 29.

Information on loans to related parties is disclosed in Note 32.

11. Property, Plant and Equipment

	Land and premises	Leasehold improve- ments	Office and computer equipment	Vehicles	Assets under constru- ction	Other	Total
Cost or valuation							
31 December 2007	429,913	54,927	110,385	12,163	43,700	39,846	690,934
Additions	5,264	765	33,238	1,556	8,527	10,458	59,808
Disposals	-	(4,069)	(7,038)	(2,367)	(43,700)	(3,925)	(61,099)
31 December 2008	435,177	51,623	136,585	11,352	8,527	46,379	689,643
Additions	64,170	148	10,487	1,518	200,401	2,275	278,999
Transferred	7,928	-	-	-	(7,928)	-	-
Disposals	(8,526)	(11,961)	(4,996)	(2,533)	-	(284)	(28,300)
31 December 2009	498,749	39,810	142,076	10,337	201,000	48,370	940,342
Accumulated depreciation							
31 December 2007	(105,322)	(15,632)	(58,020)	(6,246)	-	(17,731)	(202,951)
Depreciation	(8,652)	(5,416)	(16,595)	(1,838)	-	(3,242)	(35,743)
Disposals	-	1,408	3,275	1,450	-	1,543	7,676
31 December 2008	(113,974)	(19,640)	(71,340)	(6,634)	-	(19,430)	(231,018)
Depreciation	(9,523)	(4,507)	(18,096)	(1,640)	-	(3,379)	(37,145)
Disposals	262	5,945	4,973	1,779	-	276	13,235
31 December 2009	(123,235)	(18,202)	(84,463)	(6,495)	-	(22,533)	(254,928)
Net book values							
31 December 2009	375,514	21,608	57,613	3,842	201,000	25,837	685,414
31 December 2008	321,203	31,983	65,245	4,718	8,527	26,949	458,625

Additions to property, plant and equipment include property repossessed by the Bank in respect of making recoveries for its lending operations for a total amount of 247,064 (2008: none).

As at the reporting date Management of the Bank have decided to use the repossessed property as premises for Bank's offices.

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11. Property, Plant and Equipment (continued)

Leasehold improvements include capital repairs of premises rented by the Bank under operating lease agreements.

As at 31 December 2009 and 31 December 2008 the cost of fully depreciated property, plant and equipment that was still in use by the Bank was not material.

The Bank has in place insurance for its offices and premises for up to RUB 329.7 million, rented premises for RUB 4.3 million and equipment for RUB 27.4 million. As at 31 December 2008 the fixed assets of the Bank were insured for RUB 359.4 million in total.

As at 31 December 2007 premises of the Bank were revalued by Management of the Bank based on the results of independent appraisal performed by an independent firm of appraisers, Sibirskoye Agenstvo Otsenki ASPEKT (CJSC), Novosibirsk. The appraisal resulted in a revaluation increase of 217,456. As at 31 December 2009 and 31 December 2008 Management of the Bank have assessed the market value of its premises and concluded that the market value is not materially different from their carrying value.

If premises were stated on the historical cost basis, the amounts would be as follows:

	<u>2009</u>	<u>2008</u>
Cost	181,371	112,378
Accumulated depreciation	<u>(31,088)</u>	<u>(28,027)</u>
Net book value	<u>150,283</u>	<u>84,351</u>

12. Other Assets

	<u>2009</u>	<u>2008</u>
Settlements in transit	10,227	18,201
Debtors and prepayments	6,882	5,184
Tax prepayments	1,010	1,464
Balance in transit accounts	133	3,949
Claims on other transactions	55,391	2,250
Less: Allowance for impairment of other assets	<u>(69)</u>	<u>(52)</u>
	<u>73,574</u>	<u>30,996</u>

As at 31 December 2009 included in 'claims on other transactions' was repossessed collateral with value of 52,504 (2008: none). The assets are represented by property and have been repossessed by the by the Bank in respect of making recoveries for its lending operations. As at the reporting date Management of the Bank have not decided how to use the assets, therefore such property was classified within other assets.

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12. Other Assets (continued)

The table below shows the movement of allowance for impairment of other assets:

	<u>2009</u>	<u>2008</u>
Balance as at 1 January	52	216
Movement on allowance for impairment of other assets during the year	494	(164)
Other assets written off during the year as unrecoverable	(477)	-
Balance as at 31 December	<u>69</u>	<u>52</u>

In the year 2009 state duties of 477 have been written off against the existing allowance.

Geographical analysis, currency and maturity analyses on other assets are disclosed in Note 29.

13. Due to Financial Institutions

	<u>2009</u>	<u>2008</u>
LORO accounts		
Novosibirsk Municipal Bank (OJSC)	1,861	134,407
SibSotsBank (LLC)	18,259	22,822
RNKO Payment Centre (LLC)	248,755	18,131
CB DeltaCredit (CJSC)	14	4
Term deposits of other banks		
CBRF	-	157,609
Russian Bank for Development (OJSC)	6,724	39,058
Other accounts		
Mega Bank (CJSC)	-	10,605
	<u>275,613</u>	<u>382,636</u>

As at 31 December 2009 term deposits of other banks were attracted under the following conditions:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>31 December 2009</u>
Russian Bank for Development (OJSC)	30.06.2011	11.50%	6,724
			<u>6,724</u>

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13. Due to Financial Institutions (continued)

As at 31 December 2008 term deposits of other banks were placed in the following financial institutions:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>31 December 2008</u>
CBRF	21.01.2009	12.25%	100,469
CBRF	24.02.2009	10.00%	57,140
Russian Bank for Development (OJSC)	21.12.2009	11.50%	27,000
Russian Bank for Development (OJSC)	29.07.2011	11.50%	12,058
			<u>196,667</u>

Geographical, currency, maturity and interest rate analysis on due to financial institutions are disclosed in Note 29.

14. Customer Accounts

	<u>2009</u>	<u>2008</u>
Individuals		
Current and on demand accounts	1,256,385	1,032,475
Term deposits	4,101,246	3,277,402
	<u>5,357,631</u>	<u>4,309,877</u>
State organisations		
Current and settlement accounts	1,099,265	502,610
Term deposits	14,200	6,380
	<u>1,113,465</u>	<u>508,990</u>
Legal entities		
Current and settlement accounts	1,650,372	1,370,115
Term deposits	546,179	482,597
	<u>2,196,551</u>	<u>1,852,712</u>
Other customer accounts	<u>3,102</u>	<u>70,573</u>
	<u>8,670,749</u>	<u>6,742,152</u>

Other customer accounts include the following:

	<u>2009</u>	<u>2008</u>
Prepayment for letters of credit	-	35,963
Settlements in transit	2,447	33,845
Settlement in process on transactions with plastic cards	394	750
Customer accounts on other financial assets	261	12
Customer accounts on operations with currency	-	3
	<u>3,102</u>	<u>70,573</u>

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14. Customer Accounts (continued)

The table below shows the analysis per economic sector of customer accounts:

	2009		2008	
	Amount	%	Amount	%
Individuals	5,443,343	62.8%	4,343,736	64.4%
Transport and telecommunication	1,028,666	11.9%	57,070	0.8%
Trade	805,436	9.3%	501,701	7.5%
Manufacture	354,895	4.1%	151,722	2.3%
Transaction with property, rent and services	307,137	3.5%	195,184	2.9%
Financial sector	259,104	3.0%	560,260	8.3%
Construction	190,284	2.2%	270,047	4.0%
State organisation	64,996	0.7%	395,106	5.9%
Social services	69,422	0.8%	118,131	1.8%
Agriculture	71,202	0.8%	83,168	1.2%
Heating and power production	30,811	0.4%	34,865	0.5%
Hotels and restaurants	41,654	0.5%	29,028	0.4%
Mining	34	0.0%	2,134	0.0%
Other	3,765	0.0%	-	0.0%
	8,670,749	100.0%	6,742,152	100.0%

Deposits and current accounts of the Bank's ten largest customers accounted for 1,906,640 or 21.99% of the overall balance as at 31 December 2009 (2008: 1,143,516 or 16.96%).

Geographical currency, maturity and interest rate analysis on customer accounts are disclosed in Note 29.

Information on customer accounts of related parties is disclosed in Note 32.

15. Debt Securities Issued

	2009	2008
Promissory notes	30,521	53,418
Other	8,001	900
	38,522	54,318

As at 31 December 2009 the Bank issued promissory notes with terms from two weeks to six months after since the reporting date. Discount rates are to 15% per annum (2008: terms – from 2 weeks to 1 year, discount rates – to 15% per annum).

Included in "Other" are promissory notes to be executed.

Geographical analysis, currency and maturity analyses as well as interest rate analysis on debt securities issued are disclosed in Note 29.

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16. Subordinated Loan

As at 31 December 2009 the Bank held a subordinated loan from SCBP PrimSotsbank (OJSC) of 35,000 with maturity date 15 February 2012 and interest rate 9.9% per annum (2008: 14.3%). In case of bankruptcy, the repayment of the subordinated loan shall be made after repayment in full of all other liabilities of the Bank.

Geographical, currency, maturity and interest rate analysis on subordinated loan are disclosed in Note 29.

17. Other Liabilities

	<u>2009</u>	<u>2008</u>
Accounts payable	14,595	18,349
Taxes payable	7,435	13,184
Transit accounts	6,622	2,673
Other liabilities	3,070	5,445
	<u>31,722</u>	<u>39,651</u>

“Other liabilities” include mostly liabilities on transfers of individuals.

Geographical analyses, currency and maturity analysis on other liabilities are disclosed in Note 29.

18. Share Capital

The share capital of the Bank has been contributed by shareholders in Russian Roubles. Shareholders are entitled to dividends and any capital distribution in Russian Roubles. As at 31 December 2009 and 31 December 2008, share capital of the Bank consisted of 350,250 authorized, issued and fully paid ordinary shares with a fixed nominal value of 1 RUB (not thousands) each.

Ordinary shares carry the right to vote at annual general and extraordinary meetings, right to receive dividends and a residual interest in the assets of the Bank after deducting all its liabilities on liquidation. All ordinary shares provide equal rights to their owners.

Dividends payable to the Bank’s shareholders are restricted to the maximum retained earnings of the Bank, which are determined in accordance with legislation in the Russian Federation. As at 31 December 2009, the Bank’s reserves available for distribution amounted to 985,042 (31 December 2008: 926,960). No dividends have been declared during the year ended 31 December 2009 and 31 December 2008.

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18. Share Capital (continued)

The share capital of the Bank, as at 31 December 2009 and 31 December 2008, comprised the following:

	<u>Nominal value</u>	<u>Inflation adjustment</u>	<u>Total share capital</u>
Ordinary shares	350,250	199,706	549,956
	350,250	199,706	549,956

19. Equity

The influence of adjustments made according to IFRS on equity and profit of the Bank are as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Equity</u>	<u>Profit of the year</u>	<u>Equity</u>	<u>Profit of the year</u>
Under RAS	1,335,292	58,084	1,277,210	248,873
Charge of allowances	45,171	30,436	14,735	(48,754)
Current tax	-	-	(2,240)	(1,120)
Deferred tax	(11,683)	(8,698)	(2,985)	(1,963)
Depreciation of fixed assets	(72,778)	(794)	(80,064)	(2,893)
Revaluation of fixed assets	(42,222)	-	(39,308)	-
Revaluation of financial assets at fair value through profit and loss	13,816	13,154	662	2,223
Accrued interest income and expense	126,164	64,381	61,783	50,808
Accrued operating income and expense	(8,141)	11,421	(19,562)	24,769
Revaluation of financial assets held to maturity	(216)	(216)	-	-
Transactions at rates less than commercial	233	269	(36)	2,478
Materials written off	(1,848)	2,441	(4,289)	(2,562)
Other	(854)	7,404	(854)	539
Under IFRS	1,382,934	177,882	1,205,052	272,398

20. Net Interest Income

	<u>2009</u>	<u>2008</u>
Interest income		
Loans to customers	1,347,226	1,453,193
Due from financial institutions	77,023	26,384
Financial assets at fair value through profit or loss	72,756	15,410
Financial assets held to maturity	21,244	17,719
	1,518,249	1,512,706
Interest expense		
Customers' deposits	(488,568)	(351,869)
Due to financial institutions	(11,836)	(14,819)
Debt securities issued	(2,505)	(12,921)
Subordinated loan	(4,432)	(9,968)
	(507,341)	(389,577)
Net interest income	1,010,908	1,123,129

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21. Net Gains / (Losses) from Dealing with Securities

	2009			2008		
	Fair value adjustments	Gains realised on disposal	Total	Fair value adjustments	Losses from disposal	Total
Financial assets at fair value through profit or loss	24,606	25,498	50,104	3,363	(3,577)	(214)
Other	-	1	1	-	1	1
Total net gains / (losses) from dealing with securities	24,606	25,499	50,105	3,363	(3,576)	(213)

22. Net Gains from Operations with Foreign Currencies

	2009	2008
Currency exchange	47,192	75,777
Currency forwards	16,270	(4,795)
	63,462	70,982

23. Net Commission Income

	2009	2008
Commission income		
Transactions with plastic cards	57,291	124,881
Settlement transactions	132,956	130,474
Cash transactions	68,778	93,297
Anticipated redemption of promissory notes	1,213	878
Guarantees issued	2,923	463
Dealing with securities	203	1,822
Dealing with currency	2,408	3,434
Other transactions	7,424	10,811
	273,196	366,060
Commission expenses		
Transactions on plastic cards	(23,641)	(24,320)
Cash transactions	(3,743)	(4,637)
Settlement transactions	(2,191)	(3,789)
Dealing with securities	(109)	(269)
Dealing with currency	(3,499)	(5,111)
Other commissions	(16,587)	(17,599)
	(49,770)	(55,725)
Net commission income	223,426	310,335

Other commission expenses are represented by commission expenses for transfer foreign currencies for individuals and legal entities.

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24. Other Operating Income

	<u>2009</u>	<u>2008</u>
Income from sale of fixed assets and claim rights	1,579	49,668
Fines, penalties and other charges	30,747	19,410
Other	3,860	5,992
	<u>36,186</u>	<u>75,070</u>

The line 'Other' includes mainly income arising from adjustments of rates in deposits in case of early termination of contracts in system Zolotaya Corona.

25. Staff Costs

	<u>2009</u>	<u>2008</u>
Salaries and bonuses	(272,934)	(349,847)
Unified social tax	(54,236)	(58,347)
Education	(125)	(532)
Other staff payments	(1,306)	(1,256)
	<u>(328,601)</u>	<u>(409,982)</u>

In 2009 the average monthly salary of employees was RUB 25,760 (not thousands) (2008: RUB 32,800 (not thousands)).

26. Operating Expenses

	<u>2009</u>	<u>2008</u>
Operating leases	(45,328)	(57,471)
Other expenses related to fixed assets	(42,030)	(55,605)
Taxes other than on income	(38,364)	(43,419)
Depreciation of fixed assets (Note 11)	(37,145)	(35,743)
Advertising and marketing	(14,742)	(30,897)
Security	(24,557)	(23,785)
Office expenses	(23,607)	(21,172)
Insurance of customers' deposits	(18,513)	(20,029)
Issuing plastic cards	(1,284)	(13,795)
Charity	(7,552)	(12,003)
Materials written off	(1,531)	(10,248)
Insurance	(880)	(5,427)
Business travel	(1,693)	(4,740)
Write offs	(1)	(2,568)
Professional services	(3,487)	(1,514)
Representation	(307)	(290)
Other	(1,721)	(17,551)
	<u>(262,742)</u>	<u>(356,257)</u>

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26. Operating Expenses (continued)

Taxes other than income tax include the following:

	<u>2009</u>	<u>2008</u>
Irrecoverable VAT	(25,791)	(31,220)
Property tax	(11,770)	(11,224)
Other taxes	(803)	(975)
	<u>(38,364)</u>	<u>(43,419)</u>

27. Income Tax

Income tax expense comprises the following components:

	<u>2009</u>	<u>2008</u>
Current income tax	37,918	86,780
Charge for deferred tax	8,698	4,759
Effect of change in tax rate in deferred tax	-	(2,796)
	<u>46,616</u>	<u>88,743</u>

The income tax for banks except for the income arising from dealing with state securities was charged at the rate of 20% (2008: 24%). The income tax rate on income arising from transactions with state securities is 15% (2008: 15%). Effective from 1 January 2009, the income tax rate in the Russian Federation was reduced to 20%.

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

The effective income tax rate differs from the rates determined by the Russian tax legislation. The effective income tax may be reconciled to the income tax calculated based on the rate determined by the legislation as follows:

	<u>2009</u>	<u>2008</u>
Profit according to IFRS before tax	224,498	361,141
Applicable statutory rate of income tax	20%	24%
Theoretical income tax expense at the applicable statutory rate	44,900	86,674
Income and expenses not recognised for tax purposes:		
Income on state securities taxed at other rates	(594)	(1,193)
Income not increasing the tax base	(1)	(16)
Expenses not decreasing the tax base	2,311	6,074
Effect of change in tax rate	-	(2,796)
	<u>46,616</u>	<u>88,743</u>

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27. Income Tax (continued)

Major components making up the deferred tax liability at 31 December 2009 were:

	<u>1 January 2009</u>	<u>Movement charged / (credited) to comprehensive income</u>	<u>31 December 2009</u>
Temporary differences decreasing the tax base			
Allowance for impairment	4,468	19,730	24,198
Accrued income and expenses	(10,896)	(23,791)	(34,687)
Other	5,361	(6,616)	(1,255)
Total deferred tax liability	(1,067)	(10,677)	(11,744)
Temporary differences increasing the tax base			
Revaluation of financial assets at fair value through profit or loss	(3,521)	(1,538)	(5,059)
Property, plant and equipment	(58,189)	648	(57,541)
Other	1,551	2,869	4,420
Total deferred tax liability	(60,159)	1,979	(58,180)
Total net deferred tax liability	(61,226)	(8,698)	(69,924)

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27. Income Tax (continued)

The tax effect of changes in income tax rate and major components making up the deferred tax liability at 31 December 2008 were:

	<u>1 January 2008</u>	<u>Movement charged / (credited) to the statement of comprehensive income</u>	<u>Effect of change in tax rate recorded in the statement of comprehensive income</u>	<u>Effect of change in tax rate recorded in equity</u>	<u>31 December 2008</u>
Temporary differences decreasing the tax base					
Allowance for impairment	(12,692)	18,054	(894)	-	4,468
Accrued income and expenses	(931)	(12,144)	2,179	-	(10,896)
Other	11,717	(5,284)	(1,072)	-	5,361
Total deferred tax liability	(1,906)	626	213	-	(1,067)
Temporary differences increasing the tax base					
Revaluation of financial assets at fair value through profit or loss	1,145	(5,371)	705	-	(3,521)
Property, plant and equipment	(70,669)	842	2,188	9,450	(58,189)
Other	2,717	(856)	(310)	-	1,551
Total deferred tax liability	(66,807)	(5,385)	2,583	9,450	(60,159)
Total net deferred tax liability	(68,713)	(4,759)	2,796	9,450	(61,226)

28. Segment Reporting

The Bank's operations are organised in accordance with two basic business-segments:

- § Services to individuals – this business segment includes bank services to individual customers – opening and holding bank (settlement) accounts, acceptance of deposits, safekeeping services, management of investments, debit and credit card services, services on consumer and mortgage loans.
- § Services to organisations – this business segment includes services on running settlement and current accounts of organisations, acceptance of deposits, granting of credit lines, granting of loans and operations in foreign currency and derivative financial instruments.

The Bank has not made the relevant disclosures required under IFRS 8 'Operating Segments' as it does not have securities listed on a recognised stock exchange.

29. Financial Risk Management

The activities carried out by the Bank expose it to a variety of financial risks and performing those activities include analysing, evaluating, accepting and managing some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Bank's aim is therefore to achieve an adequate balance between risk and return and minimise potential adverse effects on the Bank's financial performance, through a set of risk management policies. These policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products, to adhere to changes in the normative issued by the CBRF and ultimately to follow emerging best practice.

The Board of Directors approves the credit policy and the policy of risk management, sets basic characteristics of loan portfolio of the Bank and limits the risks upon the factors, among which are:

- § Loan portfolio diversification by industries
- § Loan terms depending on the quality of collateral
- § Limitations on granting loans to related parties
- § Quality criteria of collateral
- § Borrowers' risk assessment principles

In addition to this, the credit policy determines the functions of separate bodies of the Bank, including:

- § Management of the Bank (issue of regulatory documents related to risk management procedures including credit, currency and interest risks, and financial instruments' risks on the development of the Bank's business);
- § Finance committee (determination of limits on all Bank's activities) and;
- § Credit committee (decisions on issues such as granting, prolonging or changing conditions of loan agreements, portfolio structure and overall quality of the loan portfolio).

To minimise the risks, the Bank's departments in charge of loans operate within the scope of their competence, and each department is included into the system of risk management and control, among them are:

- § Business department (collecting updated information of the client during the effective period of the contracts, monitoring of the clients' financial position, control of clients' repayment record, performing of scheduled and non scheduled visits to clients)
- § Security group (evaluation of proposed collaterals, their conditions, fair value assessments along the term of contracts and evaluations of changes of collateral)
- § Department of Bank's risk evaluation (business risk evaluation, monitoring of risk categories of loans, advances and other financial instruments, calculation of allowance considering the provided collateral, the department is also in charge of suggestions on improvement of the evaluation risk methods and evaluation of operational and legal risk of the Bank)
- § Economic security department and legal management (legal assessment of documents provided by borrowers, evaluation of borrowers' business reputation, debt collection in case of default on obligations, participation in realisation of pledged collateral)
- § Internal control department (subsequent inspection of lending procedures for their compliance with internal and external requirements)

29. Financial Risk Management (continued)

Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business and therefore management carefully monitors it. Credit exposures arise mainly in lending activities that lead to loans and advances, and investing activities that bring debt securities and other bills into the Bank's assets portfolio.

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Department of bank exposure evaluation and reported to the Credit Committee regularly.

Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components

- (a) the "probability of default" by the client or counterparty on its contractual obligations;
- (b) current exposures to the counterparty and its likely future development, from which the Bank derive the "exposure at default"; and
- (c) the likely recovery ratio on the defaulted obligations (the "loss given default").

These credit risk measurements, which reflect expected losses (the "expected loss model") and are required by the CBRF, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the "incurred loss model") rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally, based on the regulations issued by the CBRF and combine statistical analysis with management judgment and are validated, where appropriate, by comparison with external available data. For this purpose the loan portfolio of the Bank is classified into five risk categories:

- § I (the highest quality - standard loans) – with absence of credit risk (possibility of losses as result of default or improper fulfilment of liabilities on loans is nil);
- § II (non-standard loans) - medium credit risk (possibility of losses as result of default determines their impairment on a variable rate between 1 to 20%)
- § III (doubtful loans) – significant credit risk (possibility of losses as result of default determines their impairment on a variable rate between 21 to 50%)
- § IV (problematic loans) - high credit risk (possibility of losses as result of default determines their impairment on a variable rate between 51 to 100%)
- § V the lowest quality (bad loans) – absence of repayment possibility of a loan due to the inability or unwillingness of a borrower to fulfil his credit obligations, determines the full impairment of a loan (100%)

In order to achieve a more representative classification of borrowers, each category (apart from the lowest one) includes subcategories that characterise more specifically the capability of a borrower to repay a loan.

The analysis of debt securities and other liabilities does not differ from the analyses of the Bank's borrowers and is performed with the use of similar models, although, keeping into account that not all the financial information is consistent or readily available from all issuers.

29. Financial Risk Management (continued)

Credit risk measurement (continued)

In relation to this, the department of bank's risk evaluation uses additional methods to assess the issuers' financial position based on fundamental and technical analysis of the securities' market. The department also uses data about the liquidity and information about market prices for debt securities on the Russian stock exchange and on over-the-counter market. The department also takes into consideration the assessments of rating agencies such as: Standard & Poor's, Moody's or Fitch Ratings. Investments in these securities are considered as a mean to improve the credit quality profile of the Bank's assets and at the same time a tool for liquidity management.

Risk limit control and mitigation policies

The Bank manages, sets limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, economic groups and industries, through its loan granting policies and regulations. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored through regular review (quarter and annual inspections as well as inspection by arising of impairment evidence). Risk limits are updated once a quarter, and for risk factors changing more frequently (e.g. market risks, debts of credit institutions) – once a month. The finance committee approves the limits.

The Bank has a differential approach for the assessment of different groups of borrowers (taking into consideration the activity or industry they belong to and the specifics of the preparation of their financial statements. In particular, the Bank has specific exposure evaluation models used for:

- § industrial and agricultural entities
- § trade organisations
- § construction companies
- § state organisations
- § small business
- § individuals

The exposure to any borrower or economic group, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for loans, which is a common practice. The Bank has set guidelines on the acceptability of specific types of collateral for credit risk mitigation. The main collateral types for loans and advances include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equity instruments.

Long term finance and lending to corporate entities are generally secured; consumer individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, promissory notes and similar instruments are generally unsecured.

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29. Financial Risk Management (continued)

Risk limit control and mitigation policies (continued)

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions-, are collateralised by the underlying shipments of goods to which they relate, or by additional collaterals and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating described before in this note, used for regulatory purposes as per the instructions of the CBRF focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the balance sheet under IFRS at year-end is derived from each of the five statutory risk categories. The majority of the impairment allowance comes from the last grading, in direct correlation to the impaired loans, and from the first category corresponding to loans assessed on a pool basis. The table below shows the percentage of the Bank's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories.

The Bank's rating, determined based on regulations issued by the CBRF, was as follows:

Risk category	Loans and advances (%)	Impairment allowance (%)	Loans and advances (%)	Impairment allowance (%)
I	47.4	-	44.2	-
II	29.2	4.0	40.5	14.8
III	2.6	1.7	8.0	17.8
IV	3.0	7.7	0.6	0.2
V	17.8	86.6	6.7	67.2
	100.0	100.0	100.0	100.0

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Bank:

- § Delinquency in contractual payments of principal or interest
- § Cash flow difficulties experienced by the borrower

29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

- § Breach of loan covenants or conditions
- § Initiation of bankruptcy proceedings
- § Deterioration of the borrower's competitive position
- § Deterioration in the value of collateral, and
- § Downgrading below II category

The Bank's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- (i) portfolios of homogenous assets that are individually below materiality thresholds; and
- (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Bank's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the balance sheet. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities. Providing monitoring of credit risk the specialists of department of credit risk evaluation present regular reports based on structured analysis of business and financial results of clients. All information on significant risks in respect of client's credit capacity comes to the Credit committee of the Bank. The Credit committee performs maturity analysis, monitoring and control of overdue loans.

The Bank uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

In accordance with the results of stress testing which is performed twice a year to estimate the Bank's strength against changes in the structure of the loan portfolio, the Bank develops emergency plans and takes measures limiting the most risky scenarios and lending schemes.

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Loans and advances to customers include the following portfolios:

	<u>2009</u>	<u>2008</u>
Loans and advances to customers		
<i>Individuals (retail customers)</i>		
Consumer loans	1,966,403	2,186,938
Overdrafts	34,463	30,903
Consumer loans guaranteed by legal entities	-	17,349
Auto loans	18,905	25,547
Mortgages	207,257	224,504
<i>Corporate entities</i>		
Large corporate customers	1,760,084	2,008,301
SMEs	1,513,581	1,413,498
Federal, State and public	104,543	91,292
Gross loans and advances	5,605,236	5,998,332
Less: allowance for impairment	(1,150,496)	(597,654)
Loans and advances, net	4,454,740	5,400,678

The loan portfolio of the Bank is summarised as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Loans and advances to customers</u>	<u>Due from Banks</u>	<u>Loans and advances to customers</u>	<u>Due from Banks</u>
Loans and advances				
Neither past due nor impaired	4,207,025	390,590	4,771,648	139,772
Past due but not impaired	78,124	-	538,333	-
Impaired	1,320,087	24,103	688,351	24,000
Gross loans and advances	5,605,236	414,693	5,998,332	163,772
Less: Allowance for impairment	(1,150,496)	(24,103)	(597,654)	(24,750)
Net loans and advances	4,454,740	390,590	5,400,678	139,022

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Loans and advances neither past due nor impaired

As at 31 December 2009, loans and advances neither past due nor impaired to individuals comprised:

Risk category	Overdrafts	Consumer loans guaranteed by legal entities	Consumer loans	Auto loans	Mortgages	Total
I	-	-	4,184	-	9,126	13,310
II	32,928	-	1,230,530	5,433	127,588	1,396,479
Total	32,928	-	1,234,714	5,433	136,714	1,409,789

As at 31 December 2009, loans and advances neither past due nor impaired to corporate entities comprised:

Risk category	Large corporate customers	SMEs	Federal, state and public organisations	Total
I	1,425,933	1,109,453	96,270	2,631,656
II	-	165,580	-	165,580
Total	1,425,933	1,275,033	96,270	2,797,236

Summarizing, the credit quality of the loan portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the statutory rating system as follows:

Risk category	Individuals	Legal entities	Total
I	13,310	2,631,656	2,644,966
II	1,396,479	165,580	1,562,059
Total	1,409,789	2,797,236	4,207,025

As at 31 December 2008 loans and advances neither past due nor impaired to individuals and corporate entities were composed by:

Risk category	Individuals	Legal entities	Total
I	9,467	2,548,336	2,557,803
II	1,812,770	124,092	1,936,862
III	-	276,983	276,983
Total	1,822,237	2,949,411	4,771,648

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired as at 31 December 2009 were as follows:

	<u>Past due up to 30 days</u>	<u>Past due 31-60 days</u>	<u>Past due 61-90 days</u>	<u>Past due more than 90 days</u>	<u>Total</u>	<u>Fair value of collateral</u>
Individuals (retail clients)						
Overdrafts	139	-	-	-	139	-
Consumer loans	50,276	-	-	-	50,276	-
Mortgages	7,080	1,779	-	-	8,859	9,266
Auto loans	293	-	-	-	293	606
Legal entities						
Federal, state and public organisations	8,273	-	-	-	8,273	42,592
SMEs	8,400	1,884	-	-	10,284	30,513
Total	<u>74,461</u>	<u>3,663</u>	<u>-</u>	<u>-</u>	<u>78,124</u>	<u>82,977</u>

As at 31 December 2008 the gross amount of loans and advances past due but not impaired was as follows:

	<u>Past due up to 30 days</u>	<u>Past due 31-60 days</u>	<u>Past due 61-90 days</u>	<u>Past due more than 90 days</u>	<u>Total</u>	<u>Fair value of collateral</u>
Individuals (retail clients)						
Overdrafts	490	-	-	-	490	-
Consumer loans	130,570	-	-	-	130,570	-
Mortgages	17,947	2,411	1,881	3,364	25,603	31,662
Auto loans	1,404	-	-	-	1,404	2,616
Legal entities						
Large corporate customers	170,217	-	-	-	170,217	305,185
SMEs	148,391	25,615	-	36,043	210,049	436,413
Total	<u>469,019</u>	<u>28,026</u>	<u>1,881</u>	<u>39,407</u>	<u>538,333</u>	<u>775,876</u>

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	2009		2008	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Overdrafts	1,396	-	741	-
Consumer loans	681,183	-	478,269	-
Auto loans	13,180	3,837	11,149	13,019
Mortgage	61,684	47,104	14,779	14,313
Corporate entities				
Large corporate customers	334,379	417,709	75,647	117,412
SMEs	228,265	120,591	107,766	160,569
Total	1,320,087	589,241	688,351	305,313

In 2009, the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Consumer loans guaranteed by legal entities	Consumer loans	Auto loans	Mortgages	Total
1 January 2009	1,318	520	313,509	6,707	18,736	340,790
Movement for the period	822	(520)	380,972	6,587	29,982	417,843
Loans written off	-	-	(39,760)	-	-	(39,760)
31 December 2009	2,140	-	654,721	13,294	48,718	718,873

In 2009, the movement of the allowance for impairment of loans and advances to corporate entities was as follows:

	Large corporate customers	SMEs	Federal, state and public organisations	Total
1 January 2009	151,823	104,895	146	256,864
Movement for the period	99,880	75,188	(146)	174,922
Loans written off	-	(163)	-	(163)
31 December 2009	251,703	179,920	-	431,623

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Summarizing, the movement of the allowance for impairment of loans and advances to individuals and corporate entities was as follows:

	<u>Individuals</u>	<u>Legal entities</u>	<u>Total</u>
1 January 2009	340,790	256,864	597,654
Charge for the period	417,843	174,922	592,765
Loans written off	<u>(39,760)</u>	<u>(163)</u>	<u>(39,923)</u>
31 December 2009	<u>718,873</u>	<u>431,623</u>	<u>1,150,496</u>

In 2008, the movement of the allowance for impairment of loans and advances to corporate entities was as follows:

	<u>Individuals</u>	<u>Legal entities</u>	<u>Total</u>
1 January 2008	91,589	68,585	160,174
Charge for the period	249,652	208,550	458,202
Loans written off	<u>(451)</u>	<u>(20,271)</u>	<u>(20,722)</u>
31 December 2008	<u>340,790</u>	<u>256,864</u>	<u>597,654</u>

Loans and advances renegotiated

Restructuring activities included extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due or impaired comprised:

	<u>2009</u>	<u>2008</u>
Individuals (retail customers)		
Consumer loans	491	585
Mortgages	44,541	7,088
Corporate entities		
Large corporate customers	573,508	394,065
SMEs	<u>218,146</u>	<u>90,485</u>
Total	<u>836,686</u>	<u>492,223</u>

Included in loans neither past due nor impaired as at 31 December 2009 were sixteen renegotiated loans with total value of 376,054 which would otherwise be past due or impaired (31 December 2008: three loans with total value of 113,031).

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Reposessed collateral

During 2009 the Bank took possession of collateral held as security (2008: none). The following table provides details of assets reposessed by the Bank:

	Residential property	Commercial property	Industrial property	Other	Total
1 January 2009	-	-	-	-	-
Additions	21,154	36,815	50,068	191,531	299,568
31 December 2009	21,154	36,815	50,068	191,531	299,568

Of the above total 299,568, 247,064 are reflected in additions to fixed assets (Note 11) and 52,504 are reflected in Other assets (Note 12).

Reposessed properties may be sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness or utilised by the bank where they feel appropriate. Reposessed property to be sold is classified in the balance sheet within other assets, and property to be utilised by the Bank is capitalised under property, plant and equipment.

Industry analysis of loans and advances to customers

The structure of the Bank's loan portfolio per economic sector is presented below:

	2009	%	2008	%
Trade and services	1,444,238	25.8	1,023,421	17.1
Individuals	2,227,028	39.7	2,485,240	41.4
Transaction with property, rent and services	547,782	9.8	590,605	9.8
Construction	543,284	9.7	667,604	11.1
Manufacture	423,826	7.6	713,783	11.9
Social services	109,542	2.0	97,103	1.6
Agriculture	96,643	1.7	76,865	1.3
Financial activity	84,098	1.5	83,432	1.4
State organisations	68,475	1.2	68,374	1.1
Heating and power production	41,518	0.7	130,355	2.2
Transport and telecommunication	13,902	0.2	56,287	1.0
Extraction of natural resources	3,202	0.1	-	0.0
Hotels and restaurants	1,134	0.0	5,263	0.1
Other	564	0.0	-	0.0
	5,605,236	100.0	5,998,332	100.0

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29. Financial Risk Management (continued)

Impairment and provisioning policies (continued)

Concentration of loans and advances to customers

In terms of size of loans and number of borrowers, the structure of the Bank's loan portfolio is as follows:

Amount	2009			2008		
	Number of borrowers	Total debt	%	Number of borrowers	Total debt	%
More than 60,001	9	910,520	16.2	19	778,315	13.0
From 30,001 to 60,000	16	678,578	12.1	13	911,862	15.2
From 15,001 to 30,000	39	882,296	15.7	19	1,069,405	17.8
From 7,501 to 15,000	39	418,706	7.5	21	472,728	7.9
From 3,001 to 7,500	75	333,059	5.9	38	222,212	3.7
From 1,501 to 3,000	123	196,487	3.5	105	203,862	3.4
From 601 to 1,500	180	149,905	2.7	148	135,364	2.3
From 301 to 600	186	63,890	1.1	240	86,245	1.4
From 151 to 300	1,084	193,603	3.5	407	74,290	1.2
From 31 to 150	23,298	1,360,123	24.3	28,686	1,477,424	24.6
From 15 to 30	14,731	283,459	5.1	17,655	365,907	6.1
From 1 to 15	16,617	134,610	2.4	18,953	200,718	3.4
Total	56,397	5,605,236	100.0	66,304	5,998,332	100.0

As at 31 December 2009 the twenty largest borrowers have an outstanding debt totalling 2,068,125, which represent 36.90% of the total loan portfolio (2008: 2,063,674 and 34.40%, respectively).

As at 31 December 2009 the largest borrower has a total debt of 231,178 which represented 4.12% of the total loan portfolio (2008: 194,160 and 3.24%, respectively).

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other type of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Bank for its loan portfolio by type of collateral and its estimated fair value:

	2009	2008
Real estate	4,371,517	4,169,387
Goods in turnover	665,819	1,032,557
Vehicles	217,891	200,190
Fixed assets and equipment	959,962	638,220
Cash	1,270,256	-
Securities	1,032,044	52,045
Seizing rights	131,292	547,472
Total amount of collateral	8,648,781	6,639,871

29. Financial Risk Management (continued)

Market risk

The Bank undertakes market risk connected to open positions on interest, currency and equity instruments that are considered to be the subjects of risks of general and specific changes on the market. The Financial Committee sets limits on the level of accepted risk. However if more significant changes on the market take place this method does not ensure preventing of losses exceeding the limits.

The method of evaluation of market risks has developed significantly. In 2006 the Bank started estimating the market risks related to its debt securities issued portfolio using the "Value at Risk" methodology (VaR) currently accepted as best practice. Since the number of financial instruments the Bank was working with increased, the Bank developed rules, including estimations of limits on groups of securities joint into pools in accordance with specific features of risk as well as rules of obligatory closing of positions on specific types of securities.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over one day will follow a similar pattern to those that have occurred over the periods in the past. The Bank's assessment of past movements is based on data for the past 365 days. The Bank applies these historical changes in rates, prices, indices, and so on directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters / factors used in the VaR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Bank's market risk control regime, VaR limits are established by the Financial Committee on monthly basis for all trading and non-trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated Bank-wide VaR, is reviewed daily by the Department of bank exposure evaluation.

Average daily VaR for the Bank was 25,476 in 2009 (2008: 3,988).

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated, and all back-testing results are reported to the Board of Directors.

Financial instruments sensitive to the market risk include state securities, corporate securities, and foreign currencies.

State bonds and a portion of corporate bonds were included into financial assets held to maturity. As such, no VaR was calculated for them. Risk assessment for these securities was performed through review for impairment.

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29. Financial Risk Management (continued)

Market risk (continued)

Corporate bonds sensitive to the market risk:

Rate	1 January 2009	31 March 2009	30 June 2009	30 September 2009	31 December 2009
Fair value of the portfolio, in RUB (*)	45,344	234,485	402,265	496,240	465,935
Possible losses, in RUB (**)	3,103	25,649	41,205	43,904	12,260
Possible losses, in % from fair value of the portfolio	6.8	10.9	10.2	8.9	2.6

(*) Fair value of the portfolio was calculated according to daily prices of Moscow Interbank Currency Exchange

(**) To evaluate possible losses VaR has been calculated with the use of methodology of historical modelling (the period of historical modelling is 100 days, confidence band is 99%, holding period is 1 day)

Results of VaR calculations for foreign currencies for the years 2007 and 2008 indicate that their share of potential losses does not exceed 1% of total amount. Due to this fact, amount of potential losses on foreign currencies is accepted as 1% of total amount on the remaining financial instruments sensitive to market risk.

The sensitivity of the Bank to the market risk is presented below:

Rate	1 January 2009	31 March 2009	30 June 2009	30 September 2009	31 December 2009
Equity, in RUB (*)	1,297,887	1,307,211	1,311,362	1,322,477	1,357,874
Possible losses, in RUB (**)	3,134	25,905	41,617	44,343	12,383
Possible losses, in % from the equity (share)	0.2	2.0	3.2	3.4	0.9

(*) Equity was calculated in accordance with methodology set by the CBRF

(**) Possible losses were calculated by summarizing the rates of possible losses presented in the tables at corresponding dates. This method of calculating does not fully correspond to portfolio's approach of value-at-risk calculation as it is supposed that there is no correlation between the risk factors of separate portfolios. In relation to this, the calculation gives higher (maximally safe) estimate of the Bank's sensitivity to the market risk factors.

The Bank did not perform the analyses on sensitivity of the portfolio of the financial instruments to the changes of general level of interest rates as the Bank does not have financial instruments with variable interest rates related to the refinance rate of the CBRF, LIBOR, market indexes or any other general economic indicators. In 2009 the Bank operated only with debt securities with fixed interest rates.

Financial instruments denominated in foreign currency were taking into consideration in calculation of currency position and their sensitivity to currency risk was accounted for in computation of amount of potential losses on foreign currencies.

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29. Financial Risk Management (continued)

Geographical Risk / Country risk

Country risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Bank operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure.

The Bank has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible. Operations of the Bank beyond the Russian Federation are represented predominantly by operations with OECD countries.

A geographical analysis of Bank's assets and liabilities as at 31 December 2009 is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Non-OECD</u>	<u>Total</u>
Assets				
Cash and cash equivalents	2,987,690	36,771	1,512	3,025,973
Mandatory cash balances with the CBR	54,497	-	-	54,497
Due from financial institutions	390,590	-	-	390,590
Financial assets at fair value through profit or loss	1,419,781	24,820	-	1,444,601
Financial assets held to maturity	347,371	27,704	-	375,075
Loans and advances to customers	4,454,740	-	-	4,454,740
Property, plant and equipment	685,414	-	-	685,414
Other assets	73,574	-	-	73,574
Total assets	10,413,657	89,295	1,512	10,504,464
Liabilities				
Due to financial institutions	275,613	-	-	275,613
Customer accounts	8,670,749	-	-	8,670,749
Debt securities issued	38,522	-	-	38,522
Subordinated loan	35,000	-	-	35,000
Deferred tax liability	69,924	-	-	69,924
Other liabilities	31,722	-	-	31,722
Total liabilities	9,121,530	-	-	9,121,530
Net balance sheet position	1,292,127	89,295	1,512	1,382,934
Credit related commitments	469,127	-	-	469,127

Geographical analysis of the Bank's assets and liabilities as of 31 December 2008 is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Non-OECD</u>	<u>Total</u>
Net balance sheet position	1,192,762	12,290	-	1,205,052
Credit related commitments	83,084	-	-	83,084

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29. Financial Risk Management (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in exchange rates. The Financial Committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Transactions are generally performed in three major currencies: the RUB, USD and Euro.

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

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Assets					
Cash and cash equivalents	2,735,222	198,968	90,520	1,263	3,025,973
Mandatory cash balances with the CBRF	54,497	-	-	-	54,497
Due from financial institutions	49,590	174,210	166,790	-	390,590
Financial assets at fair value through profit or loss	1,419,781	24,820	-	-	1,444,601
Financial assets held to maturity	347,371	27,704	-	-	375,075
Loans and advances to customers	4,282,279	146,045	26,416	-	4,454,740
Property, plant and equipment	685,414	-	-	-	685,414
Other assets	72,201	1,373	-	-	73,574
Total assets	9,646,355	573,120	283,726	1,263	10,504,464
Liabilities					
Due to financial institutions	7,379	265,162	3,072	-	275,613
Customer accounts	8,120,906	284,290	265,553	-	8,670,749
Debt securities issued	38,522	-	-	-	38,522
Subordinated loan	35,000	-	-	-	35,000
Deferred tax liability	69,924	-	-	-	69,924
Other liabilities	26,039	5,683	-	-	31,722
Total liabilities	8,297,770	555,135	268,625	-	9,121,530
Net balance sheet position	1,348,585	17,985	15,101	1,263	1,382,934
Credit related commitments	468,522	605	-	-	469,127

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

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Total liabilities					
Net balance sheet position	1,135,965	32,519	36,178	390	1,205,052
Credit related commitments	83,084	-	-	-	83,084

Other currencies in assets are represented by the following currencies: Japanese Yen – the equivalent of 823 (2008: 309), Swiss Francs – the equivalent of 250 (2008: 9,834), Pound Sterling – the equivalent of 131 (2008: 4) and Canadian Dollar – the equivalent of 59 (2008: none).

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29. Financial Risk Management (continued)

Currency risk (continued)

As at 31 December 2008 other currencies in liabilities were represented by the following currencies: Swiss Francs – the equivalent of 9,757.

The following table demonstrates the sensitivity to a reasonably possible change in the RUB to USD and EUR exchange rate, with all other variables held constant, of the Bank's profit after tax and the Bank's equity. Analysis has not been provided for other currencies as there are no significant exposures.

	2009	2008
USD		
30% increase	4,462	7,805
30% decrease	(4,462)	(7,805)
EUR		
30% increase	3,624	8,683
30% decrease	(3,624)	(8,683)

Interest rate risk

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

The Bank is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In absence of hedging instruments, the Bank usually aims to balance the interest rate margins positions.

The table below shows the general analysis of the Bank's weighted average interest rates for various financial instruments using period-end effective interest rates:

	2009					2008				
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Assets										
Cash and cash equivalents	4.0%	-	-	-	-	7.3%	-	-	-	-
Due from financial institutions	2.0%	-	-	-	-	-	12.0%	-	14.0%	-
Financial assets at fair value through profit or loss	9.9%	-	13.4%	12.4%	-	-	9.9%	-	8.2%	-
Financial assets held to maturity	7.4%	-	6.0%	8.2%	-	-	-	12.0%	7.2%	12.0%
Loans and advances to customers	17.6%	16.9%	16.8%	16.1%	16.4%	17.7%	16.3%	17.4%	16.8%	15.0%
Liabilities										
Due to financial institutions	-	-	-	11.5%	-	12.4%	10.0%	11.5%	11.5%	-
Customer accounts	1.3%	8.1%	12.2%	13.4%	8.8%	2.6%	9.8%	10.8%	13.0%	13.0%
Debt securities issued	8.8%	1.3%	8.0%	-	-	3.4%	0.6%	14.8%	-	-
Subordinated loan	-	-	-	9.9%	-	-	-	-	14.3%	-

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29. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks as at as at 31 December 2009. It includes the Bank's interest bearing financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	950,137	-	-	-	-	2,075,836	3,025,973
Mandatory cash balance with CBRF	-	-	-	-	-	54,497	54,497
Due from financial institutions	40,000	-	-	-	-	350,590	390,590
Financial assets at fair value through profit or loss	80,029	49,730	1,272,536	41,044	1,262	-	1,444,601
Financial assets held to maturity	99,173	-	79,829	196,073	-	-	375,075
Loans and advances to customers	163,794	543,417	2,101,283	1,458,814	187,432	-	4,454,740
Property, plant and equipment	-	-	-	-	-	685,414	685,414
Other assets	-	-	-	-	-	73,574	73,574
Total assets	1,333,133	593,147	3,453,648	1,695,931	188,694	3,239,911	10,504,464
Liabilities							
Due to financial institutions	-	-	-	6,724	-	268,889	275,613
Customer accounts	4,393,131	508,461	1,892,769	1,876,388	-	-	8,670,749
Debt securities issued	29,022	6,000	3,500	-	-	-	38,522
Subordinated loan	-	-	-	35,000	-	-	35,000
Deferred tax liability	-	-	-	-	-	69,924	69,924
Other liabilities	-	-	-	-	-	31,722	31,722
Total liabilities	4,422,153	514,461	1,896,269	1,918,112	-	370,535	9,121,520
Interest rate sensitivity gap	(3,089,020)	78,686	1,557,379	(222,181)	188,694	-	-

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29. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2008:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	850,386	-	-	-	-	1,284,319	2,134,705
Mandatory cash balance with CBRF	-	-	-	-	-	9,267	9,267
Due from financial institutions	-	46,700	-	74,250	-	54,946	175,896
Financial assets at fair value through profit or loss	-	-	63,019	27,347	-	1,495	91,861
Financial assets held to maturity	-	-	6,639	20,146	191,222	-	218,007
Loans and advances to customers	358,569	501,893	2,453,787	1,876,786	209,643	-	5,400,678
Property, plant and equipment	-	-	-	-	-	458,625	458,625
Other assets	-	-	-	-	-	30,996	30,996
Total assets	1,208,955	548,593	2,523,445	1,998,529	400,865	1,839,648	8,520,035
Liabilities							
Due to financial institutions	100,469	57,140	27,000	12,058	-	185,969	382,636
Customer accounts	3,195,904	592,166	1,369,944	1,584,138	-	-	6,742,152
Debt securities issued	28,950	8,226	16,242	-	-	900	54,318
Subordinated loan	-	-	-	35,000	-	-	35,000
Deferred tax liability	-	-	-	-	-	61,226	61,226
Other liabilities	-	-	-	-	-	39,651	39,651
Total liabilities	3,325,323	657,532	1,413,186	1,631,196	-	287,746	7,314,983
Interest rate sensitivity gap	(2,116,368)	(108,939)	1,110,259	367,333	400,865		

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29. Financial Risk Management (continued)

Interest rate risk (continued)

The table below shows the average interest rate by major currencies on the assets and liabilities bearing interest. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments in accordance with the agreements valid at the end of the period.

	2009			2008		
	RUB	USD	EURO	RUB	USD	EURO
Assets						
Cash and cash equivalents	4.0%	-	-	7.3%	-	-
Due from financial institutions	2.0%	-	-	13.2%	-	-
Financial assets at fair value through profit or loss	13.2%	-	-	11.3%	10.3%	-
Financial assets held to maturity	7.8%	8.3%	-	8.2%	-	-
Loans and advances to customers	16.0%	15.5%	15.5%	17.8%	15.5%	15.5%
Liabilities						
Due to financial institutions	11.5%	-	-	11.6%	-	-
Customer accounts	6.8%	7.3%	7.3%	6.7%	8.3%	8.7%
Debt securities issued	7.4%	-	-	6.2%	-	-
Subordinated loan	9.9%	-	-	14.3%	-	-

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Bank's profit after tax and the Bank's equity as at 31 December 2009 and 31 December 2008:

	2009	2008
RUB		
100 bp parallel increase	(9,293)	25
100 bp parallel decrease	9,293	(25)
USD		
50 bp parallel increase	(343)	(436)
50 bp parallel decrease	343	436
EURO		
50 bp parallel increase	(957)	(928)
50 bp parallel decrease	957	928

Liquidity risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk.

The matching and / or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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29. Financial Risk Management (continued)

Liquidity risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than 1 month, diversification of these deposits by number and type of clients and the past experience of the Bank would indicate that deposits provide, at least under normal circumstances a long-term and stable source of funding for the Bank.

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

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

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

The following table represents the mandatory liquidity ratios for the Bank:

	Requirement	31 December 2009	31 December 2008
Instant liquidity ratio (N2)	Minimum 15%	57.78	54.03
Current liquidity ratio (N3)	Minimum 50%	114.26	90.83
Long-term liquidity ratio (N4)	Maximum 120%	38.50	45.58

The Bank's liquidity position is calculated on a daily basis for the three requirements above by Finance Department, and any issues are highlighted and referred to senior Management immediately. The Bank performs daily operations with its financial assets in order to ensure limits are complied with. Current liquidity management is controlled by Liquidity Department and long-term liquidity is controlled by Finance Department.

The Bank holds a diversified portfolio of cash and other financial instruments to support payment obligations and contingent funding. The Bank's assets held FOR managing liquidity comprise:

- § Cash and cash equivalents
- § Due from banks
- § Financial assets at fair value through profit or loss

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2009. Amounts shown are contractual undiscounted cashflows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table, For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

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29. Financial Risk Management (continued)

Liquidity risk (continued)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	268,953	127	583	7,360	-	277,023
Customer accounts	4,320,928	579,230	2,174,418	2,069,269	-	9,143,845
Debt securities issued	29,022	9,500	-	-	-	38,522
Subordinated loan	285	570	2,611	42,405	-	45,871
Other liabilities	31,722	-	-	-	-	31,722
Total liabilities	4,650,910	589,427	2,177,612	2,119,034	-	9,536,983
Credit related commitments	16,420	6,929	367,776	78,002	-	469,127
Assets held for managing liquidity risk	4,818,291	19,170	53,562	-	-	4,891,023

The data in the table above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2009, and IFRS 7 revised does not require such reconciliation.

Bank's assets and liabilities on contractual maturity basis at 31 December 2008:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Due to banks	288,303	58,207	30,384	13,217	-	390,111
Customer accounts	4,348,253	650,911	1,502,075	1,709,151	-	8,210,390
Debt securities issued	31,574	8,090	15,271	-	-	54,935
Subordinated loan	411	823	3,771	49,809	-	54,814
Other liabilities	39,651	-	-	-	-	39,651
Total liabilities	4,708,192	718,031	1,551,501	1,772,177	-	8,749,901
Credit related commitments	17,870	544	43,328	21,342	-	83,084
Assets held for managing liquidity risk	2,275,108	49,485	83,849	10,452	-	2,418,894

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in less than one month.

29. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Other price risk

The Bank is exposed to the risk that fair value of cash flows related to financial instruments will change as a result of changes of market prices (apart from those changes caused by interest rate and currency risks) irrespectively of whether these changes are caused by the factors, specific for a particular security or its issuer, that have impact on all financial instruments operating on the market.

Operating risk

Operating risk is defined as the risk of losses occurring as a result of failures in internal control systems and in the systems of data processing, as well as a result of mistakes or intentional wrongful actions of personnel and force-majeure circumstances.

The Bank develops special internal regulations and procedures aimed to minimise operating risk. The report on operating risks is considered quarterly by the Management Board and once a year on the meeting of the Board of Directors of the Bank.

Legal risk

Legal risk is defined as the risk of losses occurring as a result of non-observance by the Bank the requirements of statutory acts and agreements, committing errors of law, imperfection of legal system.

In 2009 there were no legal risks in relation to the changes in the existing legislation (as well in banking, tax and customs legislations). The Bank had a small amount of exceptional losses connected with imperfections in the legal system (inconsistency of legislation, absence of legal regulations on particular issues of banking activity).

The mentioned losses were minimal in comparison with the amount of equity and did not have material financial or reputational impact on shareholders or partners of the Bank.

30. Contingencies and Commitments

Legal proceedings

In the normal course of business, the Bank receives claims from customers. Management of the Bank does not consider that legal proceedings might lead to substantial losses therefore there is no need in creating a provision in this respect in the financial statements.

Tax legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

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30. Contingencies and Commitments (continued)

Tax legislation (continued)

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital commitments

As at 31 December 2009 and 31 December 2008 the Bank had no material capital commitments.

Operating lease commitments

In the normal course of business, the Bank enters into operating lease agreements. Most of these agreements are non-cancellable. In the table below the minimum amount of future rent obligations on irrevocable operating lease agreements are presented, where the Bank acts as a lessee:

	<u>2009</u>	<u>2008</u>
Not later than one year	39,581	33,196
Later than one year and no later than five years	102,741	100,163
Later than five years	<u>28,950</u>	<u>24,241</u>
	<u>171,272</u>	<u>157,600</u>

Credit related commitments

Credit related commitments comprise loan commitments and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments at their nominal amounts are as follows:

	<u>2009</u>	<u>2008</u>
Undrawn overdrafts	3,451	65,627
Undrawn loan commitments	297,190	500
Guarantees issued on mortgages sold	14,424	16,822
Other guarantees issued	<u>154,062</u>	<u>135</u>
Total credit related commitments	<u>469,127</u>	<u>83,084</u>

Management evaluated the likelihood of impairment in respect of other credit related commitments in 3,391 as at 31 December 2009 (2008: 1,405). The total outstanding contractual amount of loan commitments and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

31. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Bank, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment. Although, for estimating the fair value of financial instruments, management uses the most up to date market information, it may not always represent the value that can be realised in current conditions.

Financial instruments held at fair value

Cash and cash equivalents, financial assets and liabilities measured at fair value through profit or loss and financial assets available for sale are recorded in the balance sheet at fair value.

For some securities external market quotes are not available. The fair value of such assets was measured according to the results of recent sale of shares to third parties, analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions

The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity. Management considers that the fair value of due from financial institutions does not differ from their book value as at 31 December 2009. This is explained by an existing practice of revising the interest rates to reflect current market conditions, because of what, interest on the majority of balances are accrued under market interest rates.

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Management considers that the fair value of loans and advances to customers did not differ significantly from their book value as at 31 December 2009. This is explained by an existing practise of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortised cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.

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32. Related Party Transactions

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

Members of the Board of Directors of the Bank, key management, including Management Board as well are considered related parties as they can influence the activities of the Bank.

As at 31 December 2009 the list of such individuals and entities considered by the management as related parties on the basis of different reasons is as follows:

№	Name	Type of activity
I. Shareholders		
1.	Primorsk Social Company (LLC)	Rent
2.	Forseti-2003 (LLC)	Investments
3.	Ratto Holding (Cyprus) Ltd.	Holding Company for Investment Vehicle
4.	Dmitriy Borisovich Yarvoy	Social Commercial Bank of Primorye Primots Bank (OJSC), President of the Bank
5.	Vyacheslav Mikhailovich Pertsev	VladMorTorgPort (OJSC), General Director
6.	Mikhail Fyodorovich Robkanov	VladMorTorgPort (OJSC), honoured President
II. Entities and individuals affiliated through key management and their shareholdings ('Other' in the following table)		
1.	Social Commercial Bank of Primorye Primots Bank (OJSC)	Banking
2.	VladMorTorgPort (OJSC)	Port
3.	Beau Site Ltd.	Holding Company
4.	Forpost – V (LLC)	Investments
5.	Dalnevostochnoe Bureau of Credit Histories (LLC)	Financial intermediary
6.	Dal Machinery (LLC)	Investments
7.	Primorye	Pension Fund
8.	Zolotye Gory (LLC)	Investments
9.	Zolotaya Rossyp (CJSC)	Trade
10.	Rantie	Not-for profit organisation
11.	Compliance Brock (LLC)	Rent
12.	Dalinvestment (LLC)	Lease
13.	Port Aktiv (CJSC)	Transportation
14.	Marcenter – TEK (CJSC)	Transportation
15.	Alex (LLC) **	Construction
16.	KemSotsInBank (OJSC) *	Banking activity
17.	Oleg Vladimirovich Shumilin	Forseti-2003 (LLC), General Director

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32. Related Party Transactions (continued)

№	Name	Type of activity
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III. Key management

Members of the Board of Directors

1. Galina Sergeevna Dotcenko
2. Nadezda Pavlovna Ivashchenko
3. Ivan Grigorievich Moroz *
4. Sergey Pertovich Nazarov
5. Vyacheslav Mikhailovich Pertsev
6. Mikhail Fyodorovich Robkanov
7. Vladimir Viktorovich Shaporenko
8. Alexander Dmitrievich Yarovoy
9. Dmitriy Borisovich Yarovoy
10. Sergey Viktorovich Babichev **

Members of the Board of Management

1. Nadezda Pavlovna Ivashchenko
2. Sergey Mikhailovich Shatilov
3. Ludmila Alekseevna Glushkova
4. Andrey Pavlovich Sergeev
5. Artem Vladimirovich Zenkov
6. Svetlana Valentinovna Kolesnikova

Note: * Denotes parties that ceased to be related during the year

** Denotes new related parties during the year

During the reporting period the Bank entered into transactions with related parties, which included loan and deposit agreements and other banking activities. These transactions were performed mainly on market and standard terms and conditions.

Details of transactions and balances with related parties are set out in the tables below (all balances are unsecured unless otherwise stated). Balances and transactions with shareholders are included as such below regardless of whether the shareholders concerned also belong to another category of related party.

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32. Related Party Transactions (continued)

31 December 2009						
	Share- holders	Other	Key manage- ment	Total balances / transactions / with related parties	Parties that ceased to be related during the year	Total for the category
Balances						
Financial assets at fair value through profit or loss	-	-	-	-	1,262	1,444,601
Loans to customers	-	50,234	5,859	56,093	-	5,605,236
Allowance for impairment of loans	-	-	14	14	-	1,150,496
Assets under construction	-	200,401	-	200,401	-	200,401
Balances on current / settlement accounts	-	5,788	-	5,788	-	4,006,022
Term deposits	-	-	4,285	4,285	-	4,661,625
Subordinated loan	-	35,000	-	35,000	-	35,000
Transactions						
Interest income on interbank loans	-	5	-	5	10,728	77,023
Interest income on loans issued	-	909	166	1,075	-	1,347,226
Interest expense on interbank loans	-	32	-	32	-	11,836
Interest expense on deposits	357	-	298	655	-	488,568
Interest expense on subordinated loan	-	4,432	-	4,432	-	4,432
Transfer value on loans given and promissory notes purchased at less than commercial rates	-	-	45	45	-	269
31 December 2008						
	Share- holders	Other	Key manage- ment	Total balances / transactions / with related parties	Parties that ceased to be related during the year	Total for the category
Balances						
Due from banks	-	75,000	-	75,000	-	175,896
Financial assets at fair value through profit or loss	-	1,190	-	1,190	-	91,861
Loans to customers	-	-	2,543	2,543	-	5,998,332
Allowance for impairment of loans	-	-	18	18	-	597,654
Term deposits	20,860	-	3,991	24,851	-	3,766,379
Subordinated loan	-	35,000	-	35,000	-	35,000
Transactions						
Interest income on interbank loans	-	10,068	-	10,068	-	26,384
Interest income on loans issued	-	2,872	202	3,074	-	1,453,193
Interest expense on deposits	313	447	1,023	1,783	-	351,869
Interest expense on subordinated loan	5,829	4,139	-	9,968	-	9,968
Transfer value on loans given and promissory notes purchased at less than commercial rates	-	-	66	66	-	701

Total remuneration paid to the General Director and the 6 members of management of the Bank in their capacity as employees amounted to 30,786 (2008: 105,400), all payments – short term employee benefits. There were no long term benefits, post-employment benefits, termination benefits or share based payments. The interest of members of management in the share capital of the Bank is indicated in Note 1.

33. Capital Management

Among the main objectives of the management of capital are the following:

- § Comply with capital requirements regulated by the CBRF,
- § Support the Bank in functioning as a going concern.

The compliance with the capital adequacy ratio required by the CBRF is monitored through monthly reports checked and approved by the General Director and the Chief Accountant of the Bank. The following other targets of capital management are daily monitored:

- § Participation in the deposit insurance scheme and corresponding to the quality of capital recommended by the Agency of insurance scheme;
- § Increasing the amount of active operations of the Bank;
- § Controlling the ability to finance long-term investments.

The CBRF sets and monitors capital requirements for the Bank. Currently banks have to maintain a ratio of capital to risk weighted assets, the total capital ratio, computed under CBRF reporting, above the prescribed minimum of 10% (2008: 10%).

Further, the State Deposit Insurance Scheme requires banks to maintain a total capital ratio under such reporting exceeding of 11%. The Bank complied with these limits during the year and preceding year. The capital ratio of the Bank was, at 31 December 2009 19.7% (2008: 20.9%)

The Bank's primary aim with regard to capital is to meet these requirements.

The Bank also periodically calculates capital in accordance with international guidelines. Its chosen measure for this is to calculate in accordance with the Basle Capital Accord, originally published in 1988, subsequently known as 'Basle I'. Basle I includes definitions of items comprising capital and a structure of risk weights to be applied to assets to give risk weighted assets. It therefore only takes account of credit risk with no allowance for market or operational risk. It was adopted by many countries in amended or non amended forms and the Bank applies the original guidelines not adjusted to any country specific scenario. Subsequent amendments including Basel II and II have not been applied.

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33. Capital Management (continued)

The capital adequacy ratios in accordance with the Basle I were as follows:

	2009	2008
Tier 1 capital		
Share capital	549,956	549,956
Retained earnings	654,673	466,104
Total tier 1 capital	1,204,629	1,016,060
Tier 2 capital		
Revaluation of fixed assets	178,305	188,992
Subordinated loan	14,000	21,000
Total tier 2 capital	192,305	209,992
Total capital	1,396,934	1,226,052
Risk-weighted assets	7,040,540	6,227,243
Total capital expressed as percentage of risk-weighted assets ("total capital ratio")	19.8%	19.7%
Total tier 1 capital expressed as percentage of risk-weighted assets ("tier 1 capital ratio")	17.1%	16.3%

In 2009 and 2008 the Bank complied with all capital requirements.

34. Events after the Statement of Financial Position Date

The Annual Shareholders Meeting of the Bank held on 27 March, 2010 approved dividends for 2009 amounting in total to 29,043 (82.92 RUB (not thousands) per each ordinary share).

The Annual Shareholders Meeting also approved not to pay remuneration to members of the Board of Directors of the Bank for the year 2009.

The Annual Shareholders Meeting also approved appointment Mr. Vladimir Viktorovich Shaporenko as General Director of the Bank.