

**Joint-stock Bank “GPB-Mortgage”  
(Open Joint-Stock Company)**

**Consolidated Financial Statements  
for the year ended 31 December 2009**

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## **Independent Auditors' Report**

To the Shareholders and the Board of Directors  
Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company)

We have audited the accompanying consolidated financial statements of Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

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

ZAO KPMG

ZAO KPMG  
25 May 2010

Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company)  
 Consolidated Statement of Comprehensive Income for the year ended 31 December 2009  
 (in thousands of Russian Roubles unless otherwise stated)

	Notes	2009	2008
Interest income	4	4 146 443	4 128 535
Interest expense	4	(2 396 129)	(2 474 595)
<b>Net interest income</b>		<b>1 750 314</b>	<b>1 653 940</b>
Charge for allowance for loan impairment	13	(465 851)	(505 902)
<b>Net interest income after provision for loan impairment</b>		<b>1 284 463</b>	<b>1 148 038</b>
Net gain on financial assets and liabilities at fair value through profit or loss	5	376 340	1 042 970
Net foreign exchange loss	6	(660 587)	(950 290)
Fee and commission income	7	216 312	41 873
Other operating income		6 638	18 210
Fee and commission expense	7	(499 482)	(455 144)
Operating expenses	8	(629 113)	(653 103)
Goodwill impairment	30	-	(88 090)
Reversal of allowance for other assets impairment	17	11 279	-
<b>Profit before taxes</b>		<b>105 850</b>	<b>104 464</b>
Income tax expense	9	(40 144)	(21 837)
<b>Net profit and comprehensive income</b>		<b>65 706</b>	<b>82 627</b>

The consolidated financial statements were approved by the Management Board on 25 May 2010.

Egorov A.V.  
 Acting Chairman of the Board



Selivanova V.I.  
 Chief Accountant



Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company)  
 Consolidated Statement of Changes in Equity for the year ended 31 December 2009  
 (in thousands of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Retained earnings (accumulated losses)	Total equity
Balance at 1 January 2008	2 402 691	-	(69 949)	2 332 742
Comprehensive income	-	-	82 627	82 627
<b>Balance as at 31 December 2008</b>	<b>2 402 691</b>	<b>-</b>	<b>12 678</b>	<b>2 415 369</b>
Balance as at 1 January 2009	2 402 691	-	12 678	2 415 369
Share issue (Note 23)	1 000 000	-	-	1 000 000
Additional paid-in capital, net of income tax (Note 23)	-	439 301	-	439 301
Comprehensive income	-	-	65 706	65 706
<b>Balance as at 31 December 2009</b>	<b>3 402 691</b>	<b>439 301</b>	<b>78 384</b>	<b>3 920 376</b>

Egorov A.V.  
 Acting Chairman of the Board



Selivanova V.I.  
 Chief Accountant



**Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company)**  
**Notes to, and forming part of, the consolidated financial statements for the year ended 31 December 2009**  
*(in thousands of Russian Roubles unless otherwise stated)*

**1 Introduction and Russian business environment**

**(a) Introduction**

The consolidated financial statements include the financial statements of Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company) (the “Bank”) and its subsidiaries.

Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company) was established in the Russian Federation in 1994. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank has a general banking license № 2403 issued by the CBR. The principal activities of the Bank are refinancing of mortgage and housing loans, acquisition of mortgages, lending to legal entities and individuals, operations with securities and foreign exchange.

The Bank’s registered address is 14, Kolomensky street, Moscow, the Russian Federation.

As at 31 December 2009 and 2008 the principal subsidiaries of the Bank are as follows:

Name	Country of registration	Voting share	
		31 December 2009	31 December 2008
		%	%
<b>Investing activities</b>			
CMIFRE “Regional projects”	Russian Federation	100.0	100.0
MCMIF “RCPF Regional Mortgage”	Russian Federation	100.0	-
MCMIF “RCPF - United Second”	Russian Federation	-	100.0
MCMIF “United Third”	Russian Federation	100.0	100.0
<b>Special purpose entities for securitization of assets</b>			
OJSC “ISO GPB-Mortgage”	Russian Federation	-	-
Gazprombank Mortgage Funding 1 SA	Luxemburg	-	-
Gazprombank Mortgage Funding 2 SA	Luxemburg	-	-
Gazprombank Mortgage Funding 3 SA	Luxemburg	-	-
<b>Other activities</b>			
LLC “Belkor”	Russian Federation	100.0	100.0

For the purposes of these financial statements the Bank and its subsidiaries are further referred to as the “Group”.

Changes in the Group structure during 2009 and 2008 are detailed in note 30 “Changes in the Group’s structure”.

**(b) Shareholders**

As at 31 December 2009 and 2008 the shareholders of the Bank are as follows:

	31 December 2009, %	31 December 2008, %
“Gazprombank” (Open Joint – stock Company)	80.8	72.3
LLC “Gazprom Export” (prior name LLC “Gazexport”)	8.1	11.7
LLC “Novfintech”	9.3	13.4
LLC “Gaztorgpromstroy”	1.6	2.4
Other	0.2	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>



**Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company)**  
**Notes to, and forming part of, the consolidated financial statements for the year ended 31 December 2009**  
*(in thousands of Russian Roubles unless otherwise stated)*

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As at 31 December 2009 and 2008 the shareholders of “Gazprombank” (Open Joint – stock Company) are as follows:

	31 December 2009 ,%	31 December 2008 , %
CJSC “Lider” (on behalf of non-state pension fund “GAZFOND”)	42.9	42.9
OAO “Gazprom”	41.7	41.7
Non-state pension fund “GAZFOND”	7.1	7.1
Other	8.3	8.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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The Bank's shareholder LLC “Novfintech” is a subsidiary of “Gazprombank” (Open Joint – stock Company). The Bank's shareholder LLC “Gazexport” is a subsidiary of OAO “Gazprom”, which discloses the information related to its ultimate beneficiaries in its financial statements prepared in accordance with International Financial Reporting Standards.

“Gazprombank” (Open Joint – stock Company) prepares its publicly available financial statements in accordance with International Financial Reporting Standards.

Related parties transactions are disclosed in Note 29 “Related parties transactions”.

**(c) Russian business environment**

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

**2 Basis of the preparation**

**(a) Statement of compliance**

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

**(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale investments are stated at fair value.

**(c) Functional and presentation currency**

The consolidated financial statements are presented in the Russian Roubles (“RUR”) which is the functional currency of the Bank and its subsidiaries. Except as indicated, financial information presented has been rounded to the nearest thousand.

**(d) Use of estimates and judgments**

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying IFRS is described in:

- Note 3 (h) “Significant accounting policies” and Note 13 (b) “Loans to customers” in relation to loan impairment estimates
- Note 12 “Financial assets at fair value through profit or loss” in relation to the estimation of value of the claim to Lehman Brothers under the terminated cross-currency swap contract.

### **3 Significant accounting policies**

The following significant accounting policies are consistently applied in the preparation of these consolidated financial statements.

#### **(a) Consolidation principles**

##### *(i) Subsidiaries*

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

##### *(ii) Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective, such as the securitisation of particular assets, or the execution of a specific borrowing transaction. The financial statements of SPEs are included in the consolidated financial statements when the substance of relationship between the Group and the SPE indicates that the SPE is controlled by the Group, even if the Group does not have any direct or indirect shareholdings in the entity. SPEs are controlled by the Group if the Group pre-determined their activities, has the rights to obtain the majority of economic benefits from their activities, and retains the majority of the residual risks related to the SPEs or their assets in order to obtain benefits from their activities.

##### *(iii) Acquisitions of entities under common control*

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within the Group's equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is debited to equity.

##### *(iv) Acquisition and disposal of minority interest*

A difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Bank's interest in the subsidiary including attributable goodwill, is recognised in profit or loss except for transactions with companies under common control.

##### *(v) Associates*

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

##### *(vi) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

##### *(vii) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

*(viii) Minority interest*

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

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

**(b) Foreign currency transactions**

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

As at 31 December 2009 the exchange rates used for translation of balances in foreign currencies are 30.2442 USD/RUR and 43.3883 EUR/RUR (31 December 2008: 29.3804 USD/RUR and 41.4411 EUR/RUR).

**(c) Cash and cash equivalents**

The Bank considers nostro accounts with the CBR, nostro accounts with other banks and short-term deposits with other banks with maturity less than 3 months from the date of placement to be cash and cash equivalents. Overdue assets and assets with contractual restrictions on their withdrawability are excluded from cash and cash equivalents. Mandatory reserves with the CBR are not considered to be cash and cash equivalents due to restrictions on their withdrawability.

**(d) Financial instruments**

*(i) Classification*

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported liabilities.

Financial assets and liabilities at fair value through profit or loss are not reclassified upon initial recognition.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

*Available-for-sale assets* are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

*(ii) Recognition*

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

*(iii) Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

*(iv) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

*(v) Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized as earned in profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

*(vi) Derecognition*

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

*(vii) Securitisation*

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

**(e) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(f) Property and equipment**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	<b>years</b>
Buildings	50
Banking equipment and motor vehicles	2 – 7

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**(g) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(h) Impairment**

*(i) Financial assets carried at amortized cost*

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related provisions for loan impairment. The Group writes off a loan balance (and any related provisions for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

*(ii) Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

*(iii) Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Provisions**

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(j) Credit related commitments**

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

**(k) Share capital**

Share capital contributed prior to 1 January 2003 is stated at cost adjusted for hyperinflation. Share capital contributed after 1 January 2003 is stated at cost.

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

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

**(l) Taxation**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized as other comprehensive income in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(m) Income and expense recognition**

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

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

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

**(n) Segment reporting**

The majority of Group's operations are transactions with mortgages. These transactions are primarily conducted in the Russian Federation. The Group does not have components that engage in business activities from which they earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available. Thus the Group does not present the segment information.

**(o) Comparative information**

The presentation of certain comparative amounts for the year ended 31 December 2008 was changed to conform presentation in the current year consolidated financial statements. Balances of restricted nature of RUR 761 317 thousand as at 31 December 2007 and 31 December 2008 are excluded from cash and cash equivalents balances presented in the consolidated cash flow statement for the year ended 31 December 2008.

**(p) Changes in accounting policies**

As at 1 January 2009, the Group adopted the revised version of IAS 1 "Presentation of Financial Statements". As a result the income statement was replaced by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets, the balance sheet is renamed to the "statement of financial position" and the cash flow statement is renamed to the "statement of cash flows" to comply with the revised IAS 1 requirements. According to the revised IAS 1 a statement of financial position (balance sheet) at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Group adopted IFRS 8 "Operating Segments" which introduces the "management approach" to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Various "Improvements to IFRSs" are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2010.

**(q) New standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.



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IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

IFRS 3 “Business Combinations” (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer have to remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRS, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

**4 Net interest income**

	<b>2009</b>	<b>2008</b>
<b>Interest income</b>		
Loans to customers		
- Loans to individuals	4 073 785	4 062 722
- Loans to legal entities	51 480	38 917
Due from banks	20 830	24 518
Debt securities	348	2 378
<b>Total interest income</b>	<b>4 146 443</b>	<b>4 128 535</b>
<b>Interest expense</b>		
Debt securities issued	(1 068 883)	(1 475 189)
Due to banks	(1 304 093)	(950 027)
Customer accounts	(19 241)	(32 379)
Subordinated debts	(3 912)	(17 000)
<b>Total interest expense</b>	<b>(2 396 129)</b>	<b>(2 474 595)</b>
<b>Net interest income</b>	<b>1 750 314</b>	<b>1 653 940</b>

**5 Net gain on financial assets and liabilities at fair value through profit or loss**

	<b>2009</b>	<b>2008</b>
Net gain on derivative financial instruments	376 228	1 043 089
Net gain (loss) on securities held for trading	112	(119)
<b>Total net gain on financial assets and liabilities at fair value through profit or loss</b>	<b>376 340</b>	<b>1 042 970</b>

**6 Net foreign exchange loss**

	<b>2009</b>	<b>2008</b>
Net foreign exchange income	1 675	74
Net loss on revaluation of financial assets and liabilities	(662 262)	(950 364)
<b>Total net foreign exchange loss</b>	<b>(660 587)</b>	<b>(950 290)</b>

**7 Fee and commission income and expense**

	<b>2009</b>	<b>2008</b>
Service agent services	215 854	41 535
Settlement operations	458	338
<b>Total fee and commission income</b>	<b>216 312</b>	<b>41 873</b>
Service agents services	(423 373)	(369 147)
Custodian services	(64 705)	(68 597)
Settlement operations	(11 404)	(17 400)
<b>Total fee and commission expense</b>	<b>(499 482)</b>	<b>(455 144)</b>
<b>Net fee and commission expense</b>	<b>(283 170)</b>	<b>(413 271)</b>

**8 Operating expenses**

	<b>2009</b>	<b>2008</b>
Staff costs	338 472	343 067
Taxes other than on income	99 732	128 341
Professional services	46 916	32 692
Depreciation	33 295	23 104
Maintenance	16 571	24 961
Telecommunication	14 083	8 608
Software	8 509	14 031
Entertainment costs	4 374	1 620
Travel expenses	4 120	7 197
Office supplies	2 586	2 235
Advertising	1 175	3 050
Rent	678	3 002
Other	58 602	61 195
<b>Total operating expenses</b>	<b>629 113</b>	<b>653 103</b>

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**9 Income tax expense**

	<b>2009</b>	<b>2008</b>
Current year income tax expense	68 778	80 307
Current year income tax expense recorded directly in equity	(87 772)	-
Origination and reversal of temporary differences recognized in profit or loss	59 138	(58 470)
<b>Income tax expense</b>	<b>40 144</b>	<b>21 837</b>

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

The effective income tax rate differs from the income tax rate determined in accordance with the Russian legislation. The reconciliation between the expected and the actual income tax expense is provided below.

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>
<b>Income before tax</b>	<b>105 850</b>		<b>104 464</b>	
Income tax at the applicable tax rate	21 170	20.0	25 071	24.0
Effect of different tax rates	(1 105)	(1.0)	(1 005)	(1.0)
Non-deductible costs	20 079	18.9	19 072	18.3
Change in unrecognized deferred tax asset	-	-	(26 022)	(24.9)
Effect of change in the tax rate	-	-	4 721	4.5
<b>Income tax expense</b>	<b>40 144</b>	<b>37.9</b>	<b>21 837</b>	<b>20.9</b>

Movements in temporary differences for 2009 are as follows:

	<b>1 January 2009</b>	<b>Movement for the year</b>	<b>Disposal of subsidiary</b>	<b>31 December 2009</b>
<b>Tax effect of deductible temporary differences</b>				
Estimated provisions for impairment losses and provisions for possible losses	98 229	4 034	(28 814)	73 449
Securities	30	12 260	-	12 290
Accrued income and expense	145 655	(67 181)	-	78 474
Property and equipment	-	643	-	643
Other	8 058	(8 058)	-	-
<b>Total deferred tax assets</b>	<b>251 972</b>	<b>(58 302)</b>	<b>(28 814)</b>	<b>164 856</b>
<b>Tax effect of taxable temporary differences</b>				
Estimated provisions for impairment losses and provisions for possible losses	(24 364)	(80 890)	-	(105 254)
Property and equipment	(3 390)	3 390	-	-
Accrued income and expense	(172 266)	84 209	6 760	(81 297)
Other	-	(7 545)	-	(7 545)
<b>Total deferred tax liabilities</b>	<b>(200 020)</b>	<b>(836)</b>	<b>6 760</b>	<b>(194 096)</b>
<b>Total net deferred tax assets (liabilities)</b>	<b>51 952</b>	<b>(59 138)</b>	<b>(22 054)</b>	<b>(29 240)</b>

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Movements in temporary differences for 2008 are as follows:

	1 January 2008	Movement for the year	31 December 2008
<b>Tax effect of deductible temporary differences</b>			
Estimated provisions for impairment losses and provisions for possible losses	37 622	60 607	98 229
Securities	443	(413)	30
Accrued income and expense	-	145 655	145 655
Other	5 461	2 597	8 058
<b>Total deferred tax assets</b>	<b>43 526</b>	<b>208 446</b>	<b>251 972</b>
Deferred tax asset not recognized	(26 022)	26 022	-
<b>Net deferred tax assets</b>	<b>17 504</b>	<b>234 468</b>	<b>251 972</b>
<b>Tax effect of taxable temporary differences</b>			
Estimated provisions for impairment losses and provisions for possible losses	(19 280)	(5 084)	(24 364)
Property and equipment	(3 157)	(233)	(3 390)
Securities	(1 585)	1 585	-
Accrued income and expense	-	(172 266)	(172 266)
<b>Total deferred tax liabilities</b>	<b>(24 022)</b>	<b>(175 998)</b>	<b>(200 020)</b>
<b>Total net deferred tax (liabilities) assets</b>	<b>(6 518)</b>	<b>58 470</b>	<b>51 952</b>

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes in accordance with income tax rates applicable to the Group companies.

Taking into account the current Group structure, tax losses and current deferred tax assets of different companies cannot be offset with current income tax liabilities and taxable income of other companies; and, correspondingly, taxes can be accrued even in case of net consolidated tax losses. Thus, deferred tax assets of one of the Group companies cannot be offset with deferred tax liabilities of another Group company.

As at 31 December 2009 net deferred tax liabilities comprised RUR 29 240 thousand out of which deferred tax assets comprised RUR 123 091 thousand, and deferred tax liabilities comprised RUR 152 331 thousand. As at 31 December 2008 net deferred tax assets comprised RUR 51 952 thousand out of which deferred tax assets comprised RUR 202 687 thousand, and deferred tax liabilities comprised RUR 150 735 thousand. These deferred tax assets and liabilities are related to different subsidiaries of the Group.

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**10 Due from the Central Bank of the Russian Federation**

	<b>31 December 2009</b>	<b>31 December 2008</b>
Nostro accounts with the Central Bank of the Russian Federation	158 406	67 394
Mandatory reserves with the Central Bank of the Russian Federation	22 902	6 345
<b>Total due from the Central Bank of the Russian Federation</b>	<b>181 308</b>	<b>73 739</b>

Mandatory reserves with the CBR represent non-interest bearing deposits calculated in accordance with the regulations issued by the CBR and whose withdrawability is restricted. Nostro accounts with the CBR relate to settlement activity and were available for withdrawal at year end.

In the preparation of statement of cash flows, mandatory reserves with the CBR are not considered to be cash and cash equivalents due to restrictions on their withdrawability.

**11 Due from banks**

	<b>31 December 2009</b>	<b>31 December 2008</b>
Correspondent accounts	1 047 545	1 109 096
Term deposits	230 022	90 067
<b>Total due from banks</b>	<b>1 277 567</b>	<b>1 199 163</b>

As at 31 December 2009 the Group had no counterparties whose balances individually exceed 10% of equity (31 December 2008: nil).

As at 31 December 2009 included in correspondent accounts are RUR 761 317 thousand balances whose withdrawability is restricted by the terms of asset securitization deals (31 December 2008: RUR 761 317 thousand).

Financial assets are classified on the basis of current credit ratings assigned by internationally acknowledged rating agencies. The highest possible rating is AAA. The investment level of financial assets relate to ratings from AAA to BBB. Financial assets rated below BBB are of speculative level.

The analysis of due from banks by credit ratings as at 31 December 2009 and 2008 is as follows:

	<b>31 December 2009</b>	<b>31 December 2008</b>
AA-	421 147	489 576
BBB	15 194	21 827
BB+	841 110	687 699
Not rated	116	61
<b>Total due from banks</b>	<b>1 277 567</b>	<b>1 199 163</b>

**12 Financial assets at fair value through profit or loss**

	31 December 2009	31 December 2008
<i>Financial assets held for trading</i>		
Corporate bonds	-	5 112
<i>Derivative financial assets</i>		
Foreign currency interest swap agreements	685 708	1 236 110
<b>Total financial assets at fair value through profit or loss</b>	<b>685 708</b>	<b>1 241 222</b>

The analysis of securities at fair value through profit or loss as at 31 December 2008 is as follows:

	31 December 2008	
	Annual coupon rate, %	Carrying value
OA0 "Gazprom" bonds	7.0	5 112

As at 31 December 2009 derivative financial assets comprise cross-currency swap contract concluded by Gazprombank Mortgage Funding 1 SA (31 December 2008: cross-currency swap contracts concluded by Gazprombank Mortgage Funding 1 SA and Gazprombank Mortgage Funding 2 SA). Under these contracts the SPE pays to the counterparty the contractual principal amounts in Russian Roubles in accordance with the bonds' repayment schedule and interest amounts at a fixed rate. The counterparty pays to the relevant company the principal amounts in Euros at a fixed EUR/RUR exchange rate and interest payments at a floating interest rate that has the same structure as the floating interest rate for the bonds issued (note 20). Cross-currency swap contracts are settled at established dates on a monthly basis.

As at 31 December 2009 net unrealized gains under a cross-currency swap contract concluded by Gazprombank Mortgage Funding 1 SA amountes to RUR 685 708 thousand (31 December 2008: RUR 1 236 110 thousand). This contract was concluded with an international bank that was rated AA- as at 31 December 2009 and 2008. These unrealized gains are included in financial assets at fair value through profit or loss.

In September 2008 an international bank Lehman Brothers (a counterparty under a cross-currency swap contract concluded by Gazprombank Mortgage Funding 2 SA) ceased to fulfil its contractual obligations. Thus, starting from September 2008 there were no exchanges of the principal or interest amounts.

The receivable from Lehman Brothers as at 31 December 2008 under cross-currency swap amounted to RUR 1 648 732 thousand. The Group created a 100% provision in respect of this receivable as at 31 December 2008.

In these consolidated financial statements the Group derecognized the cross-currency swap contract with Lehman Brothers and recognized a claim under the terminated cross-currency swap agreement to Lehman Brothers of RUR 857 971 thousand within other assets (note 17).

The estimated value of the claim is based on observable market information in respect of discounts on claims to Lehman Brothers. The Group is in the process of negotiating a sale of its claim to Lehman Brothers to a third party. The sale is expected to occur in 2010.

If the actual proceeds from sale of the claim are less than the amount estimated by the Group, the Group will recognise additional losses.

In December 2009 the Group entered into a series of sale-purchase transactions with Gazprombank Mortgage Funding 2 S.A. A1 and A2 class bonds with a counterparty that is under common control with the Group. As a result of these transactions the Group earned income of RUR 438 860 thousand, which was recognized as additional paid-in capital in equity net of related income tax expense of RUR 87 772 thousand.

**13 Loans to customers**

	<b>31 December 2009</b>	<b>31 December 2008</b>
Loans to individuals	28 151 936	31 550 996
Loans to legal entities	489 786	267 403
<b>Gross loans to customers</b>	<b>28 641 722</b>	<b>31 818 399</b>
Allowance for loan impairment	(971 982)	(661 485)
<b>Net loans to customers</b>	<b>27 669 740</b>	<b>31 156 914</b>

**(a) Loan refinancing**

As at 31 December 2009 net loans to individuals include mortgage and housing loans in the amount of RUR 27 060 898 thousand purchased by the Group from regional and corporate operators under the mortgage and housing loans refinancing program (31 December 2008: RUR 30 804 946 thousand). Under certain purchase contracts the Group has the right to sell mortgage and housing loans in case of the borrower's default after the purchase date. As at 31 December 2009 total loans for which the Group has the right to sell back amount to RUR 4 128 991 thousand (31 December 2008: RUR 7 738 389 thousand).

Mortgage and housing loans purchased by the Group under the mortgage and housing loans refinancing program are serviced by regional and corporate operators.

**(b) Loan impairment losses**

Movements in the allowance for loan impairment are as follows:

	<b>2009</b>	<b>2008</b>
<b>Balance at 1 January</b>	<b>661 485</b>	<b>155 583</b>
Loan impairment losses during the year	465 851	505 902
Disposal of subsidiary	(155 354)	-
<b>Balance at 31 December</b>	<b>971 982</b>	<b>661 485</b>

As disclosed in note 3 (h) the Group uses its experience and judgement to estimate the amount of any impairment loss.

The Group estimates allowance for loan impairment based on its past loss experience for these types of loans and taking into account the current economic situation. The Group uses professional judgment to estimate the amount of impairment losses as at 31 December 2009 and 2008. The amount of the loss is measured as the difference between the present value of estimated future cash flows expected from disposal of collateral and discounted at the initial interest rate under mortgage loans, and the carrying amount of mortgage loans based on the possibility that mortgage loans will not be repaid by the borrowers and the foreclosure of collateral will be required. In determining the amount of impairment losses the Group makes a number of key assumptions including a delay in obtaining proceeds from the foreclosure of collateral, which is compensated by related interest income, and a discount to the originally appraised value if the property pledged is sold.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the allowance for loan impairment on loans to individuals as of 31 December 2009 would be RUR 272 050 thousand lower/higher. (31 December 2008: RUR 309 042 thousand).

Mortgage lending to individuals is a relatively new practice in the Russian Federation. Thus the Group and the finance sector as a whole have a limited historical loss experience in this area, which increases the uncertainty in loan impairment provision estimates.

If the actual loan payments are less than the amount estimated by the Group, the Group will recognise additional provision for loan impairment.

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The Group analysed the loans as at 31 December 2009 and recognizes an allowance for loan impairment as follows:

	<b>Gross loans</b>	<b>Allowance for impairment</b>	<b>Net loans</b>	<b>Allowance for impairment to gross loans (%)</b>
<b>Loans to individuals</b>				
Loans to individuals assessed for impairment on a collective basis				
Mortgage loans				
- Not past due	23 791 011	(55 086)	23 735 925	0.2
- Overdue 30-89 days	830 887	(39 973)	790 914	4.8
- Overdue 90-179 days	434 657	(74 479)	360 178	17.1
- Overdue 180-360 days	969 581	(223 501)	746 080	23.1
- Overdue more than 360 days	1 407 873	(482 062)	925 811	34.2
<b>Total mortgage loans</b>	<b>27 434 009</b>	<b>(875 101)</b>	<b>26 558 908</b>	<b>3.2</b>
Housing loans				
- Not past due	453 643	(9 073)	444 570	2.0
- Overdue 30-89 days	16 302	(2 538)	13 764	15.6
- Overdue 90-179 days	20 260	(6 394)	13 866	31.6
- Overdue 180-360 days	10 175	(4 839)	5 336	47.6
- Overdue more than 360 days	3 896	(2 047)	1 849	52.5
<b>Total housing loans</b>	<b>504 276</b>	<b>(24 891)</b>	<b>479 385</b>	<b>4.9</b>
Stabilization loans				
- Not past due	101 334	(42 309)	59 025	41.7
- Overdue 30-89 days	995	(466)	529	46.8
<b>Total stabilization loans</b>	<b>102 329</b>	<b>(42 775)</b>	<b>59 554</b>	<b>41.8</b>
<i>Total loans to individuals assessed for impairment on a collective basis</i>	<i>28 040 614</i>	<i>(942 767)</i>	<i>27 097 847</i>	<i>3.4</i>
Loans to individuals assessed for impairment on an individual basis				
Mortgage loans				
- Not past due	67 782	-	67 782	-
Housing loans				
- Not past due	28 140	(163)	27 977	0.6
- Overdue 180-360 days	7 971	(1 462)	6 509	18.3
<b>Total housing loans</b>	<b>36 111</b>	<b>(1 625)</b>	<b>34 486</b>	<b>4.5</b>
Consumer loans				
- Not past due	4 690	-	4 690	0.0
- Overdue more than 360 days	2 739	(2 559)	180	93.4
<b>Total consumer loans</b>	<b>7 429</b>	<b>(2 559)</b>	<b>4 870</b>	<b>34.5</b>
<i>Total loans to individuals assessed for impairment on an individual basis</i>	<i>111 322</i>	<i>(4 184)</i>	<i>107 138</i>	<i>3.8</i>
<b>Total loans to individuals</b>	<b>28 151 936</b>	<b>(946 951)</b>	<b>27 204 985</b>	<b>3.4</b>
<b>Loans to legal entities</b>				
Loans to legal entities assessed for impairment on an individual basis				
- Not past due	474 733	(9 978)	464 755	2.1
- Overdue 30-89 days	5 669	(5 669)	-	100.0
- Overdue more than 360 days	9 384	(9 384)	-	100.0
<b>Total loans to legal entities</b>	<b>489 786</b>	<b>(25 031)</b>	<b>464 755</b>	<b>5.1</b>
<b>Total loans to customers</b>	<b>28 641 722</b>	<b>(971 982)</b>	<b>27 669 740</b>	<b>3.4</b>



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The Group analysed the loans as at 31 December 2008 and recognized an allowance for loan impairment as follows:

	<b>Gross loans</b>	<b>Allowance for Impairment</b>	<b>Net loans</b>	<b>Allowance for Impairment to gross loans (%)</b>
<b>Loans to individuals</b>				
Loans to individuals assessed for impairment on a collective basis				
Mortgage loans				
- Not past due	26 887 957	(273 092)	26 614 865	1.0
- Overdue less than 30 days	1 784 583	(26 274)	1 758 309	1.5
- Overdue 30-89 days	529 213	(37 096)	492 117	7.0
- Overdue 90-179 days	445 734	(107 346)	338 388	24.1
- Overdue 180-360 days	259 063	(64 397)	194 666	24.9
- Overdue more than 360 days	313 399	(121 218)	192 181	38.7
<b>Total mortgage loans</b>	<b>30 219 949</b>	<b>(629 423)</b>	<b>29 590 526</b>	<b>2.1</b>
Housing loans				
- Not past due	1 168 625	(12 814)	1 155 811	1.1
- Overdue less than 30 days	38 577	(658)	37 919	1.7
- Overdue 30-89 days	21 801	(1 975)	19 826	9.1
- Overdue more than 360 days	1 241	(377)	864	30.4
<b>Total housing loans</b>	<b>1 230 244</b>	<b>(15 824)</b>	<b>1 214 420</b>	<b>1.3</b>
<i>Total loans to individuals assessed for impairment on a collective basis</i>	<i>31 450 193</i>	<i>(645 247)</i>	<i>30 804 946</i>	<i>2.1</i>
Loans to individuals assessed for impairment on an individual basis				
Mortgage loans				
- Not past due	54 242	-	54 242	-
Housing loans				
- Not past due	37 914	(30)	37 884	0.1
Consumer loans				
- Not past due	6 737	-	6 737	-
- Overdue less than 30 days	365	(3)	362	0.8
- Overdue more than 360 days	1 545	(1 545)	-	100.0
<b>Total consumer loans</b>	<b>8 647</b>	<b>(1 548)</b>	<b>7 099</b>	<b>17.9</b>
<i>Total loans to individuals assessed for impairment on an individual basis</i>	<i>100 803</i>	<i>(1 578)</i>	<i>99 225</i>	<i>1.6</i>
<b>Total loans to individuals</b>	<b>31 550 996</b>	<b>(646 825)</b>	<b>30 904 171</b>	<b>2.1</b>
<b>Loans to legal entities</b>				
Loans to legal entities assessed for impairment on an individual basis				
- Overdue more than 360 days	258 019	(5 276)	252 743	2.0
	9 384	(9 384)	-	100.0
<b>Total loans to legal entities</b>	<b>267 403</b>	<b>(14 660)</b>	<b>252 743</b>	<b>5.5</b>
<b>Total loans to customers</b>	<b>31 818 399</b>	<b>(661 485)</b>	<b>31 156 914</b>	<b>2.1</b>

Mortgage loans are loans to customers for purchase of housing real estate ready for use with execution of mortgage deeds. Housing loans are loans to customers for purchase of housing real estate under construction. Loans to individuals assessed for impairment on an individual basis are loans to employees.

Stabilization loans are loans to customers issued under a government restructuring program for borrowers experiencing financial difficulties.

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**(c) Collateral**

The following table provides an analysis of loan portfolio (net of provision for loan impairment) by types of collateral as at 31 December 2009 and 2008:

	31 December 2009			31 December 2008		
	Real estate	Other, including loans with no collateral	Total	Real estate	Other, including loans with no collateral	Total
Loans to legal entities	-	464 755	464 755	-	252 743	252 743
Loans to individuals	27 200 115	4 870	27 204 985	30 897 072	7 099	30 904 171
<b>Total net loans to individuals</b>	<b>27 200 115</b>	<b>469 625</b>	<b>27 669 740</b>	<b>30 897 072</b>	<b>259 842</b>	<b>31 156 914</b>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying real estate. Housing loans are secured by the relevant claims for real estate under construction.

The Group introduced the requirement to secure the mortgage loans issued by a pledge of real estate and housing loans issued by a pledge of claims for construction in progress with value of collateral exceeding the loan balance (“loan to pledge” ratio is used). Management believes that as at 31 December 2009 and 2008 fair value of collateral pledged under mortgage and housing loans at least equals the carrying value of the loans.

During 2009 and 2008 the Group did not obtain any assets by taking control of collateral accepted as security.

**(d) Asset securitization**

The Bank transferred certain mortgage loans to individuals to Gazprombank Mortgage Funding 1 SA, Gazprombank Mortgage Funding 2 SA, Gazprombank Mortgage Funding 3 SA and OJSC “ISO GPB Mortgage”, entities which are, in substance, controlled by the Bank. Accordingly, the financial statements of Gazprombank Mortgage Funding 1 SA, Gazprombank Mortgage Funding 2 SA, Gazprombank Mortgage Funding 3 SA and OJSC “ISO GPB Mortgage” are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans are pledged for bonds issued by the Group. As at 31 December 2009, the net amount of the loans pledged is RUR 14 267 426 thousand (31 December 2008: RUR 16 852 763 thousand). As at 31 December 2009, the carrying amount of the bonds issued is RUR 14 387 633 thousand (31 December 2008: RUR 16 390 799 thousand). Refer to note 20.

**(e) Transfer of assets**

Mortgage loans transferred but not derecognized

The Group transferred certain mortgage loans to individuals to MCMIF “United Third” and to MCMIF “RCPF Regional Mortgage”, entities which are, in substance, controlled by the Group. Accordingly, the financial statements of MCMIF “United Third” and to MCMIF “RCPF Regional Mortgage” are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. As at 31 December 2009, the net amount of loans transferred to MCMIF “United Third” is RUR 390 411 thousand (31 December 2008: nil). As at 31 December 2009, the net amount of loans transferred to MCMIF “RCPF Regional Mortgage” is RUR 52 367 thousand (31 December 2008: nil).

Mortgage loans sold and derecognized

During 2009 the Group sold mortgage loans of RUR 160 809 thousand (2008: RUR 1 016 007 thousand) at nominal value to MCMIF “United First”, an entity that is under common control with the Group. The Group derecognized these loans as management believes that the Group transferred substantially all risks and rewards and has not retained control over the assets. The Group retained a right to service the mortgage loans.

During 2009 the Group transferred mortgaged loans of RUR 61 744 thousand to MCMIF “RCPF – United Second”. In December 2009 the Group sold 100% shares of MCMIF “RCPF - United Second” at their nominal value to a counterparty that is under common control with the Group. This resulted in derecognition of transferred mortgage loans, as management believes that the Group transferred substantially all risks and rewards and has not retained control over the assets. The Group retained a right to service the mortgage loans.

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The consideration received on disposal of MCMIF "RCPF - United Second" shares was RUR 300 000 thousand. As a result of this transaction the Group recognized a gain of RUR 88 213 thousand, which is recognized as additional paid-in capital.

**(f) Analysis of the loan portfolio structure**

The following table provides information on loan portfolio structure that reflects the risk concentration by economic sectors.

	31 December 2009		31 December 2008	
	Amount	%	Amount	%
Individuals	28 151 936	98.3	31 550 996	99.2
Other	489 786	1.7	267 403	0.8
<b>Total gross loans to customers</b>	<b>28 641 722</b>	<b>100.0</b>	<b>31 818 399</b>	<b>100.0</b>

**14 Investments available-for-sale**

	31 December 2009		31 December 2008	
	Share in capital, %	Carrying value	Share in capital, %	Carrying value
<b>Shares:</b>				
CJSC "ETA & Co"	33.3	4 187	33.3	4 187
CJSC "SFT Trading"	12.1	595	12.1	595
<b>Total investments available-for-sale</b>		<b>4 782</b>		<b>4 782</b>

Investments in CJSC "ETA & Co" capital are recognized at cost, as equity method recognition would not have a significant impact on the consolidated financial statements as a whole.

**15 Property and equipment**

Changes in the carrying values of property and equipment for the year ended 31 December 2009 are as follows:

	Buildings	Equipment and motor vehicles	Construction in progress	Total
<b>Net carrying value as at 1 January 2009</b>	<b>442 107</b>	<b>73 682</b>	<b>77 325</b>	<b>593 114</b>
<b>Cost</b>				
Balance at the beginning of the year	455 311	130 587	77 325	663 223
Additions	-	3 243	-	3 243
Disposals	-	(1 381)	-	(1 381)
Transfer to investment property	-	-	(72 222)	(72 222)
<b>Balance at the end of the year</b>	<b>455 311</b>	<b>132 449</b>	<b>5 103</b>	<b>592 863</b>
<b>Accrued depreciation and impairment</b>				
Balance at the beginning of the year	13 204	56 905	-	70 109
Depreciation charge	9 775	23 520	-	33 295
Disposals	-	(1 293)	-	(1 293)
<b>Balance at the end of the year</b>	<b>22 979</b>	<b>79 132</b>	<b>-</b>	<b>102 111</b>
<b>Net carrying value as at 31 December 2009</b>	<b>432 332</b>	<b>53 317</b>	<b>5 103</b>	<b>490 752</b>

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Changes in the carrying values of property and equipment for the year ended 31 December 2008 are as follows:

	Buildings	Equipment and motor vehicles	Constructio n in progress	Total
<b>Net carrying value as at 1 January 2008</b>	<b>256 448</b>	<b>59 029</b>	<b>77 325</b>	<b>392 802</b>
<b>Cost</b>				
Balance at the beginning of the year	265 087	93 416	77 325	435 828
Additions	7 095	11 954	-	19 049
Acquisition of subsidiaries	-	25 437	-	25 437
Disposals	-	(220)	-	(220)
Transfer from investment property	183 129	-	-	183 129
<b>Balance at the end of the year</b>	<b>455 311</b>	<b>130 587</b>	<b>77 325</b>	<b>663 223</b>
<b>Accrued depreciation and impairment</b>				
Balance at the beginning of the year	8 639	34 387	-	43 026
Depreciation charge	4 565	18 539	-	23 104
Acquisition of subsidiaries	-	4 001	-	4 001
Disposals	-	(22)	-	(22)
<b>Balance at the end of the year</b>	<b>13 204</b>	<b>56 905</b>	<b>-</b>	<b>70 109</b>
<b>Net carrying value as at 31 December 2008</b>	<b>442 107</b>	<b>73 682</b>	<b>77 325</b>	<b>593 114</b>

As at 31 December 2009 property and equipment includes fully amortised property that is still in use with the cost of RUR 20 526 thousand (31 December 2008: RUR 17 191 thousand).

## 16 Investment property

Changes in the carrying value of investment property for the years ended 31 December 2009 and 2008 are as follows:

	2009	2008
<b>Carrying value at 1 January</b>	<b>-</b>	<b>183 129</b>
Additions	68 276	-
Transfer from (to) fixed assets	72 222	(183 129)
<b>Carrying value at 31 December</b>	<b>140 498</b>	<b>-</b>

As at 31 December 2009 investment property included real estate located in Saint Petersburg.

## 17 Other assets

	31 December 2009	31 December 2008
Claim under the terminated cross-currency swap agreement	857 971	-
Receivables and prepayments	123 166	117 683
Settlements with budget on other taxes	16 869	47 555
Other	11 931	15 391
Allowance for other assets impairment	-	(11 279)
<b>Total other assets</b>	<b>1 009 937</b>	<b>169 350</b>

As at 31 December 2009 and 2008 other assets did not include overdue indebtedness, other than claim under the terminated cross-currency swap agreement.

**Joint-stock Bank “GPB-Mortgage” (Open Joint-Stock Company)**  
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**Other assets impairment loss**

The table below provides the information on changes in the allowance for other assets impairment.

	2009	2008
<b>Balance at 1 January</b>	<b>11 279</b>	<b>11 279</b>
Reversal of other assets impairment losses during the year	(11 279)	-
<b>Balance at 31 December</b>	<b>-</b>	<b>11 279</b>

**18 Due to banks**

	31 December 2009	31 December 2008
Term deposits to banks	10 750 678	12 371 516
Correspondent accounts to banks	9 995	54 915
<b>Total due to banks</b>	<b>10 760 673</b>	<b>12 426 431</b>

As at 31 December 2009 due to banks includes balances with the parent company “Gazprombank” (Open Joint – stock Company) of RUR 10 746 418 thousand (31 December 2008: RUR 12 370 599 thousand).

**19 Customer accounts**

	31 December 2009	31 December 2008
<b>Settlement and current accounts</b>		
- Legal entities	153 049	80 767
- Individuals	1 044	998
<b>Deposits and term placements</b>		
- Legal entities	194 013	384 044
<b>Total customer accounts</b>	<b>348 106</b>	<b>465 809</b>

The table below provides information on concentration of customer accounts by economic sector:

	31 December 2009		31 December 2008	
	Amount	%	Amount	%
Finance and insurance	341 779	98.2	461 720	99.1
Individuals	1 044	0.3	998	0.2
Trade	247	0.1	1 912	0.4
Other	5 036	1.4	1 179	0.3
<b>Total customer accounts</b>	<b>348 106</b>	<b>100.0</b>	<b>465 809</b>	<b>100.0</b>

As at 31 December 2009, the aggregate amount of the 10 largest customers (or groups of customers) amounts to RUR 311 149 thousand or 89.4% of total customer accounts (31 December 2008: RUR 402 802 thousand or 86.5% of total customer accounts).

**Joint-stock Bank "GPB-Mortgage" (Open Joint-Stock Company)**  
**Notes to, and forming part of, the consolidated financial statements for the year ended 31 December 2009**  
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**20 Debt securities issued**

	31 December 2009	31 December 2008
Mortgage-backed securities issued	14 387 633	16 390 799
Promissory notes	114 180	627 277
<b>Total debt securities issued</b>	<b>14 501 813</b>	<b>17 018 076</b>

As at 31 December 2009 mortgage-backed securities issued have the following issue structure:

	Carrying value	Date of issue	Final maturity date	Coupon rate, %
Gaprombank Mortgage Funding 1 S.A. A class bonds	3 199 787	21.12.2006	01.12.2046	Euribor+1.3
Gaprombank Mortgage Funding 1 S.A. B class bonds	514 547	21.12.2006	01.12.2046	8.0
Gaprombank Mortgage Funding 1 S.A. C class bonds	343 339	21.12.2006	01.12.2046	11.0
Gaprombank Mortgage Funding 2 S.A. A1 class bonds	3 674 362	25.06.2007	01.06.2047	Euribor+1.1
Gaprombank Mortgage Funding 2 S.A. A2 class bonds	521 852	25.06.2007	01.06.2047	7.5
Gaprombank Mortgage Funding 2 S.A. B class bonds	309 795	25.06.2007	01.06.2047	7.75
Gaprombank Mortgage Funding 2 S.A. C class bonds	326 961	25.06.2007	01.06.2047	10.5
Gaprombank Mortgage Funding 3 S.A. A class bonds	4 016 002	19.12.2007	17.12.2010	MosPrime+2.85
OJSC "ISO GPB Mortgage" bonds	1 480 988	19.10.2006	29.12.2036	8.0
<b>Total mortgage-backed securities issued</b>	<b>14 387 633</b>			

As at 31 December 2008 mortgage-backed securities issued had the following issue structure:

	Carrying value	Date of issue	Final maturity date	Coupon rate, %
Gaprombank Mortgage Funding 1 S.A. A class bonds	3 782 319	21.12.2006	01.12.2046	Euribor+1.3
Gaprombank Mortgage Funding 1 S.A. B class bonds	516 072	21.12.2006	01.12.2046	8.0
Gaprombank Mortgage Funding 1 S.A. C class bonds	342 763	21.12.2006	01.12.2046	11.0
Gaprombank Mortgage Funding 2 S.A. A1 class bonds	4 252 668	25.06.2007	01.06.2047	Euribor+1.1
Gaprombank Mortgage Funding 2 S.A. A2 class bonds	638 397	25.06.2007	01.06.2047	7.5
Gaprombank Mortgage Funding 2 S.A. B class bonds	309 667	25.06.2007	01.06.2047	7.75
Gaprombank Mortgage Funding 2 S.A. C class bonds	64 885	25.06.2007	01.06.2047	10.5
Gaprombank Mortgage Funding 3 S.A. A class bonds	4 622 111	19.12.2007	17.12.2010	MosPrime+2.85
OJSC "ISO GPB Mortgage" bonds	1 861 917	19.10.2006	29.12.2036	8.0
<b>Total mortgage-backed securities issued</b>	<b>16 390 799</b>			

Payments under mortgage-backed securities issued are made on a monthly basis. Under the terms of the bonds, bonds of more senior tranches are repaid first. When entering into these transactions, the Group also enters into cross-currency swap contracts with guaranteed amounts with large international banks. Under these contracts, all principal and fixed rate interest repayment amounts received by the Group in Russian Roubles under mortgage loans pledged as collateral for bonds issued are exchanged for amounts in Euros at floating rates, which are then used for payments on mortgage-backed securities issued (note 12).

**21 Subordinated debts**

	31 December 2009	31 December 2008
Subordinated debts	1 300 000	1 517 000
<b>Total subordinated debts</b>	<b>1 300 000</b>	<b>1 517 000</b>

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As at 31 December 2009 and 2008 subordinated debts has the following structure:

	<b>Coupon rate, %</b>	<b>Maturity date</b>	<b>31 December 2009</b>	<b>31 December 2008</b>
Subordinated debt from a related party	7.0	30.09.2013	1 300 000	1 300 000
Subordinated debt from a related party	8.5	25.03.2009	-	217 000

In case of bankruptcy, the repayment of the subordinated debts shall be made after repayment in full of all other liabilities of the Group.

## 22 Other liabilities

	<b>31 December 2009</b>	<b>31 December 2008</b>
Payables	485 017	618 379
Tax payables other than on income	30 095	21 112
Employee compensation	23 875	24 198
Other	65 698	36 081
<b>Total other liabilities</b>	<b>604 685</b>	<b>699 770</b>

As at 31 December 2009 payables includes liabilities in respect of the repurchase of OJSC "ISO GPB Mortgage" preference shares of RUR 473 000 thousand (31 December 2008: RUR 613 193 thousand).

## 23 Share capital

As at 31 December 2009 the issued share capital comprises 324 995 944 ordinary shares with a nominal value of RUR 10 each (31 December 2008: 224 995 944 ordinary shares with a nominal value of RUR 10 each).

All ordinary shares belong to the same class and have one vote.

Changes in the number of shares in circulation for 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Shares as at 1 January	224 995 944	224 995 944
Share issue	100 000 000	-
<b>Shares outstanding as at 31 December</b>	<b>324 995 944</b>	<b>224 995 944</b>

In July 2009 the Bank issued an additional 100 000 000 ordinary shares with a par value of RUR 10 each, totalling RUR 1 000 000 thousand. The share issue was registered by the CBR on 9 December 2009. As a result of this additional share issue the total number of shares comprises 324 995 944 shares with a total nominal value of RUR 3 249 959 thousand.

In December 2009 the Group entered into a series of sale-purchase transactions with Gazprombank Mortgage Funding 2 S.A. A1 and A2 class bonds with a counterparty that is under common control with the Group. As a result of these transactions the Group earned income of RUR 438 860 thousand, which was recognized as additional paid-in capital in equity net of related income tax expense of RUR 87 772 thousand.

In December 2009 the Group sold 100% shares of MCMIF "RCPF - United Second" to a counterparty that is under common control with the Group at their nominal value. The consideration received on disposal of MCMIF "RCPF - United Second" shares was RUR 300 000 thousand. As a result of these transactions the Group recognized gain of RUR 88 213 thousand, which was recognized as additional paid-in capital in equity.

## **24 Cash and cash equivalents**

As at 31 December 2009 and 31 December 2008 cash and cash equivalents recognized in the consolidated statement of cash flows are as follows:

	<b>31 December 2009</b>	<b>31 December 2008</b>
Nostro accounts with banks	286 228	347 779
Short term deposits with banks	230 022	90 067
Nostro accounts with the Central Bank of the Russian Federation	158 406	67 394
<b>Total cash and cash equivalents</b>	<b>674 656</b>	<b>505 240</b>

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## **25 Risk management**

Taking risk is core to the financial business. The Group's aim is to achieve an appropriate balance between risk and return and to minimize potential adverse effects on financial performance. The Group has exposure to risks, that include credit, market, liquidity, operational risks and other risks.

### **(a) Risk management policies and procedures**

The risk management policy aims to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports directly to the Chairman of the Board and indirectly to the Board of Directors.

Both external and internal risk factors are identified and managed throughout the organisational structure. Apart from the standard credit and market risk analysis, the Risk and Methodology Department monitors non-financial (operational) risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

### **(b) Credit risk**

Credit risk is the risk of financial losses occurring as a result of default by a borrower or a counterparty on their obligation to the Group.

#### *(i) Credit risk management*

The Group conducts its credit activity based on the regulations of the CBR and internationally-acknowledged principles. The credit policy is approved by the Management Board and the Credit Committee.

The Group's major activities include mortgage and housing lending to individuals. The mortgage portfolio comprises claims on mortgage and housing loans repurchased from regional and corporate operators that are initial lenders. When making decision to repurchase claims on mortgage and housing loans from regional and corporate operators the Group uses the criteria approved by the Credit Committee. Regional and corporate operators continue to service mortgage and housing loans purchased by the Group.



In the course of business the Group assumes credit risk in respect of the following types of borrowers:

- mortgage and housing loans borrowers – individuals;
- regional operators servicing mortgage and housing loans, which have liabilities to repurchase loans in case of default;
- corporate operators – entities that are related parties to the Group, servicing mortgage and housing loans, to which the Group provides loans for their expansion and maintaining current activity;
- other counterparties forming part of the mortgage and housing lending infrastructure (insurance and appraisal companies).

The key credit risk management activities include:

- setting limits for mortgage lending;
- setting standard requirement in respect of the borrower, collateral, terms of lending;
- creating an impairment allowance for possible losses from credit risk;
- diversification of mortgage and housing loan portfolio;
- estimation of credit risk exposure and establishing interest rate which incorporates appropriate compensation for the risk assumed;
- monitoring of loans issued;
- segregation of employees' duties.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and off-balance sheet commitments, except that for mortgage-backed securities the mortgage loans pledged as collateral is the sole source of repayment of the debt and, therefore, the Group's exposure to credit risk in respect of such mortgage loans is limited to the mortgage-backed securities retained by the Group.

#### *Setting limits for mortgage lending*

The Group operates within maximum of credit risk exposure levels established for all assets in relation to equity and maximum risk in respect of one borrower or a group of borrowers (effective requirements of the CBR for ratios N1 (capital adequacy ratio) and N6 (maximum amount of risk per borrower or per group of related borrowers). The Group continuously monitors the actual amount of risks assumed in comparison with the regulations set.

To reduce credit risk from errors of employees and regional/corporate operators, the Group introduced limits on the maximum amount of repurchased mortgage and housing loans. The amount exceeding the maximum limit requires an approval of the Credit Committee in addition to an approval of the credit committees of primary lenders.

Based on the analysis of the creditworthiness of counterparties, which form part of the mortgage lending infrastructure, the Group sets limits on the risk exposure in respect of these counterparties.

The credit risk management policy requires appraisers of collateral to maintain professional liability insurance policies.

#### *Standard requirements in respect of borrowers, pledged real estate, terms of lending*

The Group introduced standard requirements for mortgage and housing loans in respect of borrowers and pledged real estate, which serve the basis for decision-making for repurchase of mortgage loans from regional and corporate operators. These requirements include:

- requirement to secure the loan issued by a pledge of real estate (for mortgage loans), or a pledge of claims for construction-in-progress (for housing loans), with value of collateral exceeding the loan balance (“l/p” ratio is used, “loan to pledge”);
- limit on the ratio of loan payments on to the borrower's income level (“p/i” ratio is used, “payment to income”);
- requirements for insurance of the property pledged, and borrower's life and disability;
- requirements to use loan contracts that comply with the Group's standards, including the loan amount, the size of the initial payment and the loan interest rate.

The Group has repurchase agreements to sell back loans overdue more than 30 days with its corporate operators.

The Group developed internal procedures to analyze the financial position of counterparties, which form part of the mortgage lending infrastructure (insurance companies, banks).

*Provision for loan impairment*

For the purposes of accounting for the credit risk exposure, the Group creates and monitors on a monthly basis provisions for impairment of mortgage and housing loans as well as loans to corporate operators in accordance with the internal procedures.

*Monitoring of issued loans*

The Group monitors borrowers' payments under the mortgage and housing loans and on a monthly basis prepares reports on overdue loan indebtedness.

The Group developed regulations for management of overdue indebtedness under mortgage and housing loans for regional and corporate operators servicing mortgage and housing loans purchased by the Group. The Group continuously monitors regional and corporate operator performance in respect of management of overdue indebtedness under mortgage and housing loans.

The Group also monitors the financial position of corporate operators and counterparties that are the borrowers from the Group, and variances between actual and budgeted figures in relation to their business plan (for regional operators) on a quarterly basis. Debt servicing is controlled on a continuous basis.

*Assessment of credit risk and its effect on the interest rate*

The Group uses an internal methodology to measure credit risk exposure on mortgage loans and its effect on loan interest rates.

*Diversification of mortgage and housing loan portfolio*

The Group's activity is concentrated on purchase of mortgage and housing loans in all the regions of the Russian Federation with strong mortgage lending market potential. Economic dependence and other factors relevant to borrowers are taken into account when purchasing mortgage and housing loans.

*(ii) Changes in credit risk management*

During 2009 the Group concentrated on maintenance of the loan portfolio issued before 2009 rather than issuance of new *mortgage and housing* loans. In order to maintain the quality of its loan portfolio the Group strengthened the regulations for management of overdue indebtedness under mortgage and housing loans.

Taking into account the economic crisis in the Russian Federation, which resulted in a decrease in the borrowers' income and creditworthiness, the Group stopped issuance and refinancing of mortgage and housing loans during the first half 2009. In the second half 2009 the Group resumed issuance and refinancing of new mortgage and housing loans in certain regions, taking into account both the credit quality of loans issued in the regions before 2009 and macroeconomic situations in the regions (including local real estate prices and borrowers' income level). The Group also strengthened its requirements in respect of borrowers and collateral for new mortgage and housing loans issued in 2009.

In 2009 the Group in cooperation with government agencies OJSC “Agency for housing mortgage lending” and OJSC “Agency for restructuring of housing mortgage loans” developed the supporting program for the good-faith borrowers experiencing financial difficulties due to economic crisis. In the second half 2009 the Group started issuance of stabilization loans granted by OJSC “Agency for restructuring of housing mortgage loans” to its borrowers experiencing financial difficulties.

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**(c) Geographical concentration**

The majority of the Group’s activities are within the Russian Federation.

Geographical analysis of assets and liabilities as at 31 December 2009 is as follows:

	Russian Federation	OECD countries	Total
<b>ASSETS</b>			
Due from the Central Bank of the Russian Federation	181 308	-	181 308
Due from banks	842 749	434 818	1 277 567
Financial assets at fair value through profit or loss	-	685 708	685 708
Loans to customers	27 669 740	-	27 669 740
Investments available-for-sale	4 782	-	4 782
Property and equipment	490 752	-	490 752
Investment property	140 498	-	140 498
Current income tax receivable	16 648	-	16 648
Deferred tax assets	123 091	-	123 091
Other assets	151 966	857 971	1 009 937
<b>Total assets</b>	<b>29 621 534</b>	<b>1 978 497</b>	<b>31 600 031</b>

<b>LIABILITIES</b>			
Due to banks	10 760 673	-	10 760 673
Customer accounts	345 324	2 782	348 106
Debt securities issued	1 595 168	12 906 645	14 501 813
Subordinated debts	1 300 000	-	1 300 000
Current income tax payable	12 047	-	12 047
Deferred tax liabilities	152 331	-	152 331
Other liabilities	604 685	-	604 685
<b>Total liabilities</b>	<b>14 770 228</b>	<b>12 909 427</b>	<b>27 679 655</b>

Geographical analysis of assets and liabilities as at 31 December 2008 is as follows:

	Russian Federation	OECD countries	Total
<b>ASSETS</b>			
Due from the Central Bank of the Russian Federation	73 739	-	73 739
Due from banks	689 263	509 900	1 199 163
Financial assets at fair value through profit or loss	5 112	1 236 110	1 241 222
Loans to customers	31 156 914	-	31 156 914
Investments available-for-sale	4 782	-	4 782
Property and equipment	593 114	-	593 114
Current income tax receivable	52 287	-	52 287
Deferred tax assets	202 687	-	202 687
Other assets	169 350	-	169 350
<b>Total assets</b>	<b>32 947 248</b>	<b>1 746 010</b>	<b>34 693 258</b>

<b>LIABILITIES</b>			
Due to banks	12 419 814	6 617	12 426 431
Customer accounts	465 809	-	465 809
Debt securities issued	7 111 305	9 906 771	17 018 076
Subordinated debts	1 517 000	-	1 517 000
Current income tax payable	68	-	68
Deferred tax liabilities	150 735	-	150 735
Other liabilities	699 770	-	699 770
<b>Total liabilities</b>	<b>22 364 501</b>	<b>9 913 388</b>	<b>32 277 889</b>

As at 31 December 2009 and 2008 all credit related commitments refer to the residents of the Russian Federation.

Financial assets, liabilities and credit related commitments are classified by the counterparty’s registered address.

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

*(i) Liquidity risk management*

The Group maintains the necessary liquidity position with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Treasury Department is responsible for the current liquidity position management. The Management Board manages liquidity position through taking relevant operating and strategic decisions on the basis of analytical materials, fact sheets, as well as calculations of liquidity ratios, prepared by the Finance and Economic Department on a continuous basis.

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

*(ii) Liquidity risk assessment*

Key factors in assessing the assets and liabilities liquidity and its sensitivity to changes in interest and exchange rates are maturity dates of the assets and liabilities as well as the possibility to replace interest bearing liabilities as they mature with other liabilities at an acceptable price.

The following tables show the carrying value of assets and liabilities on the basis of their contractual maturity.

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The liquidity position as at 31 December 2009 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>No maturity</b>	<b>Total</b>
<b>ASSETS</b>								
Due from the Central Bank of the Russian Federation	168 551	-	12 757	-	-	-	-	181 308
Due from banks	1 277 567	-	-	-	-	-	-	1 277 567
Financial assets at fair value through profit or loss	57 142	114 285	514 281	-	-	-	-	685 708
Loans to customers	727 403	835 480	7 235 279	9 281 128	6 725 435	2 865 015	-	27 669 740
Investments available-for-sale	-	-	-	-	-	-	4 782	4 782
Property and equipment	-	-	-	-	-	-	490 752	490 752
Investment property	-	-	-	-	-	-	140 498	140 498
Current income tax receivable	-	16 648	-	-	-	-	-	16 648
Deferred tax assets	-	-	-	-	-	-	123 091	123 091
Other assets	40 465	11 888	6 942	880 763	66 724	-	3 155	1 009 937
<b>Total assets</b>	<b>2 271 128</b>	<b>978 301</b>	<b>7 769 259</b>	<b>10 161 891</b>	<b>6 792 159</b>	<b>2 865 015</b>	<b>762 278</b>	<b>31 600 031</b>
<b>LIABILITIES</b>								
Due to banks	14 255	-	4 083 932	6 662 486	-	-	-	10 760 673
Customer accounts	154 093	-	194 013	-	-	-	-	348 106
Debt securities issued	240 489	570 137	5 948 519	7 742 668	-	-	-	14 501 813
Subordinated debts	-	-	-	1 300 000	-	-	-	1 300 000
Current income tax payable	-	12 047	-	-	-	-	-	12 047
Deferred tax liabilities	-	-	-	-	-	-	152 331	152 331
Other liabilities	35 892	95 793	-	-	-	-	473 000	604 685
<b>Total liabilities</b>	<b>444 729</b>	<b>677 977</b>	<b>10 226 464</b>	<b>15 705 154</b>	<b>-</b>	<b>-</b>	<b>625 331</b>	<b>27 679 655</b>
<b>Net liquidity gap</b>	<b>1 826 399</b>	<b>300 324</b>	<b>(2 457 205)</b>	<b>(5 543 263)</b>	<b>6 792 159</b>	<b>2 865 015</b>	<b>136 947</b>	<b>3 920 376</b>
<b>Cumulative liquidity gap</b>	<b>1 826 399</b>	<b>2 126 723</b>	<b>(330 482)</b>	<b>(5 873 745)</b>	<b>918 414</b>	<b>3 783 429</b>	<b>3 920 376</b>	

The Group estimates that any negative cumulated gap will be sufficiently covered by open credit line facilities from the parent company.

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The liquidity position as at 31 December 2008 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>No maturity</b>	<b>Total</b>
<b>ASSETS</b>								
Due from the Central Bank of the Russian Federation	67 394	1 553	4 792	-	-	-	-	73 739
Due from banks	1 199 163	-	-	-	-	-	-	1 199 163
Financial assets at fair value through profit or loss	8 475	10 611	43 416	399 472	779 248	-	-	1 241 222
Loans to customers	181 262	782 001	6 968 058	12 190 126	8 032 270	3 003 197	-	31 156 914
Investments available-for-sale	-	-	-	-	-	-	4 782	4 782
Property and equipment	-	-	-	-	-	-	593 114	593 114
Current income tax receivable	-	52 287	-	-	-	-	-	52 287
Deferred tax assets	-	-	-	-	-	-	202 687	202 687
Other assets	11 662	11 888	6 852	25 950	112 998	-	-	169 350
<b>Total assets</b>	<b>1 467 956</b>	<b>858 340</b>	<b>7 023 118</b>	<b>12 615 548</b>	<b>8 924 516</b>	<b>3 003 197</b>	<b>800 583</b>	<b>34 693 258</b>
<b>LIABILITIES</b>								
Due to banks	54 915	1 482	-	12 370 034	-	-	-	12 426 431
Customer accounts	81 765	32 256	351 788	-	-	-	-	465 809
Debt securities issued	151 963	637 075	6 556 797	8 714 736	957 505	-	-	17 018 076
Subordinated debts	17 000	-	200 000	1 300 000	-	-	-	1 517 000
Current income tax payable	68	-	-	-	-	-	-	68
Deferred tax liabilities	-	-	-	-	-	-	150 735	150 735
Other liabilities	106	86 501	-	-	613 163	-	-	699 770
<b>Total liabilities</b>	<b>305 817</b>	<b>757 314</b>	<b>7 108 585</b>	<b>22 384 770</b>	<b>1 570 668</b>	<b>-</b>	<b>150 735</b>	<b>32 277 889</b>
<b>Net liquidity gap</b>	<b>1 162 139</b>	<b>101 026</b>	<b>(85 467)</b>	<b>(9 769 222)</b>	<b>7 353 848</b>	<b>3 003 197</b>	<b>649 848</b>	<b>2 415 369</b>
<b>Cumulative liquidity gap</b>	<b>1 162 139</b>	<b>1 263 165</b>	<b>1 177 698</b>	<b>(8 591 524)</b>	<b>(1 237 676)</b>	<b>1 765 521</b>	<b>2 415 369</b>	

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The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized credit related commitments on the basis of their earliest possible contractual maturity. The total gross inflow (outflow) disclosed in the tables are the contractual, undiscounted cash flows on the financial liabilities or credit related commitments. Mortgage-backed securities issued are shown in the table below by their expected maturity dates (note 20). The expected cash flows on these financial liabilities and unrecognized credit related commitments may vary significantly from this analysis.

The position as at 31 December 2009 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Gross nominal amount inflow (outflow)	Carrying amount
<b>ASSETS</b>								
Due from the Central Bank of the Russian Federation	168 551	-	12 757	-	-	-	181 308	181 308
Due from banks	1 277 567	-	-	-	-	-	1 277 567	1 277 567
Financial assets at fair value through profit or loss	57 142	114 285	514 281	-	-	-	685 708	685 708
Loans to customers	1 053 076	1 486 826	9 166 336	22 787 839	20 314 678	4 125 593	58 934 348	27 669 740
Investments available-for-sale	-	-	-	-	4 782	-	4 782	4 782
Other assets	40 465	11 888	864 913	25 947	66 724	-	1 009 937	1 009 937
<b>Non-derivative liabilities</b>								
Due to banks	(14 255)	(237 514)	(4 561 369)	(7 556 689)	-	-	(12 369 827)	(10 760 673)
Customer accounts	(154 093)	(2 466)	(204 957)	-	-	-	(361 516)	(348 106)
Debt securities issued	(335 672)	(657 210)	(6 865 420)	(8 500 847)	-	-	(16 359 149)	(14 501 813)
Subordinated debts	-	-	(91 000)	(1 458 814)	-	-	(1 549 814)	(1 300 000)
Other liabilities	(35 892)	(95 793)	-	-	(473 000)	-	(604 685)	(604 685)
<b>Derivative assets</b>								
- Inflow	87 596	174 337	262 207	2 821 757	-	-	3 345 897	685 708
- Outflow	(82 939)	(161 767)	(237 712)	(2 161 119)	-	-	(2 643 537)	-
<b>Total</b>	<b>2 061 546</b>	<b>632 586</b>	<b>(1 139 964)</b>	<b>5 958 074</b>	<b>19 913 184</b>	<b>4 125 593</b>	<b>31 551 019</b>	<b>4 009 473</b>
<b>Credit related commitments</b>	<b>(12 948)</b>	<b>(15 600)</b>	<b>(43 679)</b>	<b>(1 967)</b>	<b>-</b>	<b>-</b>	<b>(74 194)</b>	<b>(74 194)</b>

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The position as at 31 December 2008 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Gross nominal amount inflow (outflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Due to banks	(55 831)	(277 397)	(847 603)	(13 192 173)	-	(14 373 004)	(12 426 431)
Customer accounts	(81 765)	(39 205)	(355 812)	-	-	(476 782)	(465 809)
Debt securities issued	(269 302)	(659 117)	(7 120 322)	(10 346 669)	(1 049 397)	(19 444 807)	(17 018 076)
Subordinated debts	(17 000)	-	(303 868)	(1 531 814)	-	(1 852 682)	(1 517 000)
Other liabilities	(106)	(86 501)	-	-	(613 163)	(699 770)	(699 770)
<b>Derivative assets</b>							
- Inflow	66 258	196 251	887 706	2 955 768	-	4 105 983	1 236 110
- Outflow	(72 887)	(186 702)	(761 750)	(1 765 090)	-	(2 786 429)	-
<b>Total</b>	<b>(430 633)</b>	<b>(1 052 671)</b>	<b>(8 501 649)</b>	<b>(23 879 978)</b>	<b>(1 662 560)</b>	<b>(35 527 491)</b>	<b>(30 890 976)</b>
<b>Credit related commitments</b>	<b>(65 685)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1 967)</b>	<b>(67 652)</b>	<b>(67 652)</b>

The table below presents mortgage-backed securities issued by their expected maturities:

	31 December 2009	31 December 2008
Demand and less than 1 month	240 489	151 963
From 1 to 3 months	570 137	637 075
From 3 to 12 months	5 834 339	5 929 520
From 1 to 5 years	7 742 668	8 714 736
More than 5 years	-	957 505
<b>Total mortgage-backed securities issued</b>	<b>14 387 633</b>	<b>16 390 799</b>

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

- instant liquidity ratio (N2), calculated as a ratio of highly liquid assets to liabilities payable on demand.
- current liquidity ratio (N3), calculated as a ratio of highly liquid assets to liabilities with maturity period less than 30 days.
- long-term liquidity ratio (N4), calculated as a ratio of assets with maturity period more than 1 year to equity and liabilities with maturity period more than 1 year.

The Bank was in compliance with these ratios during the years ended 31 December 2009 and 2008. The mandatory liquidity ratios calculated as at 31 December 2009 and 31 December 2008 are as follows:

	Asset	31 December 2009 %	31 December 2008 %
Instant liquidity ratio (N2)	Not less than 15%	52.5	42.2
Current liquidity ratio (N3)	Not less than 50%	192.1	284.3
Long-term liquidity ratio (N4)	Not more than 120%	104.5	86.7

**(e) Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.



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(i) *Market risk management*

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The risk management activity is aimed at reducing the possibility of risks as well as mitigating current risks (reduction of possible losses and consequences for the Group's activity).

The Group manages its market risk by setting open position limits in relation to re-pricing gaps for assets and liabilities, open position limits in relation to financial instruments, interest rate re-pricing and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

(ii) *Currency risk*

Currency risk is the risk of changes in the value of a financial instrument due to fluctuations in foreign exchange rates. The financial position and cash flows are subject to fluctuations in foreign exchange rates. Management sets limits in respect of risk level for various currencies, which are also in compliance with the requirements of the CBR. The Treasury Department monitors on the daily basis the actual amount of risks compared with the limits set.

The following table shows the currency position analysis as at 31 December 2009.

	<b>RUR</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
<b>ASSETS</b>					
Due from the Central Bank of the Russian Federation	181 308	-	-	-	181 308
Due from banks	1 255 855	2 871	18 841	-	1 277 567
Financial assets at fair value through profit or loss	-	-	685 708	-	685 708
Loans to customers	27 669 740	-	-	-	27 669 740
Investments available-for-sale	4 782	-	-	-	4 782
Property and equipment	490 752	-	-	-	490 752
Investment property	140 498	-	-	-	140 498
Current income tax receivable	16 648	-	-	-	16 648
Deferred tax assets	123 091	-	-	-	123 091
Other assets	151 966	857 971	-	-	1 009 937
<b>Total assets</b>	<b>30 034 640</b>	<b>860 842</b>	<b>704 549</b>	<b>-</b>	<b>31 600 031</b>
<b>LIABILITIES</b>					
Due to banks	10 760 673	-	-	-	10 760 673
Customer accounts	343 208	1 389	3 396	113	348 106
Debt securities issued	7 628 303	-	6 873 510	-	14 501 813
Subordinated debts	1 300 000	-	-	-	1 300 000
Current income tax payable	12 047	-	-	-	12 047
Deferred tax liabilities	152 331	-	-	-	152 331
Other liabilities	604 685	-	-	-	604 685
<b>Total liabilities</b>	<b>20 801 247</b>	<b>1 389</b>	<b>6 876 906</b>	<b>113</b>	<b>27 679 655</b>
<b>Net on balance sheet position</b>	<b>9 233 393</b>	<b>859 453</b>	<b>(6 172 357)</b>	<b>(113)</b>	<b>3 920 376</b>
<b>Net off balance sheet position</b>	<b>(3 235 011)</b>	<b>-</b>	<b>3 235 011</b>	<b>-</b>	<b>-</b>
<b>Net position</b>	<b>5 998 382</b>	<b>859 453</b>	<b>(2 937 346)</b>	<b>(113)</b>	<b>3 920 376</b>
<b>Credit related commitments</b>	<b>74 194</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74 194</b>

As at 31 December 2009 the off balance sheet position is the position in respect of a cross-currency swap contract concluded with Gazprombank Mortgage Funding 1 (note 12).

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The following table shows the currency position analysis as at 31 December 2008:

	RUR	USD	EUR	Other currencies	Total
<b>ASSETS</b>					
Due from the Central Bank of the Russian Federation	73 739	-	-	-	73 739
Due from banks	1 169 874	5 537	23 537	215	1 199 163
Financial assets at fair value through profit or loss	5 112	-	1 236 110	-	1 241 222
Loans to customers	31 156 914	-	-	-	31 156 914
Investments available-for-sale	4 782	-	-	-	4 782
Property and equipment	593 114	-	-	-	593 114
Current income tax receivable	52 287	-	-	-	52 287
Deferred tax assets	202 687	-	-	-	202 687
Other assets	169 350	-	-	-	169 350
<b>Total assets</b>	<b>33 427 859</b>	<b>5 537</b>	<b>1 259 647</b>	<b>215</b>	<b>34 693 258</b>
<b>LIABILITIES</b>					
Due to banks	12 419 248	7 183	-	-	12 426 431
Customer accounts	458 623	4 914	2 167	105	465 809
Debt securities issued	8 983 089	-	8 034 987	-	17 018 076
Subordinated debts	1 517 000	-	-	-	1 517 000
Current income tax payable	68	-	-	-	68
Deferred tax liabilities	150 735	-	-	-	150 735
Other liabilities	699 770	-	-	-	699 770
<b>Total liabilities</b>	<b>24 228 533</b>	<b>12 097</b>	<b>8 037 154</b>	<b>105</b>	<b>32 277 889</b>
<b>Net on balance sheet position</b>	<b>9 199 326</b>	<b>(6 560)</b>	<b>(6 777 507)</b>	<b>110</b>	<b>2 415 369</b>
<b>Net off balance sheet position</b>	<b>(3 782 319)</b>	<b>-</b>	<b>3 782 319</b>	<b>-</b>	<b>-</b>
<b>Net position</b>	<b>5 417 007</b>	<b>(6 560)</b>	<b>(2 995 188)</b>	<b>110</b>	<b>2 415 369</b>
<b>Credit related commitments</b>	<b>67 652</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67 652</b>

As at 31 December 2008 the off balance sheet position is the position in respect of cross-currency swap contracts concluded with Gazprombank Mortgage Funding 1 (note 12).

An analysis of sensitivity of profit for the year and equity to changes in the exchange rates based on net positions existing as at 31 December 2009 and a simplified scenario of a 10% change in major currencies exchange rates is as follows:

	31 December 2009	
	Profit	Equity
10% appreciation of USD against RUR	(68 756)	(68 756)
10% depreciation of USD against RUR	68 756	68 756
10% appreciation of EUR against RUR	1 236	1 236
10% depreciation of EUR against RUR	(1 236)	(1 236)

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An analysis of sensitivity of profit for the year and equity to changes in the exchange rates based on net positions existing as at 31 December 2008 and a simplified scenario of a 20% change in major currencies exchange rates is as follows.

	31 December 2008	
	Profit	Equity
20% appreciation of USD against RUR	(997)	(997)
20% depreciation of USD against RUR	997	997
20% appreciation of EUR against RUR	3 251	3 251
20% depreciation of EUR against RUR	(3 251)	(3 251)

*(iii) Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect income or the value of its portfolios of financial instruments.

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Group manages interest rate risk by regular assessment of possible losses that could arise from negative changes in market conditions. The Economic Analysis Department monitors the financial results, assesses the exposure to changes in interest rates and their impact on profit.

The majority of interest bearing assets and liabilities are fixed rate instruments, except for mortgage-backed securities.

The following table provides an analysis of average effective interest rates by major currencies for principal categories of monetary financial instruments. The analysis is prepared based on weighted interest rates on different financial instruments using effective interest rates as at the end of the period.

	31 December 2009		31 December 2008	
	RUR	EUR and other currencies %	RUR	EUR and other currencies %
<b>ASSETS</b>				
Due from banks	1.6	-	1.2	-
Financial instruments at fair value through profit or loss	-	-	7.0	-
Loans to customers	14.1	-	13.7	-
<b>LIABILITIES</b>				
Due to banks	9.5	-	9.3	-
Customer accounts	7.8	-	4.3	-
Debt securities issued	9.5	5.4	13.9	6.4
Subordinated debts	8.0	-	7.8	-

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An analysis of sensitivity of profit for the year ended 31 December 2009 to changes in the market interest rates based on a simplified scenario of a 100 basis points (bp) symmetrical fall or rise in all yield curves and assuming no asymmetrical changes in yield curves and constant balance sheet position is as follows:

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	<b>31 December 2009</b>
100 bp parallel rise	8 517
100 bp parallel fall	(8 517)

---

An analysis of sensitivity of profit for the year ended 31 December 2008 to changes in the market interest rates based on a simplified scenario of a 500 basis points (bp) symmetrical fall or rise in all yield curves and assuming no asymmetrical changes in yield curves and constant balance sheet position is as follows:

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	<b>31 December 2008</b>
500 bp parallel rise	44 185
500 bp parallel fall	(44 185)

---

This analysis is based on the assumption of a constant statement of financial position, no asymmetrical changes in yield curves and it excludes the effect of changes in interest rates in respect of demand customer accounts and changes in fair value of instruments held at fair value in the statement of consolidated financial position.

*(iv) Equity price risk*

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Bank takes a long or short position in an equity financial instrument.

The Group is not exposed to significant equity price risk in respect of investment in equity securities.

## **26 Capital management**

The Group manages capital to ensure its ability to continue as a going concern, increasing the shareholders' profit by maintaining an optimal ratio of borrowings to capital.

The capital structure is represented by borrowings, including subordinated debts (note 21) and capital, which comprises the share capital, and retained earnings disclosed in the statement of changes in equity.

The capital structure is monitored by the Management Board on a regular basis. In particular, the Management Board analyses the capital base and risks inherent in the each class of capital.

Once a year based on the recommendations of the Board of Directors, the General Shareholders' Meeting adjusts the structure of the capital and, when necessary, changes the volume of the share capital and registers an additional share issue.

The general policy in respect of risks inherent in capital management did not change as compared with 2008.

The Group monitors its capital adequacy requirements calculated in accordance with the Basel Accord (commonly known as Basel I) as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007).

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The following table shows the analysis of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2009:

	<b>31 December 2009</b>
Tier 1 capital	
Share capital	3 402 691
Additional paid-in capital	439 301
Retained earnings	78 384
<b>Total tier 1 capital</b>	<b>3 920 376</b>
Tier 2 capital	
Subordinated debts (unamortized portion)	609 069
<b>Total tier 2 capital</b>	<b>609 069</b>
<b>Total capital</b>	<b>4 529 445</b>
Risk-weighted assets	
Banking book	16 182 663
Trading book	3 103 866
<b>Total risk weighted assets</b>	<b>19 286 529</b>
<b>Total capital expressed as a percentage of risk-weighted assets (“total capital ratio”)</b>	<b>23.5</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (“tier 1 capital ratio”)</b>	<b>20.3</b>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. In particular, mortgage loans are assigned a risk weighting factor of 0.5. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

## **27 Contingencies and commitments**

### **(a) Litigation**

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

### **(b) Tax legislation**

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

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**(c) Operating lease commitments**

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	31 December 2009	31 December 2008
Less than 1 year	336	451
<b>Total operating lease commitments</b>	<b>336</b>	<b>451</b>

During 2009 RUR 678 thousand was recognised as operating expenses in profit or loss in respect of operating lease commitments (2008: RUR 3 002 thousand).

**(d) Credit related commitments**

Credit related commitments comprise guarantees and undrawn credit lines. 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.

Guarantees carry the same risk as loans. Undrawn credit lines are obligations to provide a loan to a customer upon request.

Credit related commitments are as follows:

	31 December 2009	31 December 2008
Guarantees issued	1 967	1 967
Undrawn credit lines	72 227	65 685
<b>Total credit related commitments</b>	<b>74 194</b>	<b>67 652</b>

The majority of the above mentioned commitments may expire or terminate without being funded. Thus the credit related commitments mentioned above do not necessarily represent future cash outflow.

**28 Fair value of financial instruments**

The estimated of fair value financial assets and liabilities as required by IFRS 7 "Financial Instruments: Disclosures" is as follows.

The estimated fair value of financial instruments at fair value through profit or loss, quoted available-for-sale assets, and other quoted securities is based on quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair value of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair value of all financial instruments approximates their carrying values except for financial instruments stated in the table below.

	31 December 2009	
	Carrying value	Fair value
Loans to customers	27 669 740	26 523 316
Mortgage-backed securities issued	(14 387 633)	(13 123 027)
Subordinated debts	(1 300 000)	(1 118 570)

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	31 December 2008	
	Carrying value	Fair value
Loans to customers	31 156 914	29 725 421
Mortgage-backed securities issued	(16 390 799)	(15 227 595)
Subordinated debts	(1 517 000)	(1 343 047)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices	Valuation techniques based on market observable inputs	Total
Financial assets at fair value through profit or loss	-	685 708	685 708

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2008:

	Quoted market prices	Valuation techniques based on market observable inputs	Total
Financial assets at fair value through profit or loss	5 112	1 236 110	1 241 222

As at 31 December 2009 and 2008, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

## 29 Related parties transactions

For the purposes of these consolidated financial statements parties are considered to be related if one party has the ability to control the other party or may have a significant influence over the other party in making financial or operational decision in compliance with IAS 24 “Related Parties Disclosures”. In considering each possible related party relationship the economic substance of the relationship is taken into consideration, not merely its legal form.

Related parties of the Group comprise the shareholders of the Bank as well as directors and key management personnel and other related parties. Other related parties are mainly companies that are under common control with the Bank and other companies the shareholders, directors and key management personnel of the Bank may have control or significant influence on. As at 31 December 2009 and 2008 related parties primarily include the companies of the “Gazprombank” (Open Joint – stock Company) Group.

In 2009 the remuneration of the key management personnel amounts to RUR 68 099 thousand (2008: RUR 63 306 thousand).

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

	Shareholders of the Bank		Other related parties	
	Carrying value, RUR'000	Average interest rate, %	Carrying value, RUR'000	Average interest rate, %
<b>ASSETS</b>				
Due from banks	610 906	-	-	-
Loans to customers	-	-	464 755	16.3
<b>Total assets</b>	<b>610 906</b>	<b>-</b>	<b>464 755</b>	<b>16.3</b>
<b>LIABILITIES</b>				
Due to banks	10 746 418	9.4	-	-
Customer accounts	-	-	15 033	-
Debt securities issued	7 414 459	7.7	-	-
Subordinated debts	1 300 000	7.0	-	-
Other liabilities	-	-	473 000	-
<b>Total liabilities</b>	<b>19 460 877</b>	<b>10.7</b>	<b>488 033</b>	<b>-</b>
Undrawn credit lines and loan commitments	-	-	9 440	-

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The results of transactions with related parties for the year ended 31 December 2009 are as follows:

	Shareholders of the Bank	Directors and key management personnel	Other related parties
Interest income on due from banks	371	-	-
Interest income on loans to customers	-	-	45 649
Recovery of provision for loan impairment	-	-	10 371
Interest expense on due to banks	(1 270 766)	-	-
Interest expense on debt securities issued	(667 603)	-	-
Interest expense on subordinated debts	(94 912)	-	-
Net fee and commission income	139 341	-	-
Operating expenses	-	(68 099)	-

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

	Shareholders of the Bank		Other related parties	
	Carrying value, RUR'000	Average interest rate, %	Carrying value, RUR'000	Average interest rate, %
<b>ASSETS</b>				
Due from banks	597 474	5.1	-	-
Loans to customers	-	-	243 221	14.1
<b>Total assets</b>	<b>597 474</b>	<b>5.1</b>	<b>243 221</b>	<b>14.1</b>
<b>LIABILITIES</b>				
Due to banks	12 370 599	10.1	-	-
Customer accounts	-	-	34 411	-
Debt securities issued	4 622 111	MosPrime+2.85	-	-
Subordinated debts	1 517 000	7.2	-	-
Other liabilities	-	-	613 193	-
<b>Total liabilities</b>	<b>18 509 710</b>	<b>9.9</b>	<b>647 604</b>	<b>-</b>
Undrawn credit lines and loan commitments	13 945	-	285	-

The results of transactions with related parties for the year ended 31 December 2008 are as follows:

	Shareholders of the Bank	Directors and key management personnel	Other related parties
Interest income on due from banks	307	-	-
Interest income on loans to customers	-	-	32 649
Recovery of provision for loan impairment	-	-	962
Interest expense on due to banks	(847 861)	-	-
Interest expense on debt securities issued	(109 442)	-	-
Interest expense on subordinated debts	(108 000)	-	-
Net fee and commission income	8 923	-	-
Operating expenses	-	(63 306)	-

### 30 Changes in the Group's structure

In November 2009 the Group established and acquired 100% of the shares of MCMIF “RCPF Regional Mortgage” at a nominal value for RUR 500 million (Note 13).

In December 2009 the Group sold 100% shares of MCMIF “RCPF - United Second” to a counterparty which is under common control with the Group at their nominal value. The consideration received on disposal of MCMIF “RCPF - United Second” shares was RUR 300 000 thousand. As a result of these transactions the Group received income of RUR 88 213 thousand, which was recognized as additional paid-in capital in equity (Notes 9, 13, 23).



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Net assets of the disposed entity at the date of disposal were as follows:

	<b>Assets (liabilities)</b>
<b>ASSETS</b>	
Due from banks	7 398
Loans to customers (net of impairment loss)	187 464
Deferred tax asset	22 054
Other assets	91
<b>LIABILITIES</b>	
Other liabilities	(5 220)
<b>Net identifiable assets and liabilities</b>	<b>211 787</b>
<b>Net cash inflow</b>	<b>292 602</b>

In January 2008 the Group established and acquired 100% of the shares in MCMIF "RCPF - United Second" at a nominal value for RUR 300 million (Note 13).

In December 2008 the Group established and acquired 100% of the shares of MCMIF "Third United" at a nominal value for RUR 250 million (Note 13).

In February 2008 the Group acquired 100% of the shares in LLC "Belkor" for RUR 120 million in cash.

Net assets of the acquired entity at the date of acquisition were as follows:

	<b>Recognised fair value on acquisition</b>
<b>ASSETS</b>	
Due from banks	3 210
Property and equipment	21 436
Other assets	11 737
<b>LIABILITIES</b>	
Due to banks	(2 200)
Other liabilities	(2 273)
<b>Net identifiable assets and liabilities</b>	<b>31 910</b>
Goodwill on acquisition	88 090
<b>Consideration paid</b>	<b>120 000</b>
Net cash outflow	(116 790)

As at 31 December 2008 goodwill was tested for impairment. As a result goodwill impairment was recognized in the consolidated statement of comprehensive income for the year ended 31 December 2008 in the amount of RUR 88 090 thousand.

### **31 Subsequent events**

In January 2010 the Group converted euro-denominated A1 class bonds issued by Gaprombank Mortgage Funding 2 S.A. into RUR-denominated bonds at the exchange rate of 34.7 RUR per 1 EUR.