

**Translation of original Russian version**

***Closed Joint-Stock Company  
Banca Intesa***

Audit Report  
on the Annual Report  
for the year ended 31 December 2010

*February 2011*

**Audit Report -  
Closed Joint-Stock Company Banca Intesa**

---

**Translation of original Russian version**

---

<b>Contents</b>	<b>Page</b>
<b>Audit report by an independent auditor</b>	<b>3</b>
Appendices	
1. Annual report of Banca Intesa for the year ended 31 December 2010, including:	
Balance sheet at 1 January 2011	6
Profit and Loss statement for the year ended 31 December 2010	8
Statement of capital adequacy, loan impairment and other provisions at 1 January 2011	10
Information on the prudential ratios at 1 January 2011	12
Statement of cash flows for the year ended 31 December 2010	14
Information on members of the banking (consolidated) group, statement of capital adequacy, loan impairment and other provisions at 1 January 2011	16
Explanatory notes	17

## **Translation of original Russian version**

(Translation from Statutory Auditor's Report expressed in the Russian Language)

### **Audit report by an independent auditor**

To the shareholders of Closed Joint-Stock Company Banca Intesa

#### ***Details of the audited entity***

Full name: Closed Joint-Stock Company Banca Intesa  
Short name: ZAO Banca Intesa.

Certificate of State Registration of a Credit Organization No. 2216, issued by the Central Bank of the Russian Federation on 11 January 2011.

Certificate of an entry made to the Uniform State Register of Legal Entities No. 1027739177377, issued by the Federal Tax Service of the Russian Federation on 11 January 2011.

Address: 101000 Moscow, Petroverigsky Pereulok, 2.

#### ***Details of the auditor***

Name: Closed Joint-Stock Company Ernst & Young Vneshaudit

Main State Registration Number 1027739199333.

Address: 115035 Russian Federation, Moscow, Sadovnicheskaya Nab., 77, building 1.

Closed Joint-Stock Company Ernst & Young Vneshaudit is a member of Non-profit Partnership "Audit Chamber of Russia" ("NP AChR"). Closed Joint-Stock Company Ernst & Young Vneshaudit is registered in the register of auditors and audit organizations maintained by NP AChR at No. 3027 and included in the master copy of the register of auditors and audit organizations at main registration number 10301017410.

## **Translation of original Russian version**

We have audited the accompanying annual report of Closed Joint-Stock Company Banca Intesa, which consists of the balance sheet at 1 January 2011; the statement of income for the year ended 31 December 2010; the statement of cash flows for the year ended 31 December 2010; the statement of capital adequacy, loan impairment and other provisions at 1 January 2011; information on prudential ratios at 1 January 2011; and explanatory notes.

### ***Audited entity's responsibility for the annual report***

The management of Closed Joint-Stock Company Banca Intesa is responsible for the preparation and fairness of this annual report in accordance with rules on the preparation of an annual report established in the Russian Federation and for the internal control system relevant to the preparation of an annual report that is free from material misstatements, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the fairness of this annual report based on our audit.

We conducted our audit in accordance with the federal standards on auditing activity and International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual report is free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. Audit procedures selection depends on our judgment based on the assessment of the risks of material misstatements of the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control system relevant to the entity's preparation and fair presentation of the annual report in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual report.

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 annual report presents fairly, in all material respects, the financial position of Closed Joint-Stock Company Banca Intesa as at 31 December 2010, its financial performance and its cash flows for 2010 in accordance with rules on the preparation of an annual report established in the Russian Federation.

## **Translation of original Russian version**

### ***Other matters***

As stated in Note IX of the explanatory notes, the Bank management decided against publishing in the printed media of the explanatory notes within the annual report pursuant to Instruction of the Central Bank of the Russian Federation No. 2172-U dated 20 January 2009, *Concerning the Publication and Provision of Information Regarding the Operations of Credit Institutions and Banking (Consolidated) Groups*. Please note that this audit opinion on the accompanying annual report shall be read in conjunction with all the reporting forms and the explanatory notes, which constitute an integral part of the annual report. The complete annual report comprising all reporting forms together with the explanatory notes will be placed at the web page ([www.bancaintesa.ru](http://www.bancaintesa.ru)) which the Bank uses for disclosures, when the annual report has been approved by the general meeting of the Bank's shareholders.

The accompanying annual report is not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying annual report is not designed for those who are not informed about the accounting principles, procedures and practices in the Russian Federation.

### *signature*

I. R. Safiulin  
Director  
Closed Joint-Stock Company Ernst & Young Vneshaudit

18 February 2011

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (/ordinal number)	bank's identification code
45296561000	17512023	17512023	2216	44525922

**Balance sheet**  
**(the Published Form)**  
as of " 01 " 01 2011

Of the credit institution Banca Intesa  
(full official and abbreviated official name)

Postal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409806

Quarterly (Annual)

thousand roubles

No.	Name of the item	As at reporting date	At the corresponding reporting date of the prior year
1	2	3	4
<b>I. Assets</b>			
1	Cash	639,234	969,282
2	Credit institutions' balances with the Central Bank of the Russian Federation	3,220,543	3,328,599
2.1	Obligatory reserves	192,456	162,782
3	Due from credit institutions	1,160,299	537,284
4	Net investments in securities at fair value through profit or loss	722	697,192
5	Net loans receivable	67,319,359	47,183,391
6	Net investments in securities and other financial assets available for sale	4,382,580	3,942,695
6.1	Investments in subsidiaries and affiliates	3,000	3,000
7	Net investments in securities held to maturity	-	-
8	Premises and equipment, intangible assets and inventories	2,790,410	2,765,330
9	Other assets	2,204,662	2,282,328
10	Total assets	81,717,809	61,706,101

1	2	3	4
<b>II. Liabilities</b>			
11	Loans, deposits and other amounts due to the Central Bank of the Russian Federation	-	-
12	Due to credit institutions	36,569,885	24,482,532
13	Amounts due to customers (non-credit institutions)	32,209,665	28,650,768
13.1	Deposits of individuals	4,580,537	4,655,810
14	Financial liabilities at fair value through profit or loss	-	-
15	Debt securities issued	18,100	13,672
16	Other liabilities	1,427,275	1,918,296
17	Provisions for losses under credit-related commitments, other losses and transactions with offshore residents	98,521	32,675
18	<b>Total liabilities</b>	<b>70,323,446</b>	<b>55,097,943</b>
<b>III. Equity</b>			
19	Shareholders' (members') equity	10,820,181	5,737,168
20	Treasury shares	-	-
21	Share premium	-	84,041
22	Reserve fund	147,797	99,709
23	Fair value remeasurement of available-for-sale securities	(39,989)	(11,536)
24	Premises and equipment revaluation	11	11
25	Retained earnings (accumulated deficit) of prior years	105,611	1,015,759
26	Unutilized profit (loss) for the reporting period	360,752	(316,994)
27	<b>Total equity</b>	<b>11,394,363</b>	<b>6,608,158</b>
<b>IV. Off-balance commitments</b>			
28	Irrevocable commitments of the credit institution	9,958,943	7,700,989
29	Guarantees and sureties issued by the credit institution	5,401,245	320,518

Acting Chairman of the Management Board

O. Lein

Chief Accountant \_\_\_\_\_

T. Pavlycheva

Seal

Done by: \_\_\_\_\_

(Name)

Telephone \_\_\_\_\_

" " \_\_\_\_\_

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (/ordinal number)	bank's identification code
45296561000	17512023	1027739177377	2216	44525922

**Profits and Losses statement**  
**(the Published Form)**  
for " \_ " \_ 2010

Of the credit institution Banca Intesa  
(full official and abbreviated official name)

Postal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409807  
Quarterly (Annual)  
thousand roubles

Line No.	Name of the item	For the reporting period	For the comparative period of the previous year
1	2	3	4
1	Total interest income including:	9,383,789	10,648,464
1.1	From placement of funds in credit institutions	324,169	18,544
1.2	From loans to customers (non-credit institutions)	6,832,066	8,491,161
1.3	From financial leases	1,844,656	1,819,010
1.4	From investments in securities	382,898	319,749
2	Total interest expense including:	2,785,394	5,284,283
2.1	From funds attracted from credit institutions	1,561,507	3,409,991
2.2	From funds attracted from customers (non-credit institutions)	1,222,823	1,872,675
2.3	From debt instruments issued	1,064	1,617
3	Net interest income (negative interest margin)	6,598,395	5,364,181
4	Change in provision for losses from loans receivable, similar debt, amounts placed on correspondent accounts, and accrued interest income, including:	(2,402,453)	(2,527,749)
4.1	Change in provision for losses from accrued interest income	(94,570)	(102,942)
5	Net interest income (negative interest margin) after provision for losses	4,195,942	2,836,432
6	Net income from transactions with securities at fair value through profit or loss	(404,160)	(82,945)
7	Net income from transactions with securities available for sale	85,023	(20,225)



1	2	3	4
8	Net income from transactions with securities held to maturity	-	-
9	Net income from trading in foreign currency	74,570	142,545
10	Net incomes from the revaluation of foreign currency	92,135	(79,222)
11	Income from equity interests in other legal entities	-	11
12	Fee and commission income	1,080,617	588,007
13	Fee and commission expense	136,776	74,495
14	Change in provision for losses on securities available for sale	-	-
15	Change in provision for losses on securities held to maturity	-	-
16	Change in provision for other losses	61,396	(8,526)
17	Other operating income	369,191	2,027,350
18	Net income (expense)	5,417,938	5,328,932
19	Operating expense	4,829,652	5,376,077
20	Profit (loss) before taxation	588,286	(47,145)
21	Taxes accrued (paid)	227,534	269,849
22	Profit (loss) after taxation	360,752	(316,994)
23	Total distributions of profit after tax, including:	-	-
23.1	Distributed among shareholders (participants) as dividends	-	-
23.2	Allocated to reserve fund	-	-
24	Unutilized profit (loss) for the reporting period	360,752	(316,994)

Acting Chairman of the Management Board

O. Lein

Chief Accountant

T. Pavlycheva

Seal

Done by:

(Name)

Telephone

" " "

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (ordinal number)	bank's identification code
45296561000	17512023	1027739177377	2216	44525922

**STATEMENT OF CAPITAL ADEQUACY, LOAN IMPAIRMENT  
AND OTHER PROVISIONS  
(the Published Form)  
as of the 1st of 01 2011**

Of the credit institution Banca Intesa

(full official and abbreviated official name)

Postal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409808

Quarterly (Annual)

Line No.	Name of the index	Data as at the beginning of the reporting year	Increase (+)/decrease (-) for the reporting period	Data as at reporting date
	2	3	4	5
1	Total equity (capital) (RR'000), including:	6,882,854	4,724,721	11,607,575
1.1	Charter capital of credit institution, including:	5,737,168	5,083,013	10,820,181
1.1.1	Nominal value of registered ordinary shares (units)	5,737,168	5,083,013	10,820,181
1.1.2	Nominal value of registered privileged shares	-	-	-
1.2	Treasury shares	-	-	-
1.3	Emission income	84,041	(84,041)	-
1.4	Reserve fund of the credit institution	99,709	48,088	147,797
1.5	Retained earnings (accumulated deficit):	560,367	(382,442)	177,925
1.5.1	for prior years	560,367	(454,756)	105,611
1.5.2	for the reporting year	-	72,314	72,314
1.6	Intangible assets	30,761	10,495	41,256
1.7	Subordinated credit (loan, deposit, bonded loan)	435,319	70,598	505,917
1.8	Sources (part of the sources) of an additional capital, for whose formation the investors have used improper assets	-	-	-
2	Statutory equity (capital) adequacy ratio, (percent)	10	X	10

1	2	3	4	5
3	Actual equity (capital) adequacy ratio, (percent)	13.7	X	15.2
4	Total actual provisions for losses (RR'000), including:	4,756,999	2,428,691	7,185,690
4.1	Provision for loans, overdue loans and equivalent debts	4,487,961	2,312,046	6,800,007
4.2	Provision for other assets exposed to losses, and for other losses	240,270	51,362	291,632
4.3	Provision for contingent credit commitments recognized on off-balance accounts and for futures transactions	28,768	65,283	94,051
4.4	Provision for transactions with offshore residents	-		-

## Section, By Way of Reference:

1. Accrual (additional accrual) of provision for losses from loans receivable and similar debt in the reporting period (kRUR), total \_\_\_\_\_ 3240010  
including due to:

- 1.1. Issue of loans \_\_\_\_\_ 282507;
- 1.2. Change in loans quality \_\_\_\_\_ 2443772;
- 1.3. Change in the exchange rate of foreign currency to the ruble, established by the Bank of Russia, \_\_\_\_\_ 6440;
- 1.4. for the other reasons \_ 507291

2. Reversal (decrease) in provision from loans receivable and similar debt in the reporting period (kRUR), total \_\_\_\_\_ 927964

including due to:

- 2.1. Write-off of bad debts \_\_\_\_\_ 146035 ;
- 2.2. Repayment of loans \_ 495573;
- 2.3. Change in loan quality \_\_\_\_\_ 103079;
- 2.4. Change in the exchange rate of foreign currency to the ruble, established by the Bank of Russia \_\_\_\_\_ 2228;
- 2.5. for the other reasons \_ 181049

Acting Chairman of the Management Board

O. Lein

Chief Accountant \_\_\_\_\_

T. Pavlycheva

Seal \_\_\_\_\_

Done by: \_\_\_\_\_

(Name)

Telephone \_\_\_\_\_

" " \_\_\_\_\_

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (ordinal number)	bank's identification code
45296561000	17512023	1027739177377	2216	44525922

**INFORMATION ON THE PRUDENTIAL RATIOS  
(the Published Form)**

**as of January 1, 2011**

Of the credit institution Banca Intesa

(full official and abbreviated official name)

Postal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409813

Annual  
percentages

Line No.	Name of the index	Normative value	Actual value			
			As at reporting date		At the corresponding reporting date of the prior year	
1	2	3	4		5	
1	Equity (capital) adequacy (N1)	10	15.2		13.7	
2	Instant liquidity ratio (N2)	15	65.5		102.7	
3	Current liquidity ratio (N3)	50	79		176.7	
4	Long-term liquidity ratio (N4)	120	117.1		79.9	
5	Maximum risk per borrower or group of related borrowers ratio (N6)	25	Maximum	23	Maximum	13
			Minimum	0.3	Minimum	0.2
6	Maximum amount of large credit risks (N7)	800	240		24.7	
7	Maximum amount of loans, bank guarantees and sureties issued by a bank to its shareholders (participants) (N9.1)	50	0.7		0	
8	Aggregate insider risk ratio (N10.1)	3	1.6		2.3	
9	Share of equity (capital) that can be used to purchase shares (interest) in other legal entities ratio (N12)	25	0		0	
10	Ratio of liquid assets maturing within the next 30 calendar days to total liabilities of payment-processing non-banking credit institution (N15)					

1	2	3	4	5
11	Maximum aggregate loans to customers who are parties to settlements for completing the settlements ratio (N16)			
12	Credits issued to borrowers by payment-processing non-banking credit institution in its name and at its expense excluding customers who are parties to settlements ratio (N16.1)			
13	Minimum ratio of mortgage-backed loans issued to equity (capital) (N17)			
14	Minimum ratio of mortgage value to mortgage-backed bonds (N18)			
15	Maximum ratio of an issuer credit institution's total liabilities to creditors who according to federal laws have priority in satisfying their claims on holders of mortgage bonds, to equity (capital) (N19)			

Acting Chairman of the Management Board

O. Lein

Chief Accountant \_\_\_\_\_

T. Pavlycheva

Seal \_\_\_\_\_

Done by: \_\_\_\_\_

(Name)

Telephone \_\_\_\_\_

" \_\_\_\_ " \_\_\_\_\_

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (/ordinal number)	bank's identification code
45296561000	17512023	1027739177377	2216	44525922

**STATEMENT OF CASH FLOWS  
(the Published Form)**

for 2010  
(accounting period)

Of the credit institution Banca Intesa  
(full official and abbreviated official name)

Postal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409814

Annual

thousand roubles

Line No.	Name of the item	For the reporting period	For the comparative period of the previous year
1	2	3	4
1	Net cash from/used in operating activities		
1	Total cash from / (used in) operating activities before changes in operating assets and liabilities, including:	3,519,638	3,574,224
1.1.1	Interest received	9,292,736	10,431,654
1.1.2	Interest paid	(2,937,339)	(5,385,705)
1.1.3	Fees and commissions received	1,080,617	588,007
1.1.4	Fees and commissions paid	(136,776)	(74,495)
1.1.5	Gains less losses from financial assets at fair value through profit or loss, available for sale	(297,921)	(339,689)
1.1.6	Gains less losses from securities held to maturity	-	-
1.1.7	Gains less losses from foreign currency transactions	74,570	142,545
1.1.8	Other operating income	(60,594)	1,833,075
1.1.9	Operating expenses	(3,355,331)	(3,423,572)
1.1.10	Tax expense (recovery)	(140,324)	(197,596)
1.2	Total increase/(decrease) in net cash from operating assets and liabilities, including:	(2,130,815)	1,676,931
1.2.1	Net increase / (decrease) in mandatory reserves with the Central Bank of Russia	(14,541)	(129,282)
1.2.2	Net increase / (decrease) in investments in securities at fair value through profit or loss	582,066	513,271
1.2.3	Net increase / (decrease) in loans receivable	(13,561,924)	9,832,891
1.2.4	Net increase / (decrease) in other assets	229,282	1,267,822
1.2.5	Net increase / (decrease) in loans, deposits and other amounts due to the Central Bank of Russia	-	(6,900,000)

1	2	3	4
1.2.6	Net increase / (decrease) in amounts due to other credit institutions	8,485,870	(7,563,967)
1.2.7	Net increase / (decrease) in amounts due to customers which are not credit institutions	2,518,782	4,302,628
1.2.8	Net increase / (decrease) in financial liabilities at fair value through profit or loss		
1.2.9	Net increase / (decrease) in debt instruments issued	4,666	(9,544)
1.2.10	Net increase / (decrease) in other liabilities	(375,016)	363,112
1.3	Total Section 1 (Line 1.1. + Line 1.2)	1,388,823	5,251,155
2	Net cash from/ (used in) investing activities		
2.1	Purchase of securities and other financial assets designated as available-for-sale	(13,547,012)	(9,184,459)
2.2	Proceeds from sale and redemption of securities and other financial assets designated as available-for-sale	13,167,982	7,961,836
2.3	Purchase of securities designated as held to maturity		
2.4	Proceeds from redemption of securities designated as held to maturity		
2.5	Purchase of fixed assets, intangible assets and inventories	(1,425,781)	(1,801,844)
2.6	Proceeds from sale of fixed assets, intangible assets and inventories	476,752	212,377
2.7	Dividends received	-	(11)
2.8	Total Section 2 (sum of lines 2.1 to 2.7)	(1,328,059)	(2,812,101)
3	Net cash from/ (used in) financing activities		
3.1	Contributions of shareholders (participants) to share capital	-	-
3.2	Purchase of treasury shares	-	-
3.3	Sale of treasury shares	-	-
3.4	Dividends paid	-	-
3.5	Total Section 3 (sum of lines 3.1 to 3.4)	-	-
4	Effect of changes in official CBR exchange rates of foreign currencies to the ruble on cash and cash equivalents	(55,611)	22,988
5	Increase / (decrease) in cash and cash equivalents	5,153	2,462,042
5.1	Cash and cash equivalents at the beginning of the reporting period	4,822,467	2,210,341
5.2	Cash and cash equivalents at the end of the reporting period	4,827,620	4,672,383

Acting Chairman of the Management Board

O. Lein

Chief Accountant \_\_\_\_\_

T. Pavlycheva

Seal

Done by: \_\_\_\_\_

(Name)

Telephone \_\_\_\_\_

" " \_\_\_\_\_

Bank Reports

Code of the territory in accordance with the All-Russia Classifier of Administrative-Territorial Entities	Code of the credit institution (of its affiliate)			
	in accordance with the All-Russia Classifier of Enterprises and Organizations	basic state registration number	registration number (ordinal number)	bank's identification code
45296561000	17512023	17512023	2216	44525922

**INFORMATION ON MEMBERS OF THE BANKING  
(CONSOLIDATED) GROUP, STATEMENT OF CAPITAL ADEQUACY,  
LOAN IMPAIRMENT AND OTHER PROVISIONS**

as of January 1, 2011

Abbreviated official name of the parent credit institution

Banca IntesaPostal address 2 Petroverigskiy lane, Moscow, Russia, 101000

Code of Form 0409812

Annual

Line No.	Name of the item	As at reporting date	At the corresponding reporting date of the prior year
1	2	3	4
1	Members of the banking (consolidated) group		
1.1	Banca Intesa (Closed joint stock company) (prior to reorganization - KMB-Bank (Closed joint stock company))	#REF!	
1.2	KMB Leasing (closed joint stock company)	100	100
	No consolidated balance sheet or statement of income were prepared,		

No consolidated balance sheet or statement of income were prepared, no statutory prudential ratios were calculated on a consolidated basis, as the effect of the group's participant is considered to be immaterial.

The Annual Report, including all published reporting forms, and the Explanatory Notes are provided on the homepage of the Bank at [www.bancaintesa.ru](http://www.bancaintesa.ru)

Acting Chairman of the Management Board

O. Lein

Chief Accountant

T. Pavlycheva

Seal

Done by:

(Name)

Telephone No.:

" " \_\_\_\_\_



## TRANSLATION OF ORIGINAL RUSSIAN VERSION

### EXPLANATORY NOTES

to the annual report

for the period from 1 January through 31 December 2010

#### I. General information on the Bank and its main operations

Closed Joint-Stock Company Banca Intesa (before 11 January 2011, KMB BANK (ZAO)) is a commercial bank with 100% foreign participation. The Bank's shareholders are the following organizations:

Shareholder	Ownership in the Bank as at 1 January 2011, %	Ownership in the Bank* (in KMB BANK as at 1 January 2010, %)	Ownership in the merging Bank* (in ZAO Banca Intesa as at 1 January 2010, %)
European Bank for Reconstruction and Development (the "EBRD"), international financial institution (United Kingdom)	13.25	25.0002	-
Intesa Sanpaolo Holding International S.A. (Luxembourg)	39.77	74.9998	-
Intesa SanPaolo S.p.A (Italy)	46.98	-	100

\* before the reorganization through accession of ZAO Banca Intesa to KMB BANK performed on 11 January 2011

The Bank operates under general banking license No. 2216 issued by the Bank of Russia on 11 January 2010 (the license was reissued due to the merger of ZAO Banca Intesa with KMB BANK and renaming of the united bank to Banca Intesa).

The Bank is a participant of the deposit insurance system of the Russian Federation.

In 2010, the Bank's principal activity was lending to small, medium-sized and large corporate businesses.

In 2010, the Bank continued its development on the SME lending market by improving traditional and implementing new credit products, increasing the level of financing of the medium-sized business, developing the client base and implementing a flexible pricing policy.

In 2010, the Bank focused on servicing individual customers and developing remote service channels for retail business. Thus, in 2010, electronic bank MY.BANCAINTESA secured by modern protection means was developed and offered to clients. The Bank obtained licenses of MasterCard international payment system. Also, the Bank continued developing its product line by offering new credit products such as multi-purpose secured by mortgage (new offer for the Intesa Premium Club premium segment).

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

In 2010, the Bank actively developed and significantly strengthened its positions in lending to major Russian corporate clients, global clients of Intesa Sanpaolo Group doing business in Russia as well as major financial institutions.

The Bank has a 100% subsidiary, «KMB-Leasing» JSC, whose main activity is the provision of leasing services.

The Bank has a wide network of branches and operational offices. In 2010, as a result of the reorganization of KMB BANK through the merger with ZAO Banca Intesa, 2 operational offices were opened and 1 operational office was closed in Moscow. As at 1 January 2011, the Bank has 6 branches and 73 operational offices.

As at 1 January 2011, the Bank employed 1,945 staff (1 January 2010: 1,940).

### II. Financial results

The financial result of the Bank's activity is profit for 2010 in the amount of kRUR 360,752 with account for subsequent events (2009: loss in the amount of kRUR 316,994 with account for subsequent events). At the end of 2010, all Bank's branches had booked profit.

### III. Material changes and events

#### Bank's reorganizations

On 11 January 2010, according to the decision of the Extraordinary General Meeting of Shareholders of KMB-BANK (ZAO) dated 5 October 2009 and the decision of the Sole Shareholder of ZAO Banca Intesa dated 12 November 2009, the Bank was reorganized through accession of ZAO Banca Intesa to KMB BANK with renaming of the united bank into Banca Intesa (closed joint stock company).

An additional issue of 411,580 ordinary shares for the total amount of RUR 5,083,013,000 was performed in the process of reorganization. After the additional issue of shares the charter capital amounted to RUR 10,820,180,800.

**TRANSLATION OF ORIGINAL RUSSIAN VERSION**

**The balance sheet of the merging Bank (assets/liabilities) at the date of reorganization.**

ZAO Banca Intesa

Postal address: 101000 Moscow, Petroverigsky Pereulok, 2.

THE BALANCE SHEET (published form) as of 1 January 2010

Line number	Item	Data at the reporting date
1	2	3
<b>I. ASSETS</b>		
1	Cash	18,560
2	Credit institutions' balances with the Central Bank of the Russian Federation	89,018
2.1	Obligatory reserves	15,133
3	Due from credit institutions	57,639
4	Net investments in securities at fair value through profit or loss	0
5	Net loans receivable	9,020,214
6	Net investments in securities and other financial assets available for sale	0
6.1	Investments in subsidiaries and affiliates	0
7	Net investments in securities held to maturity	0
8	Premises and equipment, intangible assets and inventories	332,999
9	Other assets	74,125
10	Total assets	9,592,555
<b>II. LIABILITIES</b>		
11	Loans, deposits and other amounts due to the Central Bank of the Russian Federation	0
12	Due to credit institutions	3,483,149
13	Amounts due to customers (non-credit institutions)	1,434,946
13.1	Deposits of individuals	0
14	Financial liabilities at fair value through profit or loss	0
15	Debt securities issued	0
16	Other liabilities	42,514
17	Provisions for losses under credit-related commitments, other losses and transactions with offshore residents	178,041
18	Total liabilities	5,138,650
<b>III. EQUITY</b>		
19	Shareholders' (members') equity	3,600,000
20	Treasury shares	0
21	Share premium	0
22	Reserve fund	17,439
23	Fair value remeasurement of available-for-sale securities	0
24	Premises and equipment revaluation	0
25	Retained earnings (uncovered loss) of prior years	223,490
26	Unutilized profit (loss) for the reporting period	612,976
27	Total equity	4,453,905
<b>IV. OFF-BALANCE SHEET LIABILITIES</b>		
28	Credit institution's irrevocable liabilities	7,438,276
29	Guarantees and sureties issued by credit institution	4,242,386

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

In the statement of capital adequacy, loan impairment and other provisions (published form 0409808) as at 1 January 2011, the reserves in the amount of kRUR 55,629, accrued as a result of the merger of ZAO Banca Intesa (registration number 3444) are recorded in line 1.4 (Other Reasons) of the Reference section. Movement in the reserves for credit-related contingent liabilities recognized on off-balance accounts and for futures transactions (line 4.3 of the form 0409808) also included turnover related to the merger of ZAO Banca Intesa in the amount of kRUR 178,042.

In the statement of cash flows (published form 0409814) for 2010, adjustments to the movement of assets and liabilities were made with the purpose to exclude non-monetary turnovers related to the recognition of the merger of ZAO Banca Intesa (registration number 3444). Cash in the amount of kRUR 150,084 acquired as a result of the accession adjusted line 5.1 "Cash and Cash Equivalents as at the Beginning of the Reporting Year" in the column "Cash Flows over the Reporting Period" of form 0409814 (kRUR 4,822,467) as compared to the amount presented in line 5.2 "Cash and Cash Equivalents as at the End of the Reporting Year" in the column "Cash Flows over the Previous Reporting Period" (kRUR 4,672,383).

### **Earnings per share**

Basic earnings per share for 2010 were RUR 428.53 (2009: basic loss per share was RUR 682.37). The 2010 income totaled kRUR 360,752. The weighted average number of ordinary shares is 841,829.67. The Bank does not calculate the diluted earnings (loss) per share as it does not have any convertible securities or contracts stipulated in Clause 9 of the "Methodological Recommendations on the Disclosure of Information on Earnings per Share" (approved by Order No. 29 of the Russian Ministry of Finance dated 21 March 2000).

## **IV. Risk concentration and management**

The Bank applies modern methods to manage and control liquidity, solvency and risks in accordance with international standards, principles of the Basel Committee on Banking Supervision as well as rules and regulations established by the Bank of Russia. All risks are reviewed jointly and controlled in the context of all Bank's activities. Clearly defined goals and objectives, mutual understanding, segregation of duties and control by management are fundamental elements of the risk management process. In the Bank this process includes the following: risk assessment, definition of risk management strategies, development and implementation of risk management procedures, monitoring the efficiency of risk management activity and constant development of the said elements.

**Credit risk.** The Bank controls credit risk by establishing limits per borrower or group of related borrowers as well as by controlling the maximum level of credit risk per market segment, industry, credit product, currency and length of credit. The maximum level of credit risk by product and market segment is approved and regularly reviewed by the Credit Committee. Credit risk limits by borrower, concentration of large loans and limits per industry are approved by the Credit Committee. From February 2010, the level of credit risk assumed by the Bank per borrower or group of related borrowers should not exceed EUR 5,000,000 (or an equivalent amount). Decisions on the amounts in excess of the established limits are taken by the Executive Committee of the Bank's Board of Directors provided that formal recommendations are given by respective department of Intesa Sanpaolo S.p.A.

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

The Bank established a credit policy stipulating that financing is provided only in case of compliance with the approved criteria. The Bank's regional offices are authorized to approve standard transactions on their own. All loans granted by regional branches in the amount exceeding the regional limit or having non-standard parameters are subject to approval of the Credit Committee of the Bank's central office. Risk management group responsible for continuous control of all aspects of the Bank's activity that expose the Bank to credit risk, performs regular assessment of the credit portfolio structure and monitors the credit risk for all issued loans, and develops measures to decrease the Bank's credit risk.

**Market risk.** The Bank's market risk management system includes:

- Identifying risk factors for new products;
- Calculating various risk parameters (risk exposure, the portfolio's sensitivity to changes in market indicators, etc.);
- Measuring the fair value of financial instruments;
- Establishing limits on transactions and open positions and monitoring them daily. Acceptable market risk exposures are established by the Board of Directors;
- Assessing the profitability of trading portfolio operations on a daily basis;
- Developing new risk assessment models and methodologies, as well as interaction procedures between Bank's units when working on financial markets.

The goal of the department responsible for analyzing market risks is to optimize the ratio of profitability of the Bank's operations to market risk by diversifying the Bank's trading and non-trading portfolios and limiting positions sensitive to respective risk factors.

**Currency risk.** Pursuant to instructions of the Central Bank of Russia, the Bank establishes for its branches limits and sublimits on the level of exposure by currency and in total as of the end of the day. The Bank's Treasury monitors daily compliance with the established limits and sublimits, regulates the currency position and reports on it daily to the Bank's management.

**Liquidity risk.** The Bank has a system of liquidity stress-testing and forecasting which allows monitoring daily the Bank's assets, liabilities and cash flows, as well as predicting the Bank's financing requirements depending on the projected market conditions and business trends. Pursuant to its Assets and Liabilities Management Policy, the Bank regularly monitors and reviews the structure and liquidity parameters of its assets, and determines liquidity requirements based on the current market situation and the availability of alternative financing sources. Maintaining a high liquidity level is a priority for the Bank. The established liquidity parameters are in full compliance with the requirements of the Central Bank of Russia and the Intesa Sanpaolo Group's guidelines.

**Interest rate risk.** The Bank manages its interest rate risk by actively promoting lending under floating interest rates (LIBOR, MosPrime). In addition, the Bank uses market hedging instruments to manage this risk.

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

**Operational risk.** The Bank has a formalized Operational Risk Management Policy, a functioning system of collecting, classifying and storing operational risk data, and the Bank's Management assesses operational risks on an annual basis. The Bank has developed an internal reporting system on which the Management relies when deciding on risk management issues (changes in processes and procedures, automation of procedures, outsourcing, etc.). The Bank extensively resorts to insurance as an instrument for managing operational risks, namely, property insurance (real estate, ATMs and valuables, collateral and leased items), car insurance, medical insurance, as well as comprehensive insurance against fraud. The Bank has developed plans to ensure business continuity in different situations and to provide business recovery.

According to the Bank's Management, the established risk management system allows avoiding any significant risk concentration and keeping the existing exposures under permanent control.

### **Operating environment**

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010, the Government of the Russian Federation continued implementing measures to support the economy in order to overcome the consequences of the global financial crisis. Despite certain signs of economic recovery, there continues to be uncertainty regarding future economic growth, access to capital, as well as cost of capital; all this may negatively affect the Bank's financial position, results of operations and business prospects.

In addition, such factors as higher unemployment rates in Russia, lower liquidity and profitability of companies, and increasing numbers of corporate and individual defaults affected the ability of the Bank's borrowers to repay the amounts due to the Bank. The changed economic conditions also resulted in a decrease in the value of collateral under loans and other liabilities. Based on information currently available, the Bank has revised its estimates of expected future cash flows in the course of its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

### **V. Principles and methods of evaluating and recognizing individual balance sheet items**

The Bank's balance sheet as of 1 January 2011 has been prepared pursuant to the requirements of CBR Regulation No. 302-P of 26 March 2007 "Concerning the Rules for Maintaining Accounting Records in Credit Institutions of the Russian Federation" (as amended and supplemented).

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

The Bank's accounting policy provides for the following main principles and methods for recording balance sheet items:

- ✓ Fixed assets are recognized at acquisition cost. The cost limit for items to be recorded within fixed assets is established at the level of RUR 20,000, including value added tax;
- ✓ Securities classified upon acquisition as 'at fair value through profit or loss' or 'available-for-sale' are remeasured at present (fair) value on the basis of the last bid price; the value of disposed (sold) securities is measured at the cost of securities first in (FIFO);
- ✓ Generation of income on third quality loans and assets (claims) is considered to be definite.

### VI. Significant changes in accounting policies

In 2010, no changes were made to the Bank's accounting policies.

### VII. Information on the inventory count of balance sheet items

In 2010, the Bank performed an inventory count of all cash, valuables, fixed assets, intangible assets, inventories, and accounts receivable and payable recorded on balance sheet and off-balance sheet accounts. The results of the inventory count are as follows:

- ✓ At 1 January 2011, the balances on analytic accounts correspond to those on synthetic accounts;
- ✓ The actual availability of cash and valuables in the vaults of the Bank's branches as of the morning of 1 January 2011 determined in the course of the conducted audit is in conformity with the accounting records;
- ✓ The inventory count of assets (fixed assets, intangibles assets and inventories) at the Bank's business units did not identify any surpluses or shortages. Worn out fixed assets were duly derecognized from the balance sheet in the reporting year;
- ✓ The balance of the balance sheet account 47416 "Amounts at Suspense Clearing Account" in the amount of kRUR 48,126 consists of payments recorded for up to five days with wrong beneficiary details;
- ✓ Accounts receivable carried forward to 2011 and recorded on balance sheet account 60312 "Trade Accounts Receivable and Payable" were reconciled with the suppliers and contractors. At 1 January 2011, the Bank's overdue trade receivables with regard to tangible assets, fully provided for against potential losses, amounted to kRUR 2,092. Overdue receivables with regard to services rendered to the Bank amounted to kRUR 5,424. Overdue receivables with regard to leasing payments amounted to kRUR 223,190;
- ✓ Overdue loans receivable amounted to kRUR 4,914,282 (7.5% of total loans receivable, net of interbank loans), overdue interest receivable on the issued loans amounted to kRUR 271,680;
- ✓ Accounts payable recorded on balance sheet account 60311 "Trade Accounts Receivable and Payable" contain no overdue trade payables and consist mainly of advances for the buy-out of leased assets and of other expenses accrued with regard to subsequent events.

## TRANSLATION OF ORIGINAL RUSSIAN VERSION

### VIII. Subsequent events

The Bank recorded the followings transactions as adjusting subsequent events:

- ✓ - As of 1 January 2011, the Bank transferred balances recorded in account 706 "Current Year Financial Result" to account 707 "Prior Year Financial Result";
- ✓ - General and administrative expenses relating to 2010 were recorded based on documents received after 1 January 2011;
- ✓ - Adjustments were made to accrued 2010 taxes;
- ✓ - The amounts of interest and commission income and expenses relating to 2010 were updated;
- ✓ - Balances recorded in account 707 "Prior Year Financial Result" were transferred to account 708 "Prior Year Profit (Loss)".

There were no non-adjusting subsequent events materially affecting the Bank's financial position, assets and liabilities.

As of the date of the annual report, the Russian ruble appreciated against the euro and slightly depreciated against the US dollar as compared to the respective period of the previous year.

### IX. Publishing of the explanatory notes

Pursuant to CBR Instructive Regulation No. 2172-U dated 20 January 2009, "Concerning the Publication and Provision of Information regarding the Operation of Credit Organizations and Banking (Consolidated) Groups", a credit organization shall use discretion in making a decision whether and how the explanatory notes to the annual report should be published. The Bank's Management decided against publishing these explanatory notes as part of the annual report in the printed media. The complete annual report comprising all reporting forms together with the explanatory notes will be placed on the web page ([www.bancaintesa.ru](http://www.bancaintesa.ru)), which the Bank uses for disclosures, after approval of the annual report by the general meeting of the Bank's shareholders.

---

O. Lein  
Acting Chairman of the Management Board

---

T. Pavlycheva  
Chief Accountant