Commercial Bank ROSENERGOBANK
(Closed Joint Stock Company)

Financial Statements for the Year Ended 31 December 2010 and Independent Auditor's Report

Contents

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)

We have audited the accompanying financial statements of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company), which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Anton V. Efremov
Senior Partner

14 March 2011
ZAO BDO

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2010

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management of Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) (the Bank) and those of the independent auditor in relation to the Bank's financial statements.

Management is responsible for the preparation of the financial statements (the financial statements) that present fairly the financial position of the Bank as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

On behalf of the Bank's management the financial statements for the year ended 31 December 2010 were authorised for issue on 14 March 2011 by:

K.V. Shvarts	A.G. Volkova
Chairman of the Executive Board	Chief Accountant
14 March 2011	

Commercial Bank ROSENERGOBANK (Closed Joint Stock Company)

Russian Federation, Moscow

(in thousands of Russian Roubles)

	Note	2010	2009
Assets			
Cash and cash equivalents	5	3 012 999	1 196 897
Mandatory cash balances with the Central Bank of the Russian Federation		222 297	105 022
Financial assets at fair value through profit or loss	6	4 382 627	389 144
Due from other banks	7	-	1 843 660
Loans to customers	8	9 047 058	4 601 143
Financial assets available for sale	9	-	683 511
Investments in subsidiaries	10	-	600
Premises and equipment	11	1 455 880	209 558
Other assets	12	158 880	32 286
Total assets		**18 279 741**	**9 061 821**
Liabilities			
Due to other banks	13	1 343 039	768 837
Customer accounts	14	12 683 139	5 974 820
Debt securities issued	15	1 394 232	897 593
Other borrowed funds	16	858 529	505 589
Other liabilities	17	56 148	21 688
Current tax liabilities		11 357	2 966
Deferred tax liabilities	23	94 986	29 794
Total liabilities		**16 441 430**	**8 201 287**
Equity			
Share capital	18	1 061 382	461 382
Share premium	18	392 000	392 000
Revaluation reserve for premises and equipment	11	448 409	72 615
Fair value reserve for financial assets available for sale	9	-	404
Accumulated deficit		(63 480)	(65 867)
Total equity		**1 838 311**	**860 534**
Total liabilities and equity		**18 279 741**	**9 061 821**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

КОММЕРЧЕСКИЙ БАНК «РОСЭНЕРГОБАНК» МОСКВА КБ "РЭБ"

14 March 2011

The notes set out on pages 9 to 63 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	Note	2010	2009
Interest income	20	1 498 214	789 916
Interest expense	20	(988 842)	(389 154)
Net interest income		**509 372**	**400 762**
Provision for impairment of loans to customers	8	(148 054)	(217 033)
Net interest income after provision for impairment of loans to customers		**361 318**	**183 729**
Gains less losses arising from financial assets at fair value through profit or loss		(25 117)	(3 951)
Gains less losses arising from financial assets available for sale		1 748	-
Gains less losses from dealing in foreign currency		32 906	77 862
Foreign exchange translation gains less losses		(1 549)	(62 213)
Gain on early redemption of securities issued		204 449	63 892
Fee and commission income	21	152 610	99 092
Fee and commission expense	21	(12 039)	(5 975)
Provision for impairment of other assets and credit related commitments	12, 27	(15 940)	2 926
Other operating income		40 138	25 448
Operating income		**738 524**	**380 810**
Operating expenses	22	(735 581)	(352 424)
Profit before taxation		**2 943**	**28 386**
Income tax expense	23	(606)	(7 691)
Net profit		**2 337**	**20 695**
Other comprehensive income			
Gains less losses from revaluation of financial assets available for sale	9	(505)	505
Effect from revaluation of premises and equipment	11	469 793	42 838
Income tax relating to components of comprehensive income		(93 858)	(8 669)
Other comprehensive income after taxation		**375 430**	**34 674**
Total comprehensive income		**377 767**	**55 369**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

КОММЕРЧЕСКИЙ БАНК «РОСЭНЕРГОБАНК» КБ "РЭБ" (ЗАО) МОСКВА

14 March 2011

(in thousands of Russian Roubles)

	2010	2009
Cash flows from operating activities		
Interest received	1 485 155	797 553
Interest paid	(934 791)	(383 086)
Gains less losses arising from financial assets at fair value through profit or loss	24 775	(4 708)
Gains less losses from dealing in foreign currency	32 906	77 862
Fees and commissions received	152 610	99 092
Fees and commissions paid	(12 039)	(5 975)
Other operating income	244 589	89 340
Operating expenses paid	(690 199)	(333 850)
Income tax paid	(20 870)	(18 738)
Cash flows from operating activities before changes in operating assets and liabilities	**282 136**	**317 490**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Central Bank of the Russian Federation	(117 275)	(91 954)
Financial assets at fair value through profit or loss	(4 037 834)	(332 885)
Due from other banks	1 839 710	(1 771 169)
Loans to customers	(4 600 653)	(1 495 618)
Other assets	(133 302)	13 649
Net increase /(decrease) in operating liabilities		
Due to other banks	575 855	670 183
Customer accounts	6 755 475	4 018 089
Debt securities issued	465 693	146 376
Other liabilities	4 377	(8 384)
Net cash flows from operating activities	**1 034 182**	**1 465 777**
Cash flows from investing activities		
Purchase of financial assets available for sale (Note 9)	-	(1 183 078)
Proceeds from disposal of financial assets available for sale (Note 9)	683 006	513 994
Proceeds from disposal of subsidiaries	600	-
Purchase of premises and equipment (Note 11)	(801 236)	(51 061)
Proceeds from disposal of premises and equipment	792	-
Net cash flows from investing activities	**(116 838)**	**(720 145)**
Cash flows from financing activities		
Issue of shares	600 000	-
Origination of other borrowed funds	327 145	250 000
Net cash flows from financing activities	**927 145**	**250 000**
Effect of exchange rate changes on cash and cash equivalents	(28 357)	(12 600)
Net change in cash and cash equivalents	**1 816 132**	**983 032**
Cash and cash equivalents at the beginning of the year	1 196 867	213 835
Cash and cash equivalents at the end of the year (Note 5)	**3 012 999**	**1 196 867**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2011

(in thousands of Russian Roubles)

	Share capital	Share premium	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated deficit	Total equity
Balance as at 1 January 2009	**461 382**	**392 000**	**-**	**38 345**	**(86 562)**	**805 165**
Comprehensive income for the year 2009	-	-	404	34 270	20 695	55 369
Balance as at 31 December 2009	**461 382**	**392 000**	**404**	**72 615**	**(65 867)**	**860 534**
Issue of shares	600 000	-	-	-	-	600 000
Comprehensive income for the year 2010	-	-	(404)	375 834	2 337	377 767
Revaluation on disposed premises and equipment	-	-	-	(40)	50	10
Balance as at 31 December 2010	**1 061 382**	**392 000**	**-**	**448 409**	**(63 480)**	**1 838 311**

K.V. Shvarts
Chairman of the Executive Board

A.G. Volkova
Chief Accountant

14 March 2011

(in thousands of Russian Roubles)

1. Principal Activities of the Bank

Commercial Bank ROSENERGOBANK (Closed Joint Stock Company) (the Bank) was founded in 1992 as a closed joint stock company under the laws of the Russian Federation.

In 2010 and 2009 the Bank operated under the following licenses:

- License of the Central Bank of the Russian Federation (the CBR) No. 2211 of 17 October 2002 for banking operations with funds of individuals in Russian roubles and foreign currency;
- License of the Central Bank of the Russian Federation No. 2211 of 13 May 2004 for banking operations with funds of legal entities and individuals in Russian roubles and foreign currency;
- licenses of the professional securities market participant with unlimited validity period:
  - No. 177-11119-100000 of 1 April 2009 for brokerage transactions;
  - No. 177-11123-010000 of 1 April 2009 for dealing transactions;
  - No. 177-11127-001000 of 1 April 2009 for securities management;
  - No. 177-13238-000100 of 29 July 2010 for depository activities.

Principal activities of the Bank are corporate and retail banking services on the territory of the Russian Federation.

The Bank has 6 branches (2009: 6 branches) in the Russian Federation.

The Bank's head office is located at: 11/1 Goncharnaya Str., Moscow, 109240.

Legal and mailing address of the Bank is: 11/1 Goncharnaya Str., Moscow, 109240.

Since September 2005 the Bank has been a member of the obligatory Deposit Insurance System managed by the state corporation Deposit Insurance Agency.

The average annual number of the Bank's employees in 2010 was 675 (2009: 363 employees).

Below is the information about the Bank's main shareholders.

Shareholder	2010 Ownership (%)	2009 Ownership (%)
LLC LOGOS	20.00	20.00
LLC FINANSGARANT	20.00	19.51
LLC STROYPRIMA	20.00	20.00
LLC Spetsenergocentre	18.05	-
LLC RETOR	10.97	-
LLC Alfa-Courier Service	6.69	-
Limited partnership Nordvik Investments	-	19.63
Shareholders with shareholdings less than 5 % of the Bank's share capital	4.29	20.86
Total	**100.00**	**100.00**

(in thousands of Russian Roubles)

Below is the information on the Bank's ultimate beneficiaries:

Name	2010 Ownership (%)	2009 Ownership (%)
Lidia A. Vasilyeva	19.98	19.98
Maria G. Maklakova	19.98	19.98
Genady Gordon	19.90	9.76
Galina A. Shvidkaya	18.03	-
Natalya V. Sinitsyna	10.97	-
Monhe Simons Mario Ignasio	6.65	9.76
Rafail R. Bashirov	2.78	-
Konstantin V. Shvartz	-	19.63
Vladimir K. Andreev	-	4.90
Dmitry B. Fetisov	-	4.00
Mikhail V. Kurochkin	-	3.19
Pavel A. Zimin	-	3.13
Anna N. Sobotsynskaya	-	2.72
Ultimate beneficiaries with shareholdings less than 2% of the Bank's share capital	1.71	2.95
Total	**100.00**	**100.00**

2. Operating Environment of the Bank

General

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency in most countries outside of Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Russia continues economic reforms and development of the legal, tax and administrative framework to comply with the market economy requirements.

Since 2003 the obligatory Deposit Insurance System has been functioning in the Russian Federation. According to the deposit insurance legislation, 100% is compensated to the depositor if the deposit amount does not exceed RUR 700 thousand. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the CBR at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

Since 1 January 2009, the tax system was changed in favour of business: the corporate income tax rate was cut from 24% to 20% and the tax prepayment procedure was cancelled. Income tax rates for small businesses using simplified taxation procedures were reduced from 15% to 5% of the profit amount.

During 2010 the refinancing rate was lowered from 8.75% to 7.75% per annum. Required reserve ratio for credit institutions' obligations remained at the 2009 level of 2.5%.

The Russian economy is exposed to the market fluctuations and the processes taking place in the global economy. The global financial crisis led to GDP contraction, instability on the capital markets, substantial deterioration of liquidity in the banking sector, growing unemployment in Russia, declining liquidity and profitability of companies, increasing number of bankruptcies among legal entities and individuals and tightened lending requirements within Russia.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(in thousands of Russian Roubles)

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2010	8,8%
31 December 2009	8.8%
31 December 2008	13.3%
31 December 2007	11.9%
31 December 2006	9.0%

Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation.

The table below shows exchange rates of RUR relative to USD and EUR as set by the Bank of Russia:

Date	USD	EUR
31 December 2010	30.4769	40.3331
31 December 2009	30.2442	43.3883
31 December 2008	29.3804	41.4411
31 December 2007	24.5462	35.9332
31 December 2006	26.3311	34.6965

Financial market transactions

On 21 December 2009 Standard & Poor's reaffirmed the sovereign credit ratings of the Russian Federation: the long- and short-term foreign currency sovereign credit rating was reaffirmed at "BBB/A-3", and the long- and short-term local currency sovereign credit rating was reaffirmed at "BBB+/A-2", stable outlook.

In 2010 the international rating agency Fitch Ratings twice revised the Russian Federation outlook for long-term ratings in local and foreign currencies: on 22 January 2010 Fitch Ratings upgraded the long-term foreign and local currency outlook from "negative" to "stable" and confirmed the respective ratings at "BBB". The decision to upgrade the RF outlook from "negative" to "stable" was supported by increasing oil prices and expanding economic activity. On 8 September 2010 Fitch Ratings confirmed the long-term ratings of the Russian Federation at «BBB". The outlook was changed from "stable" to "positive".

Moody's Investors Service confirmed the long-term foreign and local currency issuer ratings of the Russian Federation at "Baa1".

As a result of the financial crisis in 2008 and 2009 Russian enterprises and banks had difficulties in obtaining borrowings and refinancing debts on the international and domestic capital markets. The crisis also resulted in lower liquidity levels in the banking sector and very high uncertainty in the domestic and foreign equity markets. In 2010 the Russian equity markets were growing and liquidity in the banking sector was improved. However, access to funding remains restricted for enterprises due to tightened lending requirements and relatively high interest rates on borrowings, thereby hampering further economic development, and can affect the ability of customers to meet their obligations to the Bank.

3. Basis of Presentation

General principles

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS), including all previously adopted standards and interpretations. The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional and presentation currency

The functional currency is the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for the goods and services are denominated and settled), labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The presentation currency is the currency in which financial statements are presented.

These financial statements are presented in Russian Roubles being the Bank's functional and presentation currency.

Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require the management's estimates and are most significant for the financial statements are disclosed in Notes 4, 8, 11 and 27.

Going concern

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Bank's control. The Bank's management cannot predict what impact these factors can have on the Bank's financial position in future.

For prompt management of liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Central Bank of Russia and in the interbank lending market. Diversification of liquidity sources allows to minimise the Bank's dependence on any source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional fund-raising allow the Bank to continue its operation as a going concern in the long term.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which are or in the future could be relevant to the Bank's operations:

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2010). The main amendment is the change in classification of the liability component of a convertible instrument as current or non-current.
- IAS 7 "Statement of Cash Flows" (effective for annual periods beginning on or after 1 January 2010). The revised Standard (paragraph 16) requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- IAS 17 "Leases" (effective for annual periods beginning on or after 1 January 2010). The classification of the land and building elements as finance or operating lease should be made separately for each element and should follow the general lease classification guidance. For classification of land all factors provided for other lease contracts should be considered.
- IAS 36 "Impairment of assets" (effective for annual periods beginning on or after 1 January 2010). According to the revised Standard, each cash-generating unit or group of units to which goodwill is allocated shall not be larger than an operating segment before aggregation.

- IAS 39 "Financial Instruments: Recognition and Measurement" (effective for annual periods beginning on or after 1 January 2010). The key areas of amendments included treatment of loan prepayment penalties as closely related em bedded derivatives, scope exemption for business combination contracts and cash flow hedge accounting.
- IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2010). The changes relate to treatment of transactions involving share-based payments within the scope of this IFRS. Additional paragraphs were introduced to regulate share-based payments between the Group's entities.
- IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 July 2009). The main amendments clarify measurement of goodwill and non-controlling interest.
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (effective for annual periods beginning on or after 1 January 2010). The scope of IFRS 5 has been clarified to make it clear that only the disclosures specified in IFRS 5 are applicable to non-current assets (or disposal groups) classified as held for sale, and to discontinued operations.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC provides guidance on treating settlement of a financial liability through the issue of an entity's own equity to the creditor.

IFRSs and interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2011). The main amendments clarify disclosures in the statement of changes in equity.
- IAS 24 (amended in 2009) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011). This standard is a revised version of IAS 24 (amended in 2003). The main objectives of this Standard are as follows:
  - disclosure exemption for entities that are controlled, jointly controlled or significantly influenced by the state or government bodies (government-related entities);
  - clarification of definition of a related party and related party transaction to improve the understanding and remove contradictions.
- IFRS 7 "Financial Instruments: Disclosure" (effective for annual periods beginning on or after 1 January 2011). The changes refer to disclosure of qualitative and quantitative information about the nature and size of risks arising from financial instruments.
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 as the first part of phase 1 of the project to replace IAS 39 and replaces those parts of IAS 39 that relate to recognition and measurement of financial assets. The main principles of the Standard are as follows:
  - classification of financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
  - initial measurement of the financial asset at fair value plus, in case of a financial asset not at fair value through profit or loss, particular transaction costs;
  - subsequent measurement of the financial asset at amortised cost or fair value.

  The Bank is currently assessing the adoption of this IFRS, the impact of application of this IFRS on the Bank and the timing of its adoption.
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 January 2011). This IFRIC addresses measurement of award credits by reference to fair value.
- IFRIC 14 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2011). The main amendments address treatment of prepayments of minimum contributions.

(in thousands of Russian Roubles)

Subsidiaries

Subsidiaries are those entities in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies.

The financial statements of subsidiaries are not included in these separate financial statements of the parent company. In preparing the separate financial statements of the parent company investments in subsidiaries are recorded at cost in accordance with IAS 27 "Consolidated and Separate Financial Statements" within investments in subsidiaries.

As at 31 December 2009 the Bank's subsidiaries are presented below:

			Ownership (%)	
Subsidiary	Nature of business	Date of acquisition	2010	2009
LLC REB Leasing	Leasing	23 August 2007	-	100%

On 6 December 2010 LLC REB Leasing was sold.

These separate financial statements were prepared by the Bank as required by the CBR's instruction No. 1363-U of 25 December 2005 (as subsequently revised and amended) to submit them to the Bank of Russia.

The Bank prepared the consolidated financial statements which are available at the address indicated in Note 1.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, correspondent and current account balances. All short-term interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances with the Central Bank of the Russian Federation.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- investments held to maturity ;
- financial assets available for sale.

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Bank recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the respective financial instrument. Regular way purchases and sales of the financial assets and financial liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset in the case of a financial asset not at fair value through profit or loss.

Fair value measurement

The fair value of financial instruments traded on the active market as at the reporting date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated with reference to market prices for similar financial instruments or using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgement.

Judgement is based on the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).*Derecognition of financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Reclassification of financial assets

The Bank shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or investments held to maturity depending on the purposes for which these financial instruments are held, if the Bank has intention and the ability to hold these financial assets for the foreseeable future or until maturity.

Financial assets available for sale may be reclassified into loans and receivables if the bank has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as financial assets available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in statement of comprehensive income as other comprehensive income.

The Bank shall not classify any financial assets as investments held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities and other financial assets at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category except for rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are recognised at fair value. Interest earned on trading securities is reflected as interest income in the statement of comprehensive income. Dividends are recognised within other operating income when the Bank's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the statement of comprehensive income as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

Due from other banks

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

Loans to customers

Loans to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of comprehensive income as gains/losses on origination of assets at rates above/below market. Subsequently, the carrying amount of such loans is adjusted for amortisation and the related gains/losses are recorded within the statement of comprehensive income using the effective interest method.

The Bank does not acquire loans from third parties.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included in any of the above three categories.

Financial assets available for sale are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties or determined on the basis of indicative quotations for purchase/sale of each type of securities published by information agencies or provided by professional securities market participants. If there is no active market and it is impossible to determine the fair value of equity securities using reliable methods, investments are allowed to be recognised at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of comprehensive income as other comprehensive income. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised in the statement of comprehensive income are recycled to profit or loss as gains less losses arising from financial assets available for sale. Disposals of financial assets available fore sale are recorded on a FIFO basis.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of comprehensive income as interest income. Dividends received on equity investments available for sale are recorded in the statement of comprehensive income as other operating income when the Bank's right to receive dividends is established and dividends are likely to be received.

Impairment of financial assets

The Bank assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes the following observable data in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

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

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices in respect of mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account for impairment and the amount of the loss is recognised in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the statement of comprehensive income.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Bank shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan.

(2) Impairment of financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence of impairment loss would include a significant or prolonged decline in the fair value of the equity security below its cost. This determination of what is significant and/or prolonged requires judgement. According to the Bank, a more than 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline. The Bank also assesses other factors such as volatility of price per share. Cumulative impairment loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through the profit and loss accounts, is transferred from other comprehensive income to the profit and loss accounts.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in other comprehensive income.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

If in the subsequent period the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed and the related income is recognised in the statement of comprehensive income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Bank at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Financial liabilities measured at amortised cost

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued and other borrowed funds.

Due to other banks. Due to other banks are recorded when cash is advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.

Debt securities issued include promissory notes, bonds and deposit certificates issued by the Bank. If the Bank purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt in the statement of comprehensive income.

Other borrowed funds. Other borrowed funds include subordinated loans received by the Bank and are recorded as cash is advanced to the Bank.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, and the securities are not reclassified. The corresponding liability is presented within due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties as a loan for fixed compensation continue to be recognised in the financial statements in the initial statement of financial position as securities. Securities borrowed for fixed compensation are not recorded in the financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the statement of comprehensive income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

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

Premises and equipment

Premises and equipment are stated at cost or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as loss from revaluation.

Land and buildings are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation (except for land) and accumulated impairment losses. Revaluations are performed regularly to avoid significant differences between the fair value of the revalued asset and its carrying amount.

After revaluation of buildings, any accumulated depreciation at the date of the revaluation is eliminated against gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is recorded in the statement of comprehensive income as other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised through profit or loss. A decrease arising as a result of a revaluation should be recognised through profit or loss in the statement of comprehensive income, except that revaluation deficit is directly offset against the previous surplus from revaluation of the same asset recorded directly within other comprehensive income as effect of revaluation of premises and equipment. The revaluation reserve for premises and equipment is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset. Each year the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from revaluation reserve for premises and equipment to retained earnings.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are recognised in the statement of comprehensive income as operating expenses.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Buildings - 40 years;
- Motor vehicles - 5 years;
- Office and computer equipment - 5 years;
- Leasehold improvements - over the lease term.

Land has an indefinite useful life and is not depreciated.

At the end of its useful life, the residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Operating lease - the Bank as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of comprehensive income.

Operating lease - the Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Share capital

The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is stated at original cost. Non-cash contributions in the share capital are recorded at fair value of contributed assets at the date the contribution is made. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Credit related commitments

The Bank enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances of the Bank to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments are initially recognised at their fair value. Subsequently, they are analysed at each reporting date and adjusted to reflect the current best estimate. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

Taxation

The income tax charge comprises current tax and deferred tax and is recorded in the statement of comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

Employee benefits and social insurance contributions

The Bank pays statutory social contributions on the territory of the Russian Federation. These contributions are recorded on an accrual basis. Social contributions comprise contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

Foreign currency

Foreign currency transactions are translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank of the Russian Federation exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation of transactions in foreign currency are recorded in the statement of comprehensive income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of the Central Bank of the Russian Federation in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses from purchase and sale of foreign currency are determined as a difference between the selling price and the carrying value at the date of the transaction.

(in thousands of Russian Roubles)

Fiduciary activities

Assets held by the Bank in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Bank's statement of financial position. Commissions received from such operations are shown within fee and commission income in the statement of comprehensive income.

5. Cash and Cash Equivalents

	2010	2009
Cash on hand	434 051	267 591
Balances with the CBR (other than mandatory reserve deposits)	2 471 569	773 195
Correspondent accounts and 'overnight' deposits with banks of:		
- the Russian Federation	92 105	21 742
- other countries	15 274	134 369
Total cash and cash equivalents	**3 012 999**	**1 196 897**

As at 31 December 2010, there is no accrued interest on correspondent accounts with other banks within cash and cash equivalents (2009: RUR 30 thousand). These amounts are excluded from cash and cash equivalents for the purpose of the statement of cash flows.

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the statement of financial position as at 31 December 2010 and 31 December 2009 include trading securities.

	2010	2009
Corporate debt securities		
- Corporate bonds	3 321 583	389 144
- Corporate eurobonds	344 750	-
Government and municipal debt securities		
- Municipal bonds	619 992	-
Corporate equity securities	96 302	-
Total financial assets at fair value through profit or loss	**4 382 627**	**389 144**

As at 31 December 2010, corporate bonds are represented by bonds of Russian issuers. These bonds in the Bank's portfolio have maturity dates from February 2011 to June 2020 (2009: from September 2010 to March 2017), coupon rates ranging from 7.10% to 19.00% per annum (2009: from 7.85% to 14.05% per annum) and yield to maturity ranging from 5.28% to 9.70% per annum (2009: from 8.35% to 14.52% per annum).

Corporate eurobonds are represented by bonds of OECD issuers that are freely tradable on the international market. These bonds in the Bank's portfolio as at 31 December 2010 have maturity dates from May to June 2011 (2009: none), coupon rates ranging from 8.63% to 9.25%, depending on the issue (2009: none) and yield to maturity ranging from 3.18% to 4.64% (2009: none).

Municipal bonds are represented by Rouble-denominated interest-bearing government securities issued by subjects of the Russian Federation and local authorities that are freely tradable on the MICEX. As at 31 December 2010, municipal bonds in the Bank's portfolio have maturity dates from April 2011 to June 2014 (2009: none), coupon rate ranging from 9.00% to 18.00%, depending on the issue ((2009: none), and yield to maturity ranging from 5.57 % to 7.83 % (2009: none).

Corporate bonds are represented by shares of Russian issuers.

Besides, financial assets at fair value through profit or loss in the amount of RUR 1 501 170 thousand as at 31 December 2010 (2009: none) were provided as collateral under agreements with third parties in respect of term deposits of banks and other borrowed funds. This collateral was provided without the right of further sale.

(in thousands of Russian Roubles)

	2010
Corporate debt securities	
- Corporate bonds	1 383 560
Government and municipal debt securities	
- Municipal bonds	117 610
Total financial assets at fair value through profit or loss	**1 501 170**

Below is the credit quality analysis of trading debt securities as at 31 December 2010 in accordance with the ratings of international agencies:

	Fitch+	Moody's investor service	S&P	Amount	Total
Government and municipal debt securities					
- Municipal bonds					
Moscow region	-	B1	-	244 325	244 325
Moscow Mayor's Office	BBB	Baa1	BBB	119 375	119 375
Local authorities of Krasnoyarsk krai	BB+	Ba2	BB+	135 828	135 828
Government of Samara Region	-	Ba1	BB+	120 464	120 464
Corporate debt securities					
- Corporate eurobonds					
Russian Standard Finance	B+	Ba2	B+	62 540	62 540
Ak Bars Luxembourg	BB	Ba3	-	62 734	62 734
TransCredit Finance	-	Ba1	BB	219 479	219 479
- Corporate bonds					
Acron OJSC	B+	B1	-	165 606	165 606
Joint-Stock Financial Corporation Sistema	BB--	Ba3	BB	119 194	119 194
Bank Russky Standart, CJSC	B+	Ba3	B+	106 571	106 571
VimpelKom-Invest, Ltd	-	-	BB+	198 481	198 481
Gazprom OJSC	BBB	-	BBB	143 500	143 500
LSR Group OJSC	B	B2	-	184 069	184 069
Dalnevostochnaya Kompaniya Electrosvyazi OJSC	-	-	-	226 272	226 272
IKS 5 FINANCE, LLC	-	B1	B+	234 647	234 647
URALSIB Leasing Company, LLC	B+	-	-	218 257	218 257
OJSC Magnitogorsk Iron and Steel Works (MMK)	BB	-	-	5 228	5 228
Mechel OJSC	-	B1	-	243 274	243 274
Mobile TeleSystems, OJSC	BB+	Ba2	BB	87 255	87 255
Moscow Bank for Reconstruction and Development, OJSC	B+	B1	-	12 323	12 323
LUKOIL OJSC	BBB-	-	BBB-	230 059	230 059

(in thousands of Russian Roubles)

	Fitch+	Moody's investor service	S&P	Amount	Total
Russian Railways, OJSC	BBB	Baa1	BBB	236 157	236 157
Russian Agricultural Bank, OJSC	BBB	Baa1	-	106 377	106 377
Severstal, OJSC	B+	-	BB-	249 331	249 331
SUEK-Finance, LLC	-	B1	-	211 766	211 766
OAO TMK	-	-	B-	38 525	38 525
Home Credit and Finance Bank, OJSC	-	Ba3	B+	161 588	161 588
South Telecom Company, OJSC	-	-	B+	106 313	106 313
Joint-Stock Financial Corporation Sistema OJSC	BB-	Ba3	BB	36 787	36 787
Total debt securities at fair value through profit or loss				**4 286 325**	**4 286 325**

Below is the credit quality analysis of trading debt securities as at 31 December 2009 in accordance with the ratings of international agencies:

	Fitch	Moody's	Total
- Corporate bonds			
Bank ZENIT (OJSC)	BBB+	-	100 779
Sukhoi Civil Aircraft (CJSC)	BB	-	100 418
OJSC Irkut Corporation	-	Ba2	100 369
Acron OJSC	B+	-	50 833
North-West Telecom OJSC	AA-	-	36 745
Total debt securities at fair value through profit or loss			**389 144**

Debt securities are not collateralised.

7. Due from Other Banks

	2010	2009
Deposits with CBR	-	1 750 258
Promissory notes of other banks	-	93 402
Total due from other banks	**-**	**1 843 660**

The credit quality analysis of due from other banks as at 31 December 2009 has shown that all the above classes of due from other banks in the total amount of RUR 1 843 660 thousand are current.

Due from other banks are not collateralised.

The Bank did not create provisions for impairment of due from other banks in 2009.

As at 31 December 2009, the Bank had cash balances above 10% of the Bank's capital with 2 counterparty banks. The aggregate amount of these funds is RUR 1 843 660 thousand or 100% of total due from other banks.

(in thousands of Russian Roubles)

8. Loans to Customers Loans to Customers

	2010	2009
Corporate loans	7 110 644	3 755 104
Loans to individual entrepreneurs, small and medium business	2 028 608	923 304
Consumer loans to individuals	390 334	231 736
Loans to state and municipal authorities	35 000	60 000
Mortgage loans to individuals	7 624	13 884
Less: provision for impairment of loans to customers	(525 152)	(382 885)
Total loans to customers	**9 047 058**	**4 601 143**

As at 31 December 2010, accrued interest income on impaired loans to customers amounted to RUR 33 999 thousand (2009: RUR 25 892 thousand).

Movements in the provision for impairment of loans to customers for 2010 and 2009 are as follows:

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Provision for impairment of loans to customers as at 1 January 2009	**25 858**	**140 920**	**9 583**	**318**	**176 679**
Provision/ (recovery of provision) for impairment during 2009	90 333	97 896	28 983	(179)	217 033
Loans to customers written off during the year as uncollectible	-	(10 233)	(594)	-	(10 827)
Provision for impairment of loans to customers as at 31 December 2009	**116 191**	**228 58337 972**		**139**	**382 885**
Provision/ (recovery of provision) for impairment during 2010	142 386	(23 051)	28 858	(139)	148 054
Loans to customers written off during the year as uncollectible	-	(2 220)	(3 567)	-	(5 787)
Provision for impairment of loans to customers as at 31 December 2010	**258 577**	**203 31263 263**		**-**	**525 152**

(in thousands of Russian Roubles)

Economic sector concentrations within the Bank's loan portfolio are as follows:

	2010		2009	
	Amount	%	Amount	%
Trade	3 337 709	34,87	-	0
Trade in construction equipment	2 142 417	22,38	873 237	17,52
Construction	1 156 506	12,08	532 568	10,69
Services	661 213	6,91	407 708	8,18
Trade in food products	566 844	5,92	97 743	1,96
Individuals	397 958	4,16	245 620	4,93
Trade in construction materials	352 152	3,68	506 145	10,16
Financial services	329 679	3,44	173 661	3,48
Agriculture	51 612	0,54	9 398	0,19
Manufacturing industry	38 476	0,40	105 883	2,12
State and municipal authorities	35 000	0,37	60 000	1,20
Transport services	9 734	0,10	-	0,00
Trading and intermediary activities	-	0,00	1 770 194	35,52
Other	492 910	5,15	201 871	4,05
Total loans to customers	**9 572 210**	**100**	**4 984 028**	**100**

As at 31 December 2010, the Bank issued loans to 20 borrowers (2009: 18 borrowers) with the total amount exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 6 062 184 thousand or 63.3% of total amount of loans to customers (2009: RUR 3 439 981 thousand or 69.0% of the total amount of loans to customers).

Below is the credit quality analysis of loans as at 31 December 2010:

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Corporate loans				
Unimpaired loans				
Current loans (not past due)	451 225	-	451 225	-
Individually impaired loans				
Current loans (not past due)	6 502 373	252 923	6 249 450	3,89
Less than 1 month overdue	157 046	5 654	151 392	3,60
Total corporate loans	**7 110 644**	**258 577**	**6 852 067**	**3,64**
Loans to individual entrepreneurs, small and medium business				
Unimpaired loans				
Current loans (not past due)	317 389	-	317 389	-
Collectively impaired loans				
Current loans (not past due)	1 576 148	89 434	1 486 714	5,67
Less than 1 month overdue	26 141	10 216	15 925	39,08
3 to 6 months overdue	16 268	11 000	5 268	67,62
6 to 12 months overdue	39250	39 250	-	100,00
More than 1 year overdue	53 412	53 412	-	100,00
Total loans to individual entrepreneurs, small and medium business	**2 028 608**	**203 312**	**1 825 296**	**10,02**

(in thousands of Russian Roubles)

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Consumer loans to individuals				
Unimpaired loans				
Current loans (not past due)	7 500	-	7 500	-
Collectively impaired loans				
Current loans (not past due)	354 313	39 012	315 301	11,01
Less than 1 month overdue	1 546	296	1 250	19,15
1 to 6 months overdue	6 174	3 154	3 020	51,09
6 to 12 months overdue	4 975	4 975	-	100,00
More than 1 year overdue	15 826	15 826	-	100,00
Total consumer loans to individuals	**390 334**	**63 263**	**327 071**	**16,21**
Loans to state and municipal authorities				
Unimpaired loans				
Current loans (not past due)	35 000	-	35 000	0,00
Total loans to state and municipal authorities	**35 000**	**-**	**35 000**	**0,00**
Mortgage loans to individuals				
Unimpaired loans				
Current loans (not past due)	7 624	-	7 624	0,00
Total mortgage loans to individuals	**7 624**	**-**	**7 624**	**0,00**
Total loans to customers	**9 572 210**	**525 152**	**9 047 058**	**5,49**

(in thousands of Russian Roubles)

Below is the credit quality analysis of loans as at 31 December 2009:

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment provision to gross loans (%)
Corporate loans				
Unimpaired loans				
Current loans (not past due)	1 030 260	-	1 030 260	0,00
Less than 1 month overdue	105 441	-	105 441	0,00
Individually impaired loans				
Current loans(not past due)	2 619 403	116 191	2 503 212	4,44
Total corporate loans	**3 755 104**	**116 191**	**3 638 913**	**3,09**
Loans to individual entrepreneurs, small and medium business				
Unimpaired loans				
Current loans (not past due)	83 501	-	83 501	0,00
Collectively impaired loans				
Current loans (not past due)	644 416	52 032	592 384	8,07
Less than 1 month overdue	10 868	5 730	5 138	52,72
3 to 6 months overdue	33 965	20 267	13 698	59,67
6 to 12 months overdue	108 478	108 478	-	100,00
More than 1 year overdue	42 076	42 076	-	100,00
Total loans to individual entrepreneurs, small and medium business	**923 304**	**228 583**	**694 721**	**24,76**
Consumer loans to individuals				
Collectively impaired loans				
Current loans (not past due)	193 591	11 088	182 503	5,73
Less than 1 month overdue	13 875	3 066	10 809	22,10
1 to 6 months overdue	8 332	7 880	452	94,58
6 to 12 months overdue	15 012	15 012	-	100,00
More than 1 year overdue	926	926	-	100,00
Total consumer loans to individuals	**231 736**	37 972	**193 764**	**16,39**
Loans to state and municipal authorities				
Unimpaired loans				
Current loans (not past due)	60 000	-	60 000	0,00
Total loans to state and municipal authorities	**60 000**	**-**	**60 000**	**0,00**
Mortgage loans to individuals				
Collectively impaired loans				
Current loans (not past due)	13 884	139	13 745	1,00
Total mortgage loans to individuals	**13 884**	**139**	**13 745**	**1,00**
Total loans to customers	**4 984 028**	**382 885**	**4 601 143**	**7,68**

(in thousands of Russian Roubles)

Unimpaired loans represent loans issued to borrowers with high level of liquidity and profitability, in respect of which there is no evidence that they are individually impaired.

Individually impaired loans include loans which show certain signs of impairment, are material in value and individually assessed by the Bank.

Collectively impaired loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure collectively assessed by the Bank.

As at 31 December 2010, current loans include loans in the amount of RUR 1 309 326 thousand (2009: RUR 563 681 thousand), that would otherwise be past due whose terms have been renegotiated.

The amounts recognised as "past due" represent the entire balance of such loans rather than the overdue amounts of individual payments.

Below is the information on the collateral held as security as at 31 December 2010:

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Sureties	4 431 634	6 155 562	797 190	-	11 384 386
Immovable property	680 170	1 959 219	302 296	8 132	2 949 817
Own securities	911 525	76 963	17 893	-	1 006 381
Goods for sale	164 104	233 100	13 412	-	410 616
Motor vehicles	99 881	511 411	78 805	-	690 097
Equipment	89 998	197 414	12 148	-	299 560
Non-marketable securities	-	17 430	-	-	17 430
Deposits	-	-	7 500	-	7 500
Other assets	252 523	-	-	-	252 523
Total collateral	**6 629 835**	**9 151 099**	**1 229 244**	**8 132**	**17 018 310**

Below is the information on the collateral held as security as at 31 December 2009:

	Corporate loans	Loans to individual entrepreneurs, small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Sureties	1 467 972	2 838 294	659 190	40 936	5 006 392
Immovable property	412 337	776 437	237 935	25 150	1 451 859
Own securities	447 727	156 021	22 199	-	625 947
Goods for sale	325 389	120 577	18 947	-	464 913
Motor vehicles	57 632	198 346	63 302	257	319 537
Equipment	75 182	85 233	14 831	-	175 246
Non-marketable securities	-	5 814	-	-	5 814
Marketable securities	-	-	900	-	900
Other assets	-	745	75	-	820
Total collateral	**2 786 239**	**4 181 467**	**1017 379**	**66 343**	**8 051 428**

As at 31 December 2010, loans to customers in the amount of RUR 4 654 451 thousand or 49% of total loans to customers are not secured (2009: RUR 2 246 959 тысяч thousand or 45,1% of total loans to customers).

As at 31 December 2010, past due unimpaired loans are not collateralized.

(in thousands of Russian Roubles)

Below is the information on the collateral held as security of individually impaired loans as at 31 December 2010:

	Corporate loans
Individually impaired loans	
Sureties	3 548 134
Immovable property	665 290
Own securities	566 526
Goods for sale	164 104
Other collateral	150 000
Motor vehicles	99 881
Equipment	89 997
Total collateral for individually impaired loans	**5 283 932**

Below is the information on the collateral held as security of past due unimpaired loans and individually impaired loans as at 31 December 2009:

	Corporate loans
Past due unimpaired loans	
Immovable property	
Sureties	257 319
Total collateral for past due unimpaired loans	465 000
Individually impaired loans	
Goods for sale	722 319
Total collateral for individually impaired loans	
Past due unimpaired loans	
Immovable property	
Sureties	324 189
Total collateral for past due unimpaired loans	**324 189**

9. Financial Assets Available for Sale

	2009
Corporate debt securities	
- Promissory notes	673 019
Corporate equity securities	
- Corporate shares	10 492
Total financial assets available for sale	**683 511**

Promissory notes in the Bank's portfolio are represented by RUR-denominated securities issued by Russian banks. As at 31 December 2009, promissory notes in the Bank's portfolio have maturity dates from January to June 2011 and yield to maturity from 2.03% to 12.80%.

Corporate shares are represented by shares of OJSC Sberbank (Savings Bank of the Russian Federation).

(in thousands of Russian Roubles)

Below is the credit quality analysis of debt securities included within financial assets available for sale as at 31 December 2009 in accordance with the ratings of international agencies:

	Fitch	Moody's	S&P	Итого
Corporate debt securities				
- Promissory notes				
OJSC Binbank	Withdrawn	B2	B-	94 011
CJSC GLOBEXBANK	BB	-	BB-	48 560
OJSC MDM Bank	BB-	Ba1	B+	95 884
OJSC MOSCOW CREDIT BANK	B	B1	-	191 448
OJSC Promsvyazbank	B+	Ba2	B	49 308
OJSC UralSib	-	-	-	97 204
OJSC Khanty-Mansiysk Bank	-	Ba3	B+	96 604
Total debt securities available for sale				**673 019**

Below is the information on movements in the portfolio of financial assets available for sale:

	2010	2009
Carrying value as at 1 January	**683 511**	**2 892**
Gains less losses on revaluation at fair value	-	7 600
Acquisition of financial assets available f`or sale	-	1 183 078
Disposal of financial assets available for sale	(679 576)	(513 994)
Accrued interest income	6 952	8 117
Interest received	(10 887)	(4 182)
Carrying value as at 31 December	-	**683 511**

10. Investments in Subsidiaries

	2009
Investments in subsidiaries	600
Total investments in subsidiaries	**600**

The Bank did not make a provision of impairment of investments in subsidiaries during 2009.

Below is the information on change in the carrying value of investments in the non-consolidated subsidiaries and associated companies:

	2010	2009
Carrying value as at 1 January	**600**	**600**
Acquisition of subsidiaries and associated companies	30	-
Disposal of subsidiaries and associated companies	(630)	-
Carrying value as at 31 December	-	**600**

Investments in subsidiaries comprise investments in the share capital of LLC REB Leasing in the amount of RUR 600 thousand making up 100 % of the subsidiary's share capital and LLC Krast Master making up 100 % of the subsidiary's share capital.

On 6 December 2010 the subsidiaries were sold.

Below is the analysis of movements in the provision for impairment of investments in subsidiaries:

	2010	2009
Provision for impairment of investments in subsidiaries as at 1 January	-	**83**
(Recovery of provision)/provision for impairment of investments in	-	(83)
Provision for impairment of investments in subsidiaries as at 31 December	-	-

(in thousands of Russian Roubles)

11. Premises and Equipment

	Land	Buildings	Motor vehicles	Office and computer equipment	Furniture	Leasehold improvements	Construction in progress	Total
Net book value as at 31 December 2009	**31 400**	**150 530**	**1 284**	**17 218**	**1 519**	**2 615**	**4 992**	**209 558**
Cost								
Balance as at 1 January 2010	31 400	150 530	4 860	42 098	4 071	3 285	4 992	241 236
Additions	-	743 174	1 398	29 331	709	-	26 624	801 236
Disposals	-	(744)	-	(428)	-	-	-	(1 172)
Accumulated depreciation eliminated on revaluation	-	(11 393)	-	-	-	-	-	(11 393)
Revaluation	(13 148)	482 941	-	-	-	-	-	469 793
Balance as at 31 December 2010	**18 252**	**1 364 508**	**6 258**	**71 001**	**4 780**	**3 285**	**31 616**	**1 499 700**
Accumulated depreciation								
Balance as at 1 January 2009	-	-	3 576	24 880	2 552	670	-	31 678
Depreciation charge	-	11 405	1 205	10 254	549	274	-	23 687
Disposals	-	(12)		(140)			-	(152)
Accumulated depreciation eliminated on revaluation	-	(11 393)	-	-	-	-	-	(11 393)
Balance as at 31 December 2010	**-**	**-**	**4 781**	**34 994**	**3 101**	**944**	**-**	**43 820**
Net book value as at 31 December 2010	**18 252**	**1 364 508**	**1 477**	**36 007**	**1 679**	**2 341**	**31 616**	**1 455 880**

(in thousands of Russian Roubles)

	Land	Buildings	Motor vehicles	Office and computer equipment	Furniture	Leasehold improve-ments	Construc-tion in progress	Total
Net book value as at 31 December 2008	**150**	**94 050**	**2 257**	**20 267**	**1 811**	**7 643**	**-**	**126 178**
Cost								
Balance as at 1 January 2009	150	94 050	4 860	38 674	3 465	8 306	-	149 505
Transfers between categories	-	-	-	29	-	(5 021)	4 992	-
Additions	2 703	44 289	-	3 463	606	-	-	51 061
Disposals	-	-	-	(68)	-	-	-	(68)
Accumulated depreciation eliminated on revaluation	-	(2 100)	-		-	-	-	(2 100)
Revaluation	28 547	14 291	-	-	-	-	-	42 838
Balance as at 31 December 2009	**31 400**	**150 530**	**4 860**	**42 098**	**4 071**	**3 285**	**4 992**	**241 236**
Accumulated depreciation								
Balance as at 1 January 2009	-	-	2 603	18 407	1 654	663	-	23 327
Depreciation charge	-	2 100	973	6 488	898	31	-	10 490
Disposals	-	-	-	(39)	-	-	-	(39)
Transfers between categories	-	-	-	24	-	(24)	-	-
Accumulated depreciation eliminated on revaluation	-	(2 100)	-	-	-	-	-	(2 100)
Balance as at 31 December 2009	**-**	**-**	**3 576**	**24 880**	**2 552**	**670**	**-**	**31 678**
Net book value as at 31 December 2009	**31 400**	**150 530**	**1 284**	**17 218**	**1 519**	**2 615**	**4 992**	**209 558**

Construction in progress represents investments in construction and renovation of the premises. As soon as this work is completed these assets are recorded within the appropriate category of premises and equipment.

The Bank's land and buildings were appraised by the independent appraisers LLC Expert Centre Yug and LLC BSG-Consulting Group as at 31 December 2010 on the basis of the market value. The net book value of the land and buildings includes RUR 560 511 thousand (2009: RUR 90 769 thousand) representing surplus on revaluation of the Bank's buildings.

In 2010 the Bank acquired the buildings at the following address: 30, bldgs 1, 2, 3, Podsosensky Per., Moscow. The cost of these premises at the date of acquisition was RUR 629 820 thousand and their revalued amount as at 31 December 2010 was RUR 1 206 940 thousand.

As at 31 December 2010, total deferred tax liability in the amount of RUR 112 103 thousand (2009: RUR 18 154 thousand) was calculated in respect of this revaluation of the land and buildings at fair value and charged to revaluation reserve for premises and equipment in accordance with IAS 16 (Note 23).

(in thousands of Russian Roubles)

If the land and buildings were measured using the cost model, the net book value would include:

	2010	2009
Cost	722 776	90 408
Accumulated depreciation and impairment	(11 419)	(1 222)
Net book value	**711 357**	**89 186**

12. Other Assets

	2010	2009
Settlements on conversion transactions	103 989	11 171
Property received under agreement on compensation for release from obligations	27 856	-
Accounts receivable	17 633	6 053
Advance payments	16 405	18 147
Plastic card settlements	1 475	1 386
Prepaid taxes (other than income tax)	1 383	-
Receivables on transactions in securities	77	77
Other	2 189	2 854
Less: provision for impairment of other assets	(12 127)	(7 402)
Total other assets	**158 880**	**32 286**

Property received for non-payment under agreement on compensation for release from obligation comprises property items gained by the Bank during the settlement of loans past due. The Bank wishes to sell these assets.

The analysis of changes in the provision for impairment of other assets during 2010 and 2009 is presented below:

	Accounts receivable	Other	Total
Provision for impairment of other assets as at 1 January 2009	**10 042**	**-**	**10 042**
Provision/(recovery of provision) for impairment during 2009	(4 198)	1 601	(2 597)
Assets written off during 2009 as uncollectible	-	(43)	(43)
Provision for impairment of other assets as at 31 December 2009	**5 844**	**1 558**	**7 402**
Provision for impairment during 2010	5 572	1 950	7 522
Assets written off during 2010 as uncollectible	-	(2 797)	(2 797)
Provision for impairment of other assets as at 31 December 2010	**11 416**	**711**	**12 127**

The credit quality analysis of the financial assets classified as other assets as at 31 December 2010 is as follows:

	Current and unimpaired	Collectively impaired	Total
Settlements on conversion transactions	103 989	-	103 989
Accounts receivable	6 217	11 416	17 633
Plastic card settlements	1 475	-	1 475
Less: provision for impairment of other assets	-	(11 416)	(11 416)
Total financial assets classified as other assets	**111 681**	**-**	**111 681**

(in thousands of Russian Roubles)

Analysis of impairment of financial assets classified as other assets at 31 December 2010 is as follows:

	Current	Past due				Total
		Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	
Receivables	-	331	86	5 903	5 096	11 416
Less: provision for impairment of other assets	-	(331)	(86)	(5 903)	(5 096)	(11 416)
Total financial assets classified as other assets	-	-	-	-	-	-

The credit quality analysis of impairment of financial assets classified as other assets at 31 December 2009 is as follows:

	Current and unimpaired	Collectively impaired	Total
Settlements on conversion transactions	11 171	-	11 171
Accounts receivable	131	5 922	6 053
Plastic card settlements	1 386	-	1 386
Less: provision for impairment of other assets	-	(5 844)	(5 844)
Total financial assets classified as other assets	**12 688**	**78**	**12 766**

Analysis of impairment of financial assets classified by maturity as other assets at 31 December 2009 is presented below:

	Current	Past due				Total
		Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	
Receivables	947	19	49	4	4 903	5 922
Less: provision for impairment of other assets	(934)	-	(3)	(4)	(4 903)	(5 844)
Total financial assets classified as other assets	**13**	**19**	**46**	-	-	**78**

The Bank has no collateral for impaired assets classified as other assets.

13. Due to Other Banks

	2010	2009
Loans from the CBR	-	601 644
Loans and deposits of other banks	1 343 039	167 193
Total due to other banks	**1343 039**	**768 837**

As at 31 December 2010, the Bank had cash balances with 4 counterparty banks (2009: 2 counterparty banks) exceeding 10% of the Bank's capital. The aggregate amount of these funds was RUR 1 331 795 thousand or 99.1% (2009: RUR 768 837 thousand or 100.0%) of total due to other banks.

(in thousands of Russian Roubles)

14. Customer Accounts

	2010	2009
State and municipal authorities		
– Current/settlement accounts	2 916	10 035
– Term deposits	82 201	-
Legal entities		
– Current/settlement accounts	2 220 745	1 073 948
– Term deposits	1 539 746	398 892
Individuals		
– Current /demand accounts	273 850	124 609
– Term deposits	8 563 681	4 367 336
Total customer accounts	**12 683 139**	**5 974 820**

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
	Amount	%	Amount	%
Individuals	8 837 531	69.68	4 491 945	75.18
Industry	1 409 250	11.11	53 003	0.89
Construction	742 649	5.86	155 555	2.60
Trade	624 395	4.92	516 798	8.65
Financial services	538 995	4.25	432 037	7.23
Services	360 117	2.84	243 172	4.07
Other	170 202	1.34	82 310	1.38
Total customer accounts	**12 683 139**	**100.00**	**5 974 820**	**100.00**

As at 31 December 2010, the Bank had cash balances above 10% of its capital of 5 customers (2009: 1 customer). The aggregate amount of these funds was RUR 2 077 809 thousand or 16.38% of total customer accounts (2009: RUR 277 967 thousand or 4.65% of total customer accounts).

15. Debt Securities Issued

As at 31 December 2010, debt securities issued by the Bank included discount and interest-bearing promissory notes in the amount of RUR 1 394 232 thousand (2009: RUR 897 593 thousand) with maturity dates from January 2011 to March 2012 (2009: from January 2010 to August 2011).

As at 31 December 2010, the Bank had debt securities over 10% of the Bank's capital issued to 1 customer (2009: 3 customers). The total amount of these securities is RUR 800 963 thousand or 57.45% of total debt securities issued (2009: RUR 409 239 thousand or 45.59% of total debt securities issued).

16. Other Borrowed Funds

The Bank received borrowed funds in the amount of RUR 858 529 thousand (2009: RUR 505 589 thousand) in the form of subordinated loans. Subordinated loans were raised from private commercial companies for the term of more than 5 years. According to the signed agreements, the loans cannot be claimed for early repayment, and interest on the subordinated loans is paid at the closing date of the agreements. The interest rate on the subordinated loans varies from 2% to 5% per annum.

Under subordinated loan agreements, in case of the Bank's bankruptcy the claims of the creditor that issued the subordinated loan are satisfied after meeting the claims of all other creditors.

Creditors of the Bank that extended subordinated loans to the Bank are related parties of the Bank (with the exception of LLC Atlantis-TM and LLC Geo-Nadir which are not related parties of the Bank).

(in thousands of Russian Roubles)

17. Other Liabilities

	Note	2010	2009
Payables to employees		21 468	11 917
Payables		13 198	5 028
Other taxes payable (other than income tax)		11 173	2 288
Provision for credit related commitments	27	8 418	-
Other		1 891	2 455
Total other liabilities		**56 148**	**21 688**

18. Share Capital and Share Premium

Authorised, issued and fully paid share capital comprises:

	2010			2009		
	Number of shares	Nominal value	Inflation adjusted amount	Number of shares	Nominal value	Inflation adjusted amount
Ordinary shares	69 900 000	699 000	1 061 382	9 900 000	99 000	461 382
Total share capital	**69 900 000**	**699 000**	**1 061 382**	**9 900 000**	**99 000**	**461 382**

The nominal value of each ordinary share is RUR 10. Each share gives the right of one vote.

In 2010 the Bank placed the 15th additional share issue (the Report on the results of additional share issue was registered by the CBR on 13 November 2010). As a result of placement of the additional 15th issue, the Bank's equity increased by RUR 600 000 thousand: through share capital by RUR 600 000 thousand and through share premium by RUR 0 thousand.

Share premium represents the excess of contributions over the nominal value of the shares issued. As at 31 December 2010, the share premium amounted to RUR 392 000 thousand (2009: RUR 392 000 thousand).

19. Retained Earnings according to Russian Legislation

According to the Russian legislation, only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed among the Bank's shareholders. As at 31 December 2010, the Bank's retained earnings amounted to RUR 224 220 thousand (2009: RUR 164 349 thousand), including the profit of the reporting year in the amount of RUR 59 871 thousand (2009: RUR 49 993 thousand).

Equity reflected in the Bank's statutory records includes a reserve fund in the amount of RUR 14 850 thousand (2009: RUR 14 850 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general risks, including future losses and other unforeseen risks or contingent liabilities.

(in thousands of Russian Roubles)

20. Interest income and expense

	2010	2009
Interest income		
Loans to customers	1 219 134	754 460
Due from other banks	58 624	24 260
Financial assets available for sale	6 952	8 117
Financial assets at fair value through profit or loss	212 414	2 399
Correspondent accounts with other banks	1 090	680
Total interest income	**1 498 214**	**789 916**
Interest expense		
Term deposits of individuals	834 780	303 828
Debt securities issued	35 861	56 423
Other borrowed funds	42 940	11 384
Term deposits of legal entities	40 446	9 151
Due to other banks	26 608	7 557
Current/settlement accounts	8 207	811
Total interest expense	**988 842**	**389 154**
Net interest income	**509 372**	**400 762**

21. Fee and Commission Income and Expense

	2010	2009
Fee and commission income		
Commission on cash and settlement transactions	88 748	47 658
Commission on guarantees issued	42 288	27 403
Commission for currency control agent's functions	6 961	9 956
Commission for foreign currency transactions	8 933	7 990
Commission for opening of accounts	4 097	4 675
Commission for plastic card transactions	125	60
Other	1 458	1 350
Total fee and commission income	**152 610**	**99 092**
Fee and commission expense		
Commission on cash and settlement transactions	3 661	2 795
Commission for foreign currency transactions	1 495	1 001
Commission for plastic cards transactions	2 946	667
Commission on cash collection	1 860	-
Commission paid to counterparty banks for transactions in securities	410	-
Other	1 667	1 512
Total fee and commission expense	**12 039**	**5 975**
Net fee and commission income	**140 571**	**93 117**

22. Operating Expenses

	Note	2010	2009
Staff costs		363 900	163 883
Administrative expenses		108 457	36 612
Rent expenses		78 777	46 783
Advertising and marketing		66 502	36 153
Taxes (other than income tax)		48 898	18 854
Professional services (security, communications and other)		35 832	32 169
Depreciation of premises and equipment	11	23 687	10 490
Other		9 528	7 480
Total operating expenses		**735 581**	**352 424**

(in thousands of Russian Roubles)

23. Income Tax

Income tax expense comprises the following:

	2010	2009
Current income tax expense	29 262	15 731
Deferred taxation movement due to origination and reversal of temporary differences	65 192	629
Less: deferred taxation charged directly to:		
- other comprehensive income	(93 858)	(8 669)
- equity	10	-
Income tax (recovery)/ expense for the year	**606**	**7 691**

The current tax rate applicable to the majority of the Bank's profit is 20% (2009: 20%).

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2010	2009
IFRS profit before taxation	**2 337**	**28 386**
Theoretical tax charge at the applicable statutory rate (2010: 20%; 2009: 20%)	468	5 677
Income on government securities taxed at the rate of 15%	(1 010)	(23)
Non-deductible expenses less non-taxable income	1 148	2 037
Income tax expense for the year	606	7 691

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank profits tax purposes.

	2010	Movement	2009
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers	18 899	18 899	-
Provision for impairment of guarantees for other assets	4 109	561	3 548
Other liabilities	4 294	1 992	2 302
Loans to customers	-	(2 332)	2 332
Financial assets available for sale	-	(794)	794
Debt securities issued	1 906	1 169	737
Revaluation of financial assets at fair value through profit or loss	-	(152)	152
Premises and equipment	2 004	2 004	-
Other	867	862	5
Gross deferred tax assets	**32 079**	**22 209**	**9 870**
Tax effect of taxable temporary differences			
Revaluation of premises and equipment	112 103	93 949	18 154
Revaluation of financial assets at fair value through profit or loss	14 927	14 927	-
Provision for impairment of loans to customers	-	(21 314)	21 314
Revaluation of financial assets available for sale		(101)	101
Other	35	(60)	95
Gross deferred tax liabilities	127 065	87 401	39 664
Total net deferred tax liability	**(94 986)**	**(65 192)**	**(29 794)**

(in thousands of Russian Roubles)

	2009	Movement	2008
Tax effect of deductible temporary differences			
Loans to customers	2 332	2 332	-
Financial assets available for sale	794	794	-
Debt securities issued	737	737	-
Revaluation of financial assets at fair value through profit or loss	152	115	37
Other	5 855	(929)	6 784
Gross deferred tax assets	9 870	3 049	6 821
Tax effect of taxable temporary differences			
Provision for impairment of loans to customers	21 314	(4 304)	25 618
Revaluation of premises and equipment	18 154	8 568	9 586
Revaluation of financial assets available for sale	101	101	-
Other	95	(687)	782
Gross deferred tax liabilities	39 664	3 678	35 986
Total net deferred tax liability	**(29 794)**	**(629)**	**(29 165)**

Net deferred tax liabilities is the amount of income taxes payable in future periods in respect of taxable temporary differences.

As at 31 December 2010, the total deferred tax liability of RUR 112 103 thousand (2009: RUR 18 154 thousand) was calculated in respect of positive revaluation of buildings at fair value and recorded within revaluation reserve for premises and equipment (Note 11).

24. Components of Comprehensive Income

	2010	2009
Financial assets available for sale		
Revaluation at fair value of financial assets available for sale	(505)	505
Gains less losses from revaluation of financial assets available for sale	**(505)**	**505**
Revaluation of premises and equipment		
Revaluation of premises and equipment (Note 11)	469 793	42 838
Effect from revaluation of premises and equipment	**469 793**	**42 838**
Financial assets available for sale	101	(101)
Revaluation of premises and equipment	(93 959)	(8 568)
Income tax relating to components of comprehensive income	**(93 858)**	**(8 669)**
Other comprehensive income after taxation	**375 430**	**34 674**

25. Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of related borrowers. Such risks are monitored on a regular basis and limits are reviewed at least annually. Limits on the level of credit risk by products, borrowers and groups of borrowers are approved by the Credit Committee and Executive Board of the Bank.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on-and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of the existing and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also mitigated by the Bank by obtaining collateral in the form of property and securities, and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the statement of financial position. Possibility to offset similar claims (for example, use of the Bank's own promissory notes by third parties as collateral against loans provided by the Bank to these third parties) substantially reduces potential credit risk. Such loans as at 31 December 2010 total RUR 943 514 thousand. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities (Note 27).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established transaction approvals, risk control limits and monitoring procedures.

The Bank performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 7 and 8.

The Bank is exposed to early redemption risk as a result of lending at fixed or variable interest rates. The financial result and the Bank's equity for the current year and at the reporting date would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost, whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

Market risk. The Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for the risk accepted.

The market risk is assessed by the Bank in accordance with the requirements of CBR Regulation No. 313-P of 14 November 2007 "On procedure of market risk calculation by credit institutions" (as amended by CBR Instructions No. 2321-U of 03.11.2009 and No. 2524-U of 17.11.2010).

(in thousands of Russian Roubles)

Geographical risk.

The geographical concentration of the Bank's assets and liabilities as at 31 December 2010 is set out below:

	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	2 997 720	15 274	5	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	222 297			222 297
Financial assets at fair value through profit or loss	4 037 877	344 750	-	4 382 627
Loans to customers	8 926 059	120 999		9 047 058
Premises and equipment	1 455 880	-	-	1 455 880
Other assets	158 880	-	-	158 880
Total assets	**17 798 713**	**481 023**	**5**	**18 279 741**
Liabilities				
Due to other banks	1 343 039			1 343 039
Customer accounts	12 627 189	8 093	47 857	12 683 139
Debt securities issued	1 394 232	-	-	1 394 232
Other borrowed funds	858 529	-	-	858 529
Other liabilities	50 841	5 307	-	56 148
Current tax liabilities	11 357	-	-	11 357
Deferred tax liabilities	94 986	-	-	94 986
Total liabilities	**16 380 173**	**13 400**	**47 857**	**16 441 430**
Net balance sheet position	**1 418 540**	**467 623**	**(47 852)**	**1 838 311**
Credit related commitments	**1 023 355**	**-**	**-**	**1 023 355**

** OECD - The Organisation for Economic Co-operation and Development*

(in thousands of Russian Roubles)

The geographical concentration of the Bank's assets and liabilities as at 31 December 2009 is set out below:

	Russia	OECD	Other countri es	Total
Assets				
Cash and cash equivalents	1 062 528	134 369	-	1 196 897
Mandatory cash balances with the Central Bank of the Russian Federation	105 022	-	-	105 022
Financial assets at fair value through profit or loss	389 144	-	-	389 144
Due from other banks	1 843 660	-	-	1 843 660
Loans to customers	4 601 143	-	-	4 601 143
Financial assets available for sale	683 511	-	-	683 511
Investments in subsidiaries	600	-	-	600
Premises and equipment	209 558	-	-	209 558
Other assets	32 286	-	-	32 286
Total assets	**8 927 452**	**134 369**	-	**9 061 821**
Liabilities				
Due to other banks	768 837	-	-	768 837
Customer accounts	5 876 089	9 458	89 273	5 974 820
Debt securities issued	773 051	-	124 542	897 593
Other borrowed funds	505 589	-	-	505 589
Other liabilities	21 667	17	4	21 688
Current tax liabilities	2 966	-	-	2 966
Deferred tax liabilities	29 794	-	-	29 794
Total liabilities	**7 977 993**	**9 475**	**213 819**	**8 201 287**
Net balance sheet position	**949 459**	**124 894**	**(213 819)**	**860 534**
Credit related commitments	**295 680**	-	-	**295 680**

(in thousands of Russian Roubles)

Currency risk. The Bank takes on exposure to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2010.

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	2 847 938	90 528	73 769	764	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	222 297	-	-	-	222 297
Financial assets at fair value through profit or loss	4 037 877	344 750	-	-	4 382 627
Loans to customers	6 986 978	1 374 710	685 370	-	9 047 058
Premises and equipment	1 455 880	-	-	-	1 455 880
Other assets	157 877	359	644	-	158 880
Total assets	**15 708 847**	**1 810 347**	**759 783**	**764**	**18 279 741**
Liabilities					
Due to other banks	1 343 039	-	-	-	1 343 039
Customer accounts	10 994 936	816 297	871 903	3	12 683 139
Debt securities issued	227 674	1 162 525	4 033	-	1 394 232
Other borrowed funds	858 529	-	-	-	858 529
Other liabilities	55 803	307	38	-	56 148
Current tax liabilities	11 357	-	-	-	11 357
Deferred tax liabilities	94 986	-	-	-	94 986
Total liabilities	**13 586 324**	**1 979 129**	**875 974**	**3**	**16 441 430**
Net balance sheet position	**2 122 523**	**(168 782)**	**(116 191)**	**761**	**1 838 311**
Off-balance sheet position	**(106 737)**	**64 611**	**44 366**	**-**	**2 240**
Net balance sheet and off-balance sheet position	**2 015 786**	**(104 171)**	**(71 825)**	**761**	**1 840 551**
Credit related commitments	**1 004 720**	**18 427**	**208**	**-**	**1 023 355**

(in thousands of Russian Roubles)

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

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	932 687	87 661	175 746	803	1 196 897
Mandatory cash balances with the Central Bank of the Russian Federation	105 022	-	-	-	105 022
Financial assets at fair value through profit or loss	389 144	-	-	-	389 144
Due from other banks	1 843 660	-	-	-	1 843 660
Loans to customers	3 112 983	910 608	577 552	-	4 601 143
Financial assets available for sale	683 511	-	-	-	683 511
Investments in subsidiaries	600	-	-	-	600
Premises and equipment	209 558	-	-	-	209 558
Other assets	31 586	258	442	-	32 286
Total assets	**7 308 751**	**998 527**	**753 740**	**803**	**9 061 821**
Liabilities					
Due to other banks	768 837	-	-	-	768 837
Customer accounts	4 677 786	545 086	751 947	1	5 974 820
Debt securities issued	340 827	510 757	46 009	-	897 593
Other borrowed funds	505 589	-	-	-	505 589
Other liabilities	21 674	-	14	-	21 688
Current tax liabilities	2 966	-	-	-	2 966
Deferred tax liabilities	29 794	-	-	-	29 794
Total liabilities	**6 347 473**	**1 055 843**	**797 970**	**1**	**8 201 287**
Net balance sheet position	**961 278**	**(57 316)**	**(44 230)**	**802**	**860 534**
Off-balance sheet position	**(5 863)**	**-**	**5 857**	**-**	**(6)**
Net balance sheet and off-balance sheet position	**955 415**	**(57 316)**	**(38 373)**	**802**	**860 528**
Credit related commitments	**295 173**	**507**	**-**	**-**	**295 680**

The Bank extended loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations for December 2010.

	2010	
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 4%	(6 751)	(5 401)
USD depreciation by 4%	6 751	5 401
EUR appreciation by 5%	(5 810)	(4 648)
EUR depreciation by 5%	5 810	4 648

(in thousands of Russian Roubles)

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at 31 December 2009 if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations for December 2009.

		2009
	Effect on profit before taxation	Effect on equity
USD appreciation by 6%	(3 439)	(2 751)
USD depreciation by 6%	3 439	2 751
EUR appreciation by 7%	(3 096)	(2 477)
EUR depreciation by 7%	3 096	2 477

The risk was calculated only for cash balances in currencies other than the Bank's functional currency. The impact of changes in other currencies on the Bank's profit and equity is not material.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivative financial instruments. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The liquidity risk is managed by the Treasury Department of the Bank.

The Bank is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Bank is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. The minimum admissible value of H2 is set at 15%. As at 31 December 2010, this ratio was 90.3% (2009: 88.3%) (unaudited as at 31 December 2010).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. The minimum admissible value of H3 is set at 50%. As at 31 December 2010, this ratio was 91.6% (2009: 142.5%) (unaudited as at 31 December 2010).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. The maximum admissible value of H4 is set at 120%. As at 31 December 2010, this ratio was 59.1% (2009: 29.4%) (unaudited as at 31 December 2010).

The Treasury Department receives information about financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, bank deposits and other interbank facilities to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows the liabilities as at 31 December 2010 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recognized in the statement of financial position as they are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rate effective at the reporting date.

(in thousands of Russian Roubles)

The table below shows the maturity analysis of financial liabilities as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1 333 510	485	595	12 617	1 347 207
Customer accounts	3 979 092	4 617 528	4 348 741	262 003	13 207 364
Debt securities issued	1 048 869	144 064	211 613	6 607	1 411 153
Other borrowed funds	-	-	-	1 396 976	1 396 976
Total potential future payments under financial liabilities	**6 361 471**	**4 762 077**	**4 560 949**	**1 678 203**	**17 362 700**

The table below shows the maturity analysis of financial liabilities as at 31 December 2009:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	607 192	147	16 939	199 635	823 913
Customer accounts	1 696 007	1 950 813	2 630 160	65 901	6 342 881
Debt securities issued	585 470	153 884	-	189 192	928 546
Other borrowed funds	-	-	-	952 115	952 115
Total potential future payments under financial liabilities	**2 888 669**	**2 104 844**	**2 647 099**	**1 406 843**	**9 047 455**

Customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

(in thousands of Russian Roubles)

The Bank does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Bank monitors the expected maturity limits presented in the table below as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	3 012 999	-	-	-	-	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	222 297	222 297
Financial assets at fair value through profit or loss	4 382 627	-	-	-	-	4 382 627
Loans to customers	743 257	3 508 409	2 735 007	2 060 385	-	9 047 058
Premises and equipment	-	-	-	-	1 455 880	1 455 880
Other assets	158 880	-	-	-	-	158 880
Total assets	**8 297 763**	**3 508 409**	**2 735 007**	**2 060 385**	**1 678 177**	**18 279 741**
Liabilities						
Due to other banks	1 331 795	-	-	11 244	-	1 343 039
Customer accounts	3 900 274	4 320 277	4 206 615	255 973	-	12 683 139
Debt securities issued	1 047 857	140 200	200 502	5 673	-	1 394 232
Other borrowed funds				858 529		858 529
Other liabilities	34 616	12 530	302	14	8 686	56 148
Current tax liabilities	-	11 357	-	-	-	11 357
Deferred tax liabilities	-	-	-	-	94986	94 986
Total liabilities	**6 314 542**	**4 484 364**	**4 407 419**	**1 131 433**	**103 672**	**16 441 430**
Net liquidity gap as at 31 December 2010	**1 983 221**	**(975 955)**	**(1 672 412)**	**928 952**	**1 574 505**	**1 838 311**
Cumulative liquidity gap as at 31 December 2010	**1 983 221**	**1 007 266**	**(665 146)**	**263 806**	**1 838 311**	

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis as at 31 December 2009:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1 196 897	-	-	-	-	1 196 897
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	105 022	105 022
Financial assets at fair value through profit or loss	389 144	-	-	-	-	389 144
Due from other banks	1 750 258	93 402	-	-	-	1 843 660
Loans to customers	339 977	1 860 224	1 552 462	848 480	-	4 601 143
Financial assets available for sale	48 642	624 377	-	-	10 492	683 511
Investments in subsidiaries	-	-	-	-	600	600
Premises and equipment	-	-	-	-	209 558	209 558
Other assets	18 455	7 461	5 252	1 118	-	32 286
Total assets	**3 743 373**	**2 585 464**	**1 557 714**	**849 598**	**325 672**	**9 061 821**
Liabilities						
Due to other banks	601 644	43	172	166 978	-	768 837
Customer accounts	1 693 144	1 859 799	2 370 922	50 955	-	5 974 820
Debt securities issued	585 410	149 164	-	163 019	-	897 593
Other borrowed funds	-	-	-	505 589	-	505 589
Other liabilities	21 384	118	148	38	-	21 688
Current tax liabilities	-	2 966	-	-	-	2 966
Deferred tax liabilities	-	-	-	-	29 794	29 794
Total liabilities	**2 901 582**	**2 012 090**	**2 371 242**	**886 579**	**29 794**	**8 201 287**
Net liquidity gap as at 31 December 2009	**841 791**	**573 374**	**(813 528)**	**(36 981)**	**295 878**	**860 534**
Cumulative liquidity gap as at 31 December 2009	**841 791**	**1 415 165**	**601 637**	**564 656**	**860 534**	

As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "on demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

In the opinion of the Bank's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Bank. It is unusual for the banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

(in thousands of Russian Roubles)

Liquidity requirements in respect of guarantees are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities are usually renegotiated upon mutual consent to reflect current market conditions.

The Bank's Risk Department sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored on a permanent basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2010. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	900 000	-	-	-	2 112 999	3 012 999
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	222 297	222 297
Financial assets at fair value through profit or loss	4 286 326	-	-	-	96 301	4 382 627
Loans to customers	743 257	3 508 409	2 735 007	2 060 385	-	9 047 058
Premises and equipment	-	-	-	-	1 455 880	1 455 880
Other assets	-	-	-	-	158 880	158 880
Total assets	**5 929 583**	**3 508 409**	**2 735 007**	**2 060 385**	**4 046 357**	**18 279 741**
Liabilities						
Due to other banks	1 331 794	-	-	11 245	-	1 343 039
Customer accounts	2 057 994	4 320 277	4 206 615	255 973	1 842 280	12 683 139
Debt securities issued	802 782	140 200	200 502	5 673	245 075	1 394 232
Other borrowed funds	-	-	-	858 529	-	858 529
Other liabilities	-	-	-	-	56 148	56 148
Current tax liabilities	-	-	-	-	11 357	11 357
Deferred tax liabilities	-	-	-	-	94 986	94 986
Total liabilities	**4 192 570**	**4 460 477**	**4 407 117**	**1 131 420**	**2 249 846**	**16 441 430**
Net interest rate gap as at 31 December 2010	**1 737 013**	**(952 068)**	**(1 672 110)**	**928 965**	**1 796 511**	**1 838 311**
Cumulative interest rate gap as at 31 December 2010	**1 737 013**	**784 945**	**(887 165)**	**41 800**	**1 838 311**	

(in thousands of Russian Roubles)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2009:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	440 004	-	-	-	756 893	1 196 897
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	105 022	105 022
Financial assets at fair value through profit or loss	389 144	-	-	-	-	389 144
Due from other banks	1 750 258	93 402	-	-	-	1 843 660
Loans to customers	339 977	1 860 224	1 552 462	848 480	-	4 601 143
Financial assets available for sale	48 642	624 377	-	-	10 492	683 511
Investments in subsidiaries	-	-	-	-	600	600
Premises and equipment	-	-	-	-	209 558	209 558
Other assets	-	-	-	-	32 286	32 286
Total assets	**2 968 025**	**2 578 003**	**1 552 462**	**848 480**	**1 114 851**	**9 061 821**
Liabilities						
Due to other banks	601 644	43	172	166 978	-	768 837
Customer accounts	484 552	1 859 799	2 370 922	50 955	1 208 592	5 974 820
Debt securities issued	329 077	144 628	-	163 019	260 869	897 593
Other borrowed funds	-	-	-	505 589	-	505 589
Other liabilities	-	-	-	-	21 688	21 688
Current tax liabilities	-	-	-	-	2 966	2 966
Deferred tax liabilities	-	-	-	-	29 794	29 794
Total liabilities	**1 415 273**	**2 004 470**	**2 371 094**	**886 541**	**1 523 909**	**8 201 287**
Net interest rate gap as at 31 December 2009	**1 552 752**	**573 533**	**(818 632)**	**(38 061)**	**(409 058)**	**860 534**
Cumulative interest rate gap as at 31 December 2009	**1 552 752**	**2 126 285**	**1 307 653**	**1 269 592**	**860 534**	

As at 31 December 2010 and 31 December 2009, change in interest rate would not have had a material effect on the Bank's equity as all liabilities and financial assets presented above have fixed interest rates.

(in thousands of Russian Roubles)

The Bank performs monitoring of financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Bank's key managers as at 31 December 2010 and 31 December 2009.

			2010			2009
	RUR	USD	EUR	RUR	USD	EUR
Assets						
Cash and cash equivalents	2.75	-	-	3.53%	0.75%	0.99%
Financial assets at fair value through profit or loss	13.2%	8.9%	-	7.74%	-	-
Due from other banks	-	-	-	4.52%	-	-
Loans to customers	18.5%	13.6%	15.6%	19.6%	15.8%	15.8%
Financial assets available for sale	-	-	-	4.7%	-	-
				-	-	-
Liabilities				-	-	-
Due to other banks	4.2%	-	-	12.1%	-	-
Customer accounts				-	-	-
- current and settlement accounts	-	-	-	-	-	-
- term deposits	10.5%	7.4%	7.4%	16.7%	10.9%	11.5%
Debt securities issued	3.7%	8.1%	-	9.6%	6.7%	-
Other borrowed funds	3.8%	-	-	5%	-	-

Other price risks

The Bank takes on exposure to a limited risk of changes in share prices. The Bank's Treasury Department controls and authorises transactions with equity instruments.

The table below shows the movements in the financial result and equity resulting from possible changes in share prices as at 31 December 2010, provided all other variables remain unchanged.

	Effect on profit before taxation	Effect on equity
Financial assets at fair value through profit or loss		
Price decrease by 10%	(9 630)	(7 704)
Price increase by 10%	9 630	7 704

The table below shows the movements in the financial result and equity resulting from possible changes in share prices as at 31 December 2009, provided all other variables remain unchanged.

	Effect on other comprehensive income	Effect on equity
Financial assets available for sale		
Price decrease by 10%	(1 049)	(839)
Price increase by 10%	1 049	839

26. Capital Management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation, including the requirements of the deposit insurance system, assurance of the Bank's ability to continue its operations as a going concern and maintenance of the capital base at the level required for sustaining the capital adequacy ratio at 10% as required by the CBR. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised on the basis of forecast and actual data, as well as monthly reports containing corresponding calculations that are verified and signed by the Deputy Chairman of the Executive Board and Chief Accountant of the Bank. Other capital management objectives are assessed on a daily basis.

(in thousands of Russian Roubles)

The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Russian legislation:

	2010	2009
Core capital	1 460 146	619 616
Additional capital	1 223 959	535 541
Total regulatory capital	**2 684 105**	**1 155 157**

As at 31 December 2010, the Bank's capital adequacy ratio calculated based on capital requirements established by the Central Bank of the Russian Federation was 18.1% (2009: 20.4%) (unaudited as at 31 December 2010). The minimum admissible value is set by the Central Bank of the Russian Federation at 10%.

27. Contingent Liabilities

Legal issues. In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. Based on its own estimates and internal and external professional advice, the Bank's management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional or federal authorities. Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010, the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained by controlling bodies.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2010	2009
Less than 1 year	36 285	29 365
From 1 to 5 years	85 291	31 120
Later than 5 years	88 842	-
Total operating lease commitments	**210 418**	**60 485**

Operating lease includes lease of immovable property and motor vehicles.

In 2010 the Bank did not sublease the leased immovable property to third parties. Lease expenses recognised by the Bank amounted to RUR 78 777 thousand (2009: RUR 46 783 thousand).

Credit related commitments. The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of guarantees and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. However, as there is a potential risk, a provision for credit related commitments in respect of issued guarantees is made in the statement of financial position within other liabilities depending on the customer's financial position. With respect to commitments to extend credits and undrawn credit lines the Bank is less exposed to the risk of loss since in case of impairment of loans issued, the Bank will not repay the remaining amounts. Therefore, a provision for these credit related commitments is equal to zero.

(in thousands of Russian Roubles)

Credit related commitments of the Bank are as follows:

	2010	2009
Guarantees issued	632 435	8 485
Undrawn credit lines	399 338	287 195
Less: provision for credit related commitments	(8 418)	-
Total credit related commitments	**1 023 355**	**295 680**

Movements in the provision for credit related commitments are as follows:

	2010	2009
Provision for credit related commitments as at 1 January	**-**	**246**
Provision/(recovery of provision) for credit related commitments during the year	8 418	(246)
Provision for credit related commitments as at 31 December	**8 418**	**-**

28. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value.

The major portion of the Bank's financial instruments is represented by liquid securities (bonds issued by regional and municipal authorities and Russia's major corporations, and shares of the Russian blue-chip companies) included in the Lombard list of the CBR and actively traded on the MICEX Stock Exchange. Therefore, the amounts which the Bank can obtain through sale of the available portfolio of financial instruments at fair value through profit or loss approximate the estimated values presented below.

At the same time, the estimates presented below may be below/above the amounts the Bank can obtain from the market sale of a specific available instrument, as determined by the market environment and specific risks associated with this specific instrument.

Below is the estimated fair value of the Bank's financial instruments as at 31 December 2010 and 31 December 2009.

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	3 012 999	3 012 999	1 196 897	1 196 897
Financial assets at fair value through profit or loss	4 382 627	4 382 627	389 144	389 144
Due from other banks	-	-	1 843 660	1 843 660
Loans to customers	9 047 058	9 047 058	4 601 143	4 601 143
Financial assets available for sale	-	-	683 511	683 511
Financial liabilities				
Due to other banks	1 343 039	1 343 039	768 837	768 837
Customer accounts	12 683 139	12 683 139	5 974 820	5 974 820
Debt securities issued	1 394 232	1 394 232	897 593	897 593
Other borrowed funds	858 529	858 529	505 589	505 589

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

(in thousands of Russian Roubles)

Financial instruments carried at fair value. Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the statement of financial position at their fair value. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank on the basis of results of recent sales of equity holdings in investees to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation techniques.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts, due to their short-term nature.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that the fair values of loans to customers as at 31 December 2010 and 31 December 2009 do not materially differ from the respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Due to other banks. The fair value of due to other banks maturing within 3 months approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 3 months is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Bank's management believes that fair values of due to other banks as at 31 December 2010 and 31 December 2009 do not materially differ from their respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

Customer accounts. The estimated fair value of fixed interest bearing borrowings and other borrowed funds without a quoted market price is based on discounted cash flows using interest rates for debt instruments with similar maturity. The Bank believes that fair values of customer accounts as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The estimated fair value of fixed interest bearing debt securities issued is based on discounted cash flows using money market interest rates for debt instruments with similar credit risk and remaining maturity. The fair value of debt securities actively traded on an exchange was based on their market quotations.

Other borrowed funds. The fair value of other fixed interest rate borrowings and other borrowed funds without quoted market price is based on discounted cash flows using interest rates for debt instruments with similar maturity.

Below is the fair value hierarchy of financial assets as at 31 December 2010. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 2 includes financial assets whose fair value is measured using different valuation techniques. These models are based on observable data characterizing market conditions and factors which may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined based on judgment or fair value techniques for which any significant input is not based on observable market data.

	Level 1
Financial assets at fair value through profit or loss	4 382 627

Below is the fair value hierarchy of financial assets as at 31 December 2009:

	Level 1
Financial assets at fair value through profit or loss	389 144
Financial assets available for sale	683 511

(in thousands of Russian Roubles)

29. Reconciliation of Classes of Financial Instruments with Measurement Categories

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosure" the Bank discloses different classes of financial instruments.

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2010:

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Assets			
Cash and cash equivalents	3 012 999	-	3 012 999
Financial assets at fair value through profit or loss			
- Corporate debt securities	3 666 333	-	3 666 333
- Government and municipal debt securities	619 992	-	619 992
- Corporate equity securities	96 302	-	96 302
Loans to customers			
- Corporate loans	-	6 852 067	6 852 067
- Loans to individual entrepreneurs, small and medium business	-	1 825 296	1 825 296
- Consumer loans to individuals	-	327 071	327 071
- Loans to government and municipal authorities	-	35 000	35 000
- Mortgage loans to individuals	-	7 624	7 624
Other financial assets			
- Settlements on conversion transactions	-	103 989	103 989
- Accounts receivable	-	17 633	17 633
- Plastic card settlements	-	1 475	1 475
Total financial assets	**7 395 626**	**9 170 155**	**16 565 781**
Non-financial assets			1 713 960
Total assets			**18 279 741**

(in thousands of Russian Roubles)

The table below shows reconciliation of classes of financial assets with the above measurement categories as at 31 December 2009:

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	1 196 897	-	-	1 196 897
Financial assets at fair value through profit or loss				
- Corporate debt securities	389 144	-	-	389 144
Due from other banks				
- Loans and deposits with other banks	-	1 750 258	-	1 750 258
- Promissory notes of other banks	-	93 402	-	93 402
Loans to customers				
- Corporate loans	-	3 638 913	-	3 638 913
- Loans to individual entrepreneurs, small and medium business	-	694 721	-	694 721
- Consumer loans to individuals	-	193 764	-	193 764
- Loans to government and municipal authorities	-	60 000	-	60 000
- Mortgage loans to individuals	-	13 745	-	13 745
Financial assets available for sale				
- Corporate debt securities	-	-	673 019	673 019
- Corporate equity securities	-	-	10 492	10 492
Investments in subsidiaries	-	-	600	600
Other financial assets				
- Accounts receivable	-	169	-	169
- Plastic card settlements	-	1 386	-	1 386
- Settlements on conversion transactions	-	11 171	-	11 171
Total financial assets	**1 586 041**	**6 457 529**	**684 111**	**8 727 681**
Non-financial assets				334 140
Total assets				**9 061 821**

All financial liabilities of the Bank are carried at amortised cost.

30. Related Party Transactions

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

In the normal course of business the Bank enters into transactions with its major shareholders, directors, subsidiaries and other related parties. These transactions include settlements, issuance of loans, deposit taking, issuance of guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

(in thousands of Russian Roubles)

The outstanding balances at the year end for asset transactions with related parties in 2010 are as follows:

	Directors and key management personnel	Subsidiaries	Other	Total
Loans to customers				
Loans to customers as at 1 January (gross)	14 215	90 161	174	104 550
Loans to customers issued during the year	19 561	350 671	282 984	653 216
Loans to customers repaid during the year	(25 423)	(440 832)	(4 567)	(470 822)
Loans to customers as at 31 December (gross)	**8 353**	**-**	**278 591**	**286 944**
Provision for impairment of loans to customers				
Provision for impairment of loans to customers as at 1 January	3 681	-	4	3 685
(Recovery of provision)/provision for impairment of loans to customers during the year	(2 821)	-	17 359	14 538
Provision for impairment of loans to customers as at 31 December	**860**	**-**	**17 363**	**18 223**
Loans to customers as at 1 January (less provision for impairment)	**10 534**	**90 161**	**170**	**100 865**
Loans to customers as at 31 December (less provision for impairment)	**7 493**	**-**	**261 228**	**268 721**

(in thousands of Russian Roubles)

The outstanding balances at the year end for asset transactions with related parties in 2009 are as follows:

	Directors and key management personnel	Subsidiaries	Other	Total
Loans to customers				
Loans to customers as at 1 January (gross)	21 571	132 302	6 463	160 336
Loans to customers issued during the year	11 016	15 597	272	26 885
Loans to customers repaid during the year	(18 372)	(57 738)	(6 561)	(82 671)
Loans to customers as at 31 December (gross)	**14 215**	**90 161**	**174**	**104 550**
Provision for impairment of loans to customers				
Provision for impairment of loans to customers as at 1 January	374	-	3 232	3 606
(Recovery of provision)/provision for impairment of loans to customers during the year	3 307	-	(3 228)	79
Provision for impairment of loans to customers as at 31 December	**3 681**	**-**	**4**	**3 685**
Loans to customers as at 1 January (less provision for impairment)	**21 197**	**132 302**	**3 231**	**156 730**
Loans to customers as at 31 December (less provision for impairment)	**10 534**	**90 161**	**170**	**100 865**

The outstanding balances at the year end for liability transactions with related parties in 2010 are as follows:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Customer accounts					
Customer accounts as at 1 January	81 431	20 697	89	3 463	105 680
Customer accounts received during the year	899 240	389 405	863 923	399 019	2 551 587
Customer accounts repaid during the year	(974 780)	(390 193)	(864 012)	(395 535)	(2 624 520)
Customer accounts as at 31 December	**5 891**	**19 909**	**-**	**6 947**	**32 747**

(in thousands of Russian Roubles)

	Shareholders	Companies controlled by shareholders	Total
Other borrowed funds			
Other borrowed funds as at 1 January	250 479	56 699	307 178
Other borrowed funds received during the year	150 000	160 000	310 000
Accrued interest	13 075	4 420	17 495
Other borrowed funds as at 31 December	**413 554**	**221 119**	**634 673**

The outstanding balances at the year end for liability transactions with related parties in 2009 are as follows:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Customer accounts					
Customer accounts as at 1 January	1 075	4 732	1 143	4 163	11 113
Customer accounts received during the year	692 274	514 573	94 967	51 349	1 353 163
Customer accounts repaid during the year	(611 918)	(498 608)	(96 021)	(52 049)	(1 258 596)
Customer accounts as at 31 December	**81 431**	**20 697**	**89**	**3 463**	**105 680**

	Shareholders	Companies controlled by shareholders	Total
Other borrowed funds			
Other borrowed funds as at 1 January	-	54 199	54 199
Other borrowed funds received during the year	250 000	-	250 000
Accrued interest	479	2 500	2 979
Other borrowed funds as at 31 December	**250 479**	**56 699**	**307 178**

Below are income and expense items arising from related party transactions for the year 2010:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Interest income	-	2 858	34 967	9 701	47 526
Interest expense	(15 476)	(345)	-	(462)	(16 283)
Fee and commission income	71	-	73	12	156
Operating expenses	-	-	-	(9 654)	(9 654)

(in thousands of Russian Roubles)

Below are income and expense items arising from related party transactions for the year 2009:

	Shareholders	Directors and key management personnel	Subsidiaries	Other	Total
Interest income	-	2 585	18 615	27	21 227
Interest expense	(15)	(1 033)	-	(298)	(1 346)
Fee and commission income	20	5	12	18	55

Remuneration to key management personnel in 2010 amounted to RUR 16 512 thousand (2009: RUR 11 686 thousand).

Short-term bonuses are paid in full amounts during the twelve months after the end of the period in which the respective services were provided by the management.