

**Commercial Bank**  
**“MOSKOMMERTSBANK”**  
**(Open Joint Stock Company)**

**Consolidated Financial Statements**  
For the Year Ended December 31, 2010

# COMMERCIAL BANK “MOSKOMMERTSBANK” (OJSC)

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of Commercial Bank «Moskommertsbank» (OJSC)

We have audited the accompanying consolidated financial statements of Commercial Bank "Moskommertsbank" (Open Joint Stock Company) and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.




July 07, 2011  
Moscow

# COMMERCIAL BANK "MOSKOMMERTSBANK" (OJSC)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010 (in Russian Rubles and in thousands)


	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	5, 28	3,121,767	5,063,960
Interest expense	5, 28	<u>(2,222,307)</u>	<u>(3,151,178)</u>
<b>NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>		<b>899,460</b>	<b>1,912,782</b>
Recovery of provision for impairment losses on interest bearing assets	6, 28	<u>340,884</u>	<u>(543,328)</u>
<b>NET INTEREST INCOME</b>		<b><u>1,240,344</u></b>	<b><u>1,369,454</u></b>
Net loss on financial assets and liabilities at fair value through profit or loss	7,21	(19,481)	(8,191)
Net gain on foreign exchange operations	8	57,357	273,001
Fee and commission income	9, 28	85,791	114,661
Fee and commission expense	9, 28	(18,171)	(34,464)
Other income	10	8,751	17,004
Recovery of provision for guarantees and other contingencies	6	17	34,110
Impairment of property, equipment and intangible asset	17	(12,502)	(23,872)
Decrease in impairment/(impairment) of held for sale assets	19	<u>106,234</u>	<u>(258,972)</u>
<b>NET NON-INTEREST INCOME</b>		<b>207,996</b>	<b>113,277</b>
OPERATING INCOME		1,448,340	1,482,731
OPERATING EXPENSES	11, 28	<u>(1,132,797)</u>	<u>(1,262,304)</u>
PROFIT BEFORE TAX		315,543	220,427
Income tax expense	12	<u>(63,109)</u>	<u>(50,396)</u>
<b>NET PROFIT</b>		<b><u>252,434</u></b>	<b><u>170,031</u></b>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>			
Revaluation		<u>11,990</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b><u>264,424</u></b>	<b><u>170,031</u></b>

On behalf of the Management Board:

  
Kamaletdinova E.O.  
Chairman of the Management Board

June 15, 2011  
Moscow



  
Stepin A.P.  
Chief Accountant

June 15, 2011  
Moscow


The notes on pages 8-56 form an integral part of these consolidated financial statements.

# COMMERCIAL BANK "MOSKOMMERTSBANK" (OJSC)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010 (in Russian Rubles and in thousands)

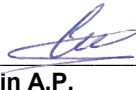
	Notes	December 31, 2010	December 31, 2009
<b>ASSETS:</b>			
Cash and balances with the Central Bank of the Russian Federation	13	1,109,588	719,388
Financial assets at fair value through profit or loss	14	2,690,303	902,677
Due from banks	15, 28	3,213,275	2,484,350
Loans to customers	16, 28	19,906,080	25,382,042
Property, equipment and intangible assets	17	197,862	262,032
Assets held for sale	19	673,145	480,947
Current income tax assets	12	37,690	39,016
Other assets	18, 28	236,048	138,535
<b>TOTAL ASSETS</b>		<b>28,063,991</b>	<b>30,408,987</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks	20, 28	12,329,614	17,774,414
Financial liabilities at fair value through profit or loss	21	326,964	308,544
Customer accounts	22, 28	7,054,208	3,093,687
Debt securities issued	23	2,971,272	4,133,968
Other provisions	6	7,199	8,316
Deferred income tax liabilities	12	1,704	2,106
Other liabilities	24, 28	61,980	55,532
Subordinated debt	25, 28	1,860,677	1,846,471
<b>TOTAL LIABILITIES</b>		<b>24,613,618</b>	<b>27,223,038</b>
<b>EQUITY:</b>			
Share capital	26	1,455,548	1,455,548
Share premium	26	694,890	694,890
Property revaluation reserve	26	11,990	-
Retained earnings	26	1,287,945	1,035,511
<b>TOTAL EQUITY</b>		<b>3,450,373</b>	<b>3,185,949</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>28,063,991</b>	<b>30,408,987</b>

On behalf of the Management Board:

  
Kamaletdinova E.O.  
Chairman of the Management Board

June 15 2011  
Moscow



  
Stepin A.P.  
Chief Accountant

June 15, 2011  
Moscow


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# COMMERCIAL BANK "MOSKOMMERTSBANK" (OJSC)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010 (in Russian Rubles and in thousands)

	Note	Share capital	Share premium	Property revaluation reserve	Retained earnings	Total equity
December 31, 2008	26	1,455,548	694,890	-	865,480	3,015,918
Total comprehensive income for the year		-	-	-	170,031	170,031
December 31, 2009	26	1,455,548	694,890	-	1,035,511	3,185,949
Total comprehensive income for the year				11,990	252,434	264,424
December 31, 2010	26	1,455,548	694,890	11,990	1,287,945	3,450,373

On behalf of the Management Board:



**Kamaletdinova E.O.**  
Chairman of the Management Board

June 15, 2011  
Moscow




**Stepin A.P.**  
Chief Accountant

June 15, 2011  
Moscow

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# COMMERCIAL BANK “MOSKOMMERTSBANK” (OJSC)

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010 (in Russian Rubles and in thousands)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009 (revised)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		315,543	220,427
Adjustments for:			
Provision for impairment losses on interest bearing assets		(340,884)	543,328
Recovery of other provisions		(17)	(34,110)
Depreciation and amortization		79,706	98,032
Change in interest accruals, net		(292,265)	(296,757)
Change of salary expenses and bonuses		(8,624)	(57,050)
Net change in fair value of financial liabilities at fair value through profit or loss		15,309	(197,542)
Losses from sale of loans to customers, property, plant and equipment and assets held for sale		40,169	25,917
Profit from disposal of fixed assets		(6,049)	(1,140)
Foreign exchange differences, net		(145)	(332,099)
		<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities		(197,257)	(30,994)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(298,762)	(150,456)
Due from banks		(36,474)	907,912
Financial assets at fair value through profit or loss		(1,766,602)	426,002
Loans to customers		5,941,667	19,692,484
Other assets		(95,397)	45,614
Increase/(decrease) in operating liabilities:			
Due to banks		(5,615,034)	(8,031,831)
Customer accounts		4,063,318	(507,660)
Other liabilities		15,046	(10,420)
		<hr/>	<hr/>
Cash inflow from operating activities before taxation		2,010,505	12,340,651
Income tax paid		(62,185)	(59,323)
		<hr/>	<hr/>
Net cash inflow from operating activities		<u>1,948,320</u>	<u>12,281,328</u>

# COMMERCIAL BANK "MOSKOMMERTSBANK" (OJSC)

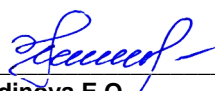
## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2010 (in Russian Rubles and in thousands)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009 (revised)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment and intangible assets		(30,331)	(19,249)
Cash received from disposal of property, plant and equipment and intangible assets		<u>15,800</u>	<u>32,150</u>
Net cash (outflow)/inflow from investing activities		(14,531)	12,901
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Debt securities issued		-	793,286
Repayment of debt securities		<u>(1,151,615)</u>	<u>(12,558,410)</u>
Net cash outflows from financing activities		<u>(1,151,615)</u>	<u>(11,765,124)</u>
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		7,211	4,293
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>789,385</u>	<u>533,398</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>13</b>	<b><u>2,108,770</u></b>	<b><u>1,575,372</u></b>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>13</b>	<b><u>2,898,155</u></b>	<b><u>2,108,770</u></b>

Interest paid and received by the Group during the year ended December 31, 2010 was RUB 2,314,537 thousand and RUB 2,921,732 thousand, respectively.

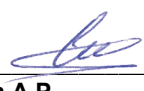
Interest paid and received by the Group during the year ended December 31, 2009 was RUB 3,358,545 thousand and RUB 4,974,570 thousand, respectively.

On behalf of the Management Board:

  
Kamaletdinova E.O.  
Chairman of the Management Board

June 15, 2011  
Moscow



  
Stepin A.P.  
Chief Accountant

June 15, 2011  
Moscow

The notes on pages 8-56 form an integral part of these consolidated financial statements.

# COMMERCIAL BANK “MOSKOMMERTSBANK” (OJSC)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

### 1. ORGANIZATION

Commercial Bank “Moskommertsbank” (OJSC) (the “Bank”) is an open joint stock company, which was incorporated in the Russian Federation on April 11, 2001. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 3365. The Bank’s primary business consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 13, 2<sup>nd</sup> Zvenigorodskaya Street, Bldg. 43, Moscow, 123022, Russian Federation.

As at December 31, 2010 the Bank had 7 branches in the Russian Federation in the following cities: St. Petersburg, Kaliningrad, Novosibirsk, Nizhniy Novgorod, Perm, Omsk, Samara.

The Bank is a parent company of a banking group (the “Group”) which consists of the following companies consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights (%)		Type of operation
		2010	2009	
Commercial bank «Moskommertsbank» (OJSC)	Russian Federation	Parent		Commercial bank
Moscow Stars B.V.	Netherlands	-	-	Special purpose entity for securitization of mortgage loans
Moscow Stars 2 B.V.	Netherlands	-	-	Special purpose entity for securitization of mortgage loans

Moscow Stars B.V. and Moscow Stars 2 B.V. were formed as limited liability companies under the laws of Netherlands on December 1, 2006 and December 2, 2007 respectively. The companies were formed for the purpose of securitization of mortgage loans originated by the Group. The activities of the subsidiaries are predetermined by the Group (the subsidiaries operate on “autopilot”). The subsidiaries are consolidated based on requirements of the Standards Interpretation Committee Pronouncement Number 12 (“SIC 12”).

As at December 31, 2010 and 2009, the following shareholders owned issued shares of the Bank:

	December 31, 2010, %	December 31, 2009, %
<b>First level shareholders:</b>		
JSC “Kazkommertsbank”	100.00	100.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The Group’s ultimate shareholder is JSC “Kazkommertsbank” (Republic of Kazakhstan). The Group has a significant concentration of operations, assets and liabilities with JSC “Kazkommertsbank” (Note 28).

These consolidated financial statements were authorized for issue by the Management Board of the Bank on June 15, 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The Management believe that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

In the end of 2010, the shareholder appointed new top management of the Group. The Russian Federation is considered by the shareholder as a priority market for future growth and as a most promising market. The board of directors of the Bank approved budget for the year 2011 and set strategic objectives for the year 2012. The budget for the year 2011 implies the change of the business model from mortgage banking to full-service banking with focus on corporate, retail, middle and small business lending operations. The share of each sector in Group’s loan portfolio will be approximately evenly distributed. As a source of financing, the Group is planning to attract deposits from individuals and legal entities, as well from financial institutions. As of date of authorization of these consolidated financial statements, deposits from individuals increased up to RUB 7 billion since 2010 year-end. The finance base has become more diversified. The management of the Group believes the diversification of financing sources will reduce the liquidity gaps. Management believes that the transition from mortgage banking to full-service banking with the shorter-period loan portfolio will enable the Group to optimize liquidity management.

The Group is planning to increase its retail portfolio by launching new products such as credit cards and consumer loans, with an average maturity of 24-36 months. Middle and small business lending operations are expected to grow through issue of loans for working capital financing and overdrafts. Average maturity of such loans will range from 6 to 30 months. As of the date of authorization of these consolidated financial statements these products has already been launched.

### Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian Rubles (“RUB thousand”), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group maintains its accounting records in accordance with Russian Accounting Standards (“RAS”). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 33.

Financial assets and financial liabilities are offset and the net amount 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

## **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## **Recognition of income and expenses**

### ***Recognition of interest income and expense***

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets 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 receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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

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

### ***Recognition of income and expense on repurchase and reverse repurchase agreements***

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

### ***Recognition of fee and commission income***

Fees, commissions and other income and expense items are recorded on an accrual basis when the service has been provided.

### ***Recognition of rental income***

The Group's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

## **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBR with original maturity within 90 days, advances to banks with original maturity within 90 days, and amounts on accounts for settlements with currency and stock exchanges with original maturity within 90 days.

The minimum reserve deposits with the CBR are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

### ***Financial instruments***

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

Financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### ***Financial assets***

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### ***Financial assets carried at fair value through profit or loss (FVTPL)***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

### ***Loans to customers and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### ***Securities repurchase and reverse repurchase agreements and lending transactions***

In the normal course of business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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

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

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans to customers and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written

off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the statement of comprehensive income/(loss).

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, the previously recognised impairment loss is reversed through the profit and loss account. The carrying value of financial assets as of the date of reversal of impairment loss cannot exceed the carrying amount, which should have been recorded if impairment had not been recognized.

### ***Renegotiated loans***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

### ***Write off of loans and advances***

Loans and advances are written off against allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

### ***Derecognition of financial assets***

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

- Rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

### ***Financial liabilities and equity instruments issued***

#### ***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### **Financial liabilities carried at fair value through profit or loss (FVTPL)**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 29.

#### **Other financial liabilities**

Financial liabilities, including deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### **Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

### ***Financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

### ***Derivatives***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 7 and 21.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in profit or loss.

### ***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

### ***Leases***

Leases are classified as finance leases whenever the contract terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### ***The Group as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### ***The Group as lessee***

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit and loss. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### ***Property and equipment***

Buildings and other real estate held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost of construction includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

It is calculated on a straight line basis at the following annual prescribed rates:

Property	3.3%
Furniture and computer equipment	20-50%
Intangible assets	10-33%
Other	20-33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### ***Impairment of tangible assets***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Assets held for sale**

Assets held for sale received by the Group through repossession of collateral comprise apartments, buildings and land plots acquired from bankrupt borrowers based on pledge agreements.

Held for sale assets are subsequently measured at the lower of its carrying amount and fair value less costs to sell. Upon sale any difference between carrying value and proceeds from sale is recognised as a gain/loss in the statement of comprehensive income.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### ***Current income tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### ***Deferred income tax***

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### ***Current and deferred tax for the year***

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### ***Operating taxes***

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

### ***Provisions***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### ***Contingencies***

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

### ***Fiduciary activities***

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

### ***Foreign currencies***

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group (the "functional currency"). The functional currency of these financial statements is the Russian Ruble.

The exchange rates used by the Group in the preparation of the financial statements as at year-end are as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
RUB/USD	30,4769	30,2442
RUB/EUR	40,3331	43,3883

### ***Collateral***

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

### **Equity reserves**

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include property and equipment revaluation reserve which reflects changes in the fair value of property and equipment.

### **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized.

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

### ***New and revised IFRSs applied with no material effect on the financial statements***

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	These amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property and equipment from ‘customers’ and concludes that when the item of property and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognize the asset at its fair value on the date of the transfer, with the credit being recognized as revenue in accordance with IAS 18 <i>Revenue</i> .
Improvements to IFRSs issued in 2009	The application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the financial statements.

### ***New and revised IFRSs in issue but not yet effective***

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets. Effective for annual periods beginning on or after July 1, 2011.
IFRS 9 (revised in 2010)	Financial instruments. Effective for annual periods beginning on or after January 1, 2013.
IAS 24 (revised in 2009)	Related Party Disclosures. Effective for annual periods beginning on or after January 1, 2011.
Amendments to IAS 32	Classification of Rights Issues. Effective for annual periods beginning on or after February 1, 2010.
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement. Effective for annual periods beginning on or after January 1, 2011.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments. Effective for annual periods beginning on or after July 1, 2010.

*Improvements to IFRSs* issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28). Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The management anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of financial assets previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit or loss.

### 3. REVISIONS

In 2010 the Group's management determined that in prior periods it inadvertently excluded unrestricted balances and deposits with non-OECD financial institutions with original maturity within 90 days from cash and cash equivalents for the purposes of the statement of cash flows. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," the consolidated statement of cash flows has been revised as detailed in the following table.

Financial statements line item	As initially reported, the year ended 31 December 2009	Amount of revision	As revised, the year ended 31 December 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
(Increase)/decrease in operating assets			
Due from banks	752,000	155,912	907,912
Net cash inflow from operating activities	<u>12,125,416</u>	<u>155,912</u>	<u>12,281,328</u>
Net increase in cash and cash equivalents	<u>377,486</u>	<u>155,912</u>	<u>533,398</u>
Cash and cash equivalents at the beginning of period	<u>1,515,540</u>	<u>59,832</u>	<u>1,575,372</u>
Cash and cash equivalents at the end of the period	<u><u>1,893,026</u></u>	<u><u>215,744</u></u>	<u><u>2,108,770</u></u>

### 4. SEGMENT REPORTING

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities.
- Investment banking – representing financial instrument trading, foreign currency transactions, raising and extending interbank loans.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding items such as taxation, share of profits of associates, gain recognized on

disposal of interest in former associate. Internal charges for items such as central administration and directors' salaries and transfer pricing adjustments have been reflected in the performance of each business. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment information about these businesses comprises:

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>All other segments</b>	<b>Total Year ended December 31, 2010</b>
Interest income	2,147,040	826,291	148,436	-	3,121,767
Interest expense	(289,432)	(107,694)	(1,825,181)	-	(2,222,307)
Recovery of provision for impairment losses on interest bearing assets	50,289	290,595	-	-	340,884
Net gain/loss on financial assets and liabilities at fair value through profit or loss	(27,390)	-	7,909	-	(19,481)
Net gain on foreign exchange operations	28,273	20,795	8,289	-	57,357
Fee and commission income	48,505	27,741	9,545	-	85,791
Fee and commission expense	(9,850)	(3,406)	(4,915)	-	(18,171)
Other income	629	7,621	-	501	8,751
Recovery of provision/(provision) for impairment losses on guarantees issued	-	1,117	-	(1,100)	17
Impairment of property, equipment and intangible asset	-	-	-	(12,502)	(12,502)
Reversal of mpairment of non- current assets held for sale	-	-	-	106,234	106,234
<b>Total operating income</b>	<u>1,948,064</u>	<u>1,063,060</u>	<u>(1,655,917)</u>	<u>93,133</u>	<u>1,448,340</u>
Operating expenses	<u>(670,337)</u>	<u>(392,077)</u>	<u>(62,416)</u>	<u>(7,967)</u>	<u>(1,132,797)</u>
Profit/(loss) before income tax	<u>1,277,727</u>	<u>670,983</u>	<u>(1,718,333)</u>	<u>85,166</u>	<u>315,543</u>
Segment assets	<u>15,903,931</u>	<u>4,331,895</u>	<u>5,573,832</u>	<u>1,383,326</u>	<u>27,192,984</u>
Corporate assets					<u>871,007</u>
<b>Total assets</b>					<u>28,063,991</u>
Segment liabilities	<u>7,747,520</u>	<u>1,970,294</u>	<u>12,964,244</u>	<u>61,980</u>	<u>22,744,038</u>
Corporate liabilities					<u>1,869,580</u>
<b>Total liabilities</b>					<u>24,613,618</u>

	Retail banking	Corporate banking	Investment banking	All other segments	Total Year ended December 31, 2009
Interest income	3,365,126	1,456,071	242,763	-	5,063,960
Interest expense	(534,247)	(118,127)	(2,498,804)	-	(3,151,178)
(Provisions)/recovery of provision for impairment losses on interest bearing assets	(824,980)	281,652	-	-	(543,328)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	198,202	-	(206,393)	-	(8,191)
Net gain/(loss) on foreign exchange operations	644,023	235,856	(562,019)	(44,859)	273,001
Fee and commission income	57,465	56,261	935	-	114,661
Fee and commission expense	(16,026)	(6,587)	(11,851)	-	(34,464)
Other income	-	-	-	17,004	17,004
Recovery of provisions for impairment losses on guarantees issued	-	34,110	-	-	34,110
Impairment of property, equipment and intangible asset	-	-	-	(23,872)	(23,872)
Impairment of non-current assets held for sale	-	-	-	(258,972)	(258,972)
<b>Total operating income</b>	<u>2,889,563</u>	<u>1,939,236</u>	<u>(3,035,369)</u>	<u>(310,699)</u>	<u>1,482,731</u>
Operating expenses	<u>662,857</u>	<u>450,906</u>	<u>59,981</u>	<u>88,560</u>	<u>1,262,304</u>
Profit/(loss) before income tax	<u>2,226,706</u>	<u>1,488,330</u>	<u>(3,095,350)</u>	<u>(399,259)</u>	<u>220,427</u>
Segment assets	<u>19,274,115</u>	<u>6,107,927</u>	<u>3,840,055</u>	<u>443,911</u>	<u>29,666,008</u>
Corporate assets					<u>742,979</u>
<b>Total assets</b>					<u><u>30,408,987</u></u>
Segment liabilities	<u>4,401,541</u>	<u>1,740,477</u>	<u>19,168,595</u>	<u>55,532</u>	<u>25,366,145</u>
Corporate liabilities					<u>1,856,893</u>
<b>Total liabilities</b>					<u><u>27,223,038</u></u>

***The geographic information comprises:***

The Group mainly operates in three geographical areas: Russian Federation (country of incorporation), OECD countries and other countries. Operation in the last two geographical areas form an immaterial part of the Group's operations.

## 5. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- Interest income on unimpaired assets	2,647,256	4,564,118
- interest income on individually impaired assets	207,294	218,946
- Interest income on assets collectively assessed for impairment	<u>124,722</u>	<u>153,819</u>
Total interest income on financial assets recorded at amortized cost	2,979,272	4,936,883
Interest income on financial assets at fair value through profit or loss	<u>142,495</u>	<u>127,077</u>
<b>Total interest income</b>	<b><u>3,121,767</u></b>	<b><u>5,063,960</u></b>
Interest income on financial assets recorded at amortized cost:		
- Interest on loans to customers	2,973,464	4,904,481
- Interest on balances due from banks	<u>5,808</u>	<u>32,402</u>
Total interest income on financial assets recorded at amortized cost	<u>2,979,272</u>	<u>4,936,883</u>
Interest income on financial assets at fair value:		
Interest on financial assets held for trading	<u>142,495</u>	<u>127,077</u>
Total interest income on financial assets at fair value through profit or loss	<u>142,495</u>	<u>127,077</u>
Interest expense on liabilities at amortized cost		
- Interest on balances due to banks	1,292,304	1,754,149
- Interest on customer accounts	397,126	222,697
- Interest on debt securities issued	350,662	984,475
- interest on subordinated debt	<u>182,215</u>	<u>189,857</u>
<b>Total interest expense</b>	<b><u>2,222,307</u></b>	<b><u>3,151,178</u></b>
<b>Net interest income before recovery of provision for impairment losses on interest bearing financial assets</b>	<b><u>899,460</u></b>	<b><u>1,912,782</u></b>

## 6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Loans and advances from banks	Loans to customers	Total
<b>December 31, 2008</b>	<b>24</b>	<b>2,324,393</b>	<b>2,324,417</b>
Provisions	-	543,328	543,328
Write off of assets	<u>-</u>	<u>(1,690)</u>	<u>(1,690)</u>
<b>December 31, 2009</b>	<b><u>24</u></b>	<b><u>2,866,031</u></b>	<b><u>2,866,055</u></b>
Recovery of provisions	-	(340,884)	(340,884)
Write off of assets	<u>-</u>	<u>(3,480)</u>	<u>(3,480)</u>
<b>December 31, 2010</b>	<b><u>24</u></b>	<b><u>2,521,667</u></b>	<b><u>2,521,691</u></b>

The movements in other allowances were as follows:

	Guarantees issued	Accounts receivable	Total
<b>December 31, 2008</b>	<b>43,010</b>	-	<b>43,010</b>
Provision (recovery of provisions)	(34,694)	584	(34,110)
Write off of assets	-	(584)	(584)
<b>December 31, 2009</b>	<b>8,316</b>	-	<b>8,316</b>
Provision (recovery of provisions)	(1,117)	1,100	(17)
Write off of assets	-	(1,100)	(1,100)
<b>December 31, 2010</b>	<b>7,199</b>	-	<b>7,199</b>

## 7. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain / (loss) on financial assets at fair value through profit or loss comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Net gain/(loss) on operations with financial liabilities designated at fair value through profit or loss	(27,390)	146,311
Net gain/(loss) on operations with financial assets classified as held for trading	7,909	(154,502)
<b>Net gain/(loss) on financial assets and liabilities held for sale includes:</b>	<b>(19,481)</b>	<b>(8,191)</b>
Total net gain/(loss) on operations with financial assets and liabilities held for trading		
Realized loss on trading operations (net)	(1,292)	(198,059)
Fair value adjustment	(18,189)	189,868
<b>Total net gain/(loss) on operations with financial assets and liabilities held for trading</b>	<b>(19,481)</b>	<b>(8,191)</b>

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

## 8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	83,227	(59,098)
Translation differences, net	(25,870)	332,099
<b>Net gain on foreign exchange operations</b>	<b>57,357</b>	<b>273,001</b>

## 9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Fee and commission income:</b>		
Settlements	28,190	37,189
Commission income received from insurance companies under agency agreements	25,626	37,727
Loan servicing fee	10,758	202
Cash transactions	6,589	10,598
Currency control	5,141	4,166
Commission from sale and purchase of pledged assets	3,759	5,432
Documentary operations	1,518	5,610
Guarantees	596	580
Loan syndication services	566	8,356
Other	3,048	4,801
	<u>85,791</u>	<u>114,661</u>
<b>Total fee and commission income</b>		
<b>Fee and commission expense:</b>		
Settlements	8,811	8,564
Debt collection	2,927	11,750
Securities operations	2,479	1,652
Guarantees	1,877	2,560
Documentary operations	-	6,098
Other	2,077	3,840
	<u>18,171</u>	<u>34,464</u>
<b>Total fee and commissions expense</b>		

## 10. OTHER INCOME

Other income comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Gain on disposal of property, equipment and intangible assets	6,049	1,140
Property rental income	2,083	5,596
Gain on disposal of held for sale assets	287	8,902
Fines and penalties received	173	601
Income on consulting and information services	-	572
Other	159	193
	<u>8,751</u>	<u>17,004</u>
<b>Total other income</b>		

## 11. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Salary and bonuses	528,510	562,649
Operating lease	145,053	172,289
Administrative costs	107,663	110,619
Depreciation and amortization	79,706	98,032
Unified social tax	71,622	72,407
Taxes, other than income tax	51,469	97,542
Professional services	37,223	52,732
Loss on sale of loans to customers	26,294	10,142
Loss on disposal of property, equipment and intangible assets	21,667	25,817
Advertising costs	21,435	6,377
Property and equipment maintenance	19,042	38,046
Business trip expenses	4,235	2,812
Loss on disposal of held for sale assets	60	-
Business development expenses	14	309
Other expenses	18,804	12,531
	<u>1,132,797</u>	<u>1,262,304</u>

## 12. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences at December 31, 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at December 31, 2010 and 2009 comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Deductible temporary differences:</b>		
Due from banks and loans to customers	190,879	-
Financial liabilities at fair value through profit or loss	326,964	308,544
Financial assets at fair value through profit or loss	62,865	-
Other assets and liabilities	-	67,696
<b>Total deductible temporary differences</b>	<u>580,708</u>	<u>376,240</u>
<b>Taxable temporary differences:</b>		
Property, equipment and intangible assets	(332,542)	(97,417)
Due from banks and loans to customers	-	(29,887)
Financial assets at fair value through profit or loss	-	(17,959)
Residential mortgage-backed securities (RMBS)	(251,082)	(240,318)
Other assets and liabilities	(444)	-
Provisions	(5,160)	(1,190)
<b>Taxable temporary differences:</b>	<u>(589,228)</u>	<u>(386,771)</u>
Net taxable temporary differences	(8,520)	(10,531)
Net deferred tax liabilities at the statutory rate (20%)	<u>(1,704)</u>	<u>(2,106)</u>
Net deferred tax liabilities at the statutory rate (20%)	<u>(1,704)</u>	<u>(2,106)</u>

Relationships between tax expenses and accounting profit for the years ended December 31, 2010 and 2009 are explained as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Profit before income tax</b>	<u>315,543</u>	<u>220,427</u>
Tax at the statutory tax rate (20%)	63,109	44,085
Tax effect of permanent differences	2,491	6,543
Effect of different tax rates	<u>(2,491)</u>	<u>(232)</u>
<b>Income tax expense</b>	<u>63,109</u>	<u>50,396</u>
Current income tax expense	63,511	48,290
Change in deferred tax liability:	<u>(402)</u>	<u>2,106</u>
<b>Income tax expense</b>	<u>63,109</u>	<u>50,396</u>

Movements in deferred tax liabilities for the years ended December 31, 2010 and 2009 are presented below:

Deferred income tax liabilities	Year ended December 31, 2010	Year ended December 31, 2009
<b>Beginning of the period</b>	2,106	-
Change for the period	<u>(402)</u>	<u>2,106</u>
<b>End of the period</b>	<u>1,704</u>	<u>2,106</u>

### 13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	December 31, 2010	December 31, 2009
Cash	315,424	266,360
Balances with the CBR	<u>794,164</u>	<u>453,028</u>
<b>Total cash and balances with the CBR</b>	<u>1,109,588</u>	<u>719,388</u>

The balances with the CBR as at December 31, 2010 and 2009 include RUB 492,449 thousand and RUB 193,687 thousand, respectively, which represents the minimum reserve deposits required by the CBR.

Cash and cash equivalents presented in the consolidated statement of cash flows comprise the following components:

	December 31, 2010	December 31, 2009
Cash and balances with the CBR	1,109,588	719,388
Due from banks	<u>2,281,016</u>	<u>1,583,069</u>
	3,390,604	2,302,457
Less minimum reserve deposits with the CBR	<u>(492,449)</u>	<u>(193,687)</u>
<b>Total cash and cash equivalents</b>	<u>2,898,155</u>	<u>2,108,770</u>

#### 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2010	December 31, 2009
Financial assets held-for-trading		
Debt securities:	2,689,221	902,677
<b>Total financial assets held for trading</b>	<b>2,689,221</b>	<b>902,677</b>
<b>Derivative financial instruments</b>	<b>1,082</b>	<b>-</b>
<b>Total financial assets recognized at fair value through profit or loss</b>	<b>2,690,303</b>	<b>902,677</b>

Financial assets at fair value through profit or loss comprise:

	Interest rate to nominal %	December 31, 2010	Interest rate to nominal %	December 31, 2009
<b>Debt securities:</b>				
Government securities	8	31,990	8	31,383
Municipal securities	9	448,726	8	44,459
Corporate securities	10	2,208,505	14	826,835
<b>Total debt securities</b>		<b>2,689,223</b>		<b>902,677</b>

#### Derivative financial instruments:

	December 31, 2010			December 31, 2009		
	Net fair value	Fair value Asset	Liability	Net fair value	Fair value Asset	Liability
Interest rate swaps	(326,964)	228,838	(555,802)	(296,260)	345,960	(642,220)
Interest rate options	-	-	-	-	-	-
Foreign currency contracts						
Swaps	1,082	236,303	(235,221)	(12,284)	1,055,389	(1,067,673)
	<b>(324,944)</b>	<b>465,141</b>	<b>(790,085)</b>	<b>(308,544)</b>	<b>1,401,349</b>	<b>(1,709,893)</b>

Derivative financial instruments include interest rate options and swaps entered into by the Group to manage fluctuations in interest rates under the Group's residential mortgage-backed securities issue.

Net loss on financial liabilities at fair value through profit or loss for the year 2010 amounts to RUB 27,390 thousand. Net gain on financial liabilities at fair value through profit or loss for the year 2009 amounts to RUB 146,311 thousand.

## 15. DUE FROM BANKS

Due from banks comprise:

	December 31, 2010	December 31, 2009
Time deposits with other banks	2,121,568	1,367,004
Loans under reverse repurchase agreements	596,574	581,453
Correspondent accounts with other banks	495,157	535,917
	<u>3,213,299</u>	<u>2,484,374</u>
Less: allowance for impairment losses	<u>(24)</u>	<u>(24)</u>
<b>Total due from banks</b>	<b><u>3,213,275</u></b>	<b><u>2,484,350</u></b>

Movements in allowances for impairment losses on balances due from banks for the years ended December 31, 2010 and 2009 are disclosed in Note 6.

As at December 31, 2010 and 2009 the Group had due from 2 and 1 banks of RUB 1,292,242 thousand and RUB 1,180,792 thousand, respectively, which individually exceeded 10% of the Group's equity.

Fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at December 31, 2010 comprise:

	December 31, 2010	
	Carrying value of loans	Fair value of collateral
Bonds of AHML, 10	150,029	174,765
Bonds of Moscow region, 26007	139,642	172,260
Bonds of Rosselkhozbank, BO-5	136,517	157,000
Bonds of Moscow region, 26007	120,381	148,500
Bonds of Rosselkhozbank, 2	50,005	55,039
	<u>596,574</u>	<u>707,564</u>
<b>Total</b>	<b><u>596,574</u></b>	<b><u>707,564</u></b>

Fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at December 31, 2009 comprise:

	December 31, 2009	
	Carrying value of loans	Fair value of collateral
Bonds of VTB, 6	108,839	128,202
Bonds of VTB, 6	95,885	112,943
Bonds of Gaspromneft, 4	95,817	113,144
State bonds of Russia, 25061	90,690	100,811
Municipal bonds of Moscow, 25059	85,829	101,078
Bonds of Tsentrtelecom, 5	43,275	15,460
Bonds of Tsentrtelecom, 5	43,275	15,460
Bonds of WBD PP, 3	17,843	21,710
	<u>581,453</u>	<u>608,808</u>
<b>Total</b>	<b><u>581,453</u></b>	<b><u>608,808</u></b>

As at December 31, 2010 and 2009 included in balances due from banks are deposits placed by the Group for its mortgage-backed securitization operations in the amount of RUB 329,746 thousand and RUB 308,461 thousand, respectively, which are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

## 16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Loans to customers	21,601,104	27,024,890
Purchased loans	674,881	1,053,109
Loans under reverse repurchase agreements	95,445	-
Net investment in finance lease	56,317	170,074
	<u>22,427,747</u>	<u>28,248,073</u>
Less: allowance for impairment losses	<u>(2,521,667)</u>	<u>(2,866,031)</u>
<b>Total loans to customers</b>	<b><u>19,906,080</u></b>	<b><u>25,382,042</u></b>

Movements in allowances for impairment losses for the years ended December 31, 2010 and 2009 are disclosed in Note 6.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	December 31, 2010	December 31, 2009
Loans collateralized by pledge of residential real estate	11,845,832	18,749,116
Loans collateralized by pledge of commercial real estate	2,804,711	2,382,933
Loans collateralized by pledge of motor vehicles	638,448	897,278
Loans collateralized by pledge of equipment	421,730	828,917
Loans collateralized by cash or RF government guarantees	104,631	18,050
Loans collateralized by pledge of corporate shares	96,358	240,548
Loans collateralized by pledge of corporate promissory notes	95,445	-
Loans collateralized by pledge of inventories	44,015	176,509
Other collateral	4,726,748	3,178,124
Unsecured loans	<u>1,649,829</u>	<u>1,776,598</u>
	<u>22,427,747</u>	<u>28,248,073</u>
Less: allowance for impairment losses	<u>(2,521,667)</u>	<u>(2,866,031)</u>
<b>Total loans to customers</b>	<b><u>19,906,080</u></b>	<b><u>25,382,042</u></b>

Impaired loans were collateralised by pledge of property, contract proceeds and securities amounting to RUB 8,357,488 thousand, RUB 6,739,615 thousand as at 31 December 2010, 2009 respectively

	December 31, 2010	December 31, 2009
<b>Analysis by sector:</b>		
Individuals	17,711,691	21,429,071
Trade	1,048,905	1,740,868
Real estate	943,179	934,133
Finance	813,472	1,465,339
Agriculture	732,778	857,835
Construction	486,354	468,443
Hotel business	147,033	165,258
Machinery construction	124,364	188,688
Transport and communications	97,747	127,510
Food	23,022	198,726
Energy	9,312	53,123
Consumer industry	-	385,756
Chemical industry	-	26,251
Mass media, culture and art	-	3,293
Mining and metallurgy	-	-
Other sectors, including	289,890	203,779
Health care	<u>25,651</u>	<u>22,718</u>
	<u>22,427,747</u>	<u>28,248,073</u>
Less: allowance for impairment losses	<u>(2,521,667)</u>	<u>(2,866,031)</u>
<b>Total loans to customers</b>	<b><u>19,906,080</u></b>	<b><u>25,382,042</u></b>

During the years ended December 31, 2010 and 2009 the Group received real estate by taking possession of collateral it held as security.

As at December 31, 2010 and 2009 such assets in the amount of RUB 673,145 thousand and RUB 480,947 thousand, respectively, are included in held for sale assets (Note 19).

Loans to individuals comprise the following products:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Mortgage loans	16,868,593	20,312,575
Car loans	625,460	858,851
Consumer loans	185,485	224,182
Other	32,153	33,463
	<u>17,711,691</u>	<u>21,429,071</u>
Less: allowance for impairment losses	<u>(2,103,951)</u>	<u>(2,154,956)</u>
<b>Total loans to individuals</b>	<b><u>15,607,740</u></b>	<b><u>19,274,115</u></b>

As at December 31, 2010 and 2009 the Group granted loans to 3 and 2 borrowers, totaling RUB 1,676,961 thousand and RUB 1,919,979 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2010 and 2009 loans to customers included loans totaling RUB 3,757,221 thousand and RUB 3,517,577 thousand, respectively, with terms renegotiated. Otherwise these loans would be past due or impaired.

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

	<b>December 31, 2010</b>			<b>December 31, 2009</b>		
	<b>Carrying value before allowance</b>	<b>Allowance for impairment losses</b>	<b>Carrying value</b>	<b>Carrying value before allowance</b>	<b>Allowance for impairment losses</b>	<b>Carrying value</b>
<b>Current loans</b>						
Unimpaired loans excluding past due loans	16,626,097	(1,461,144)	15,164,953	17,857,470	(1,356,589)	16,500,881
Loans to customers individually determined to be impaired excluding past due loans	1,547,368	(154,352)	1,393,016	2,574,575	(323,885)	2,250,690
Loans to customers collectively determined to be impaired excluding past due loans	<u>852,583</u>	<u>(61,326)</u>	<u>791,257</u>	<u>4,274,839</u>	<u>(282,098)</u>	<u>3,992,741</u>
Total current loans	<u>19,026,048</u>	<u>(1,676,822)</u>	<u>17,349,226</u>	<u>24,706,884</u>	<u>(1,962,572)</u>	<u>22,744,312</u>
<b>Past due loans</b>						
Past due loans to customers individually determined to be impaired	3,263,485	(840,723)	2,422,762	3,424,562	(891,029)	2,533,533
Past due loans to customers collectively determined to be impaired	135,442	(3,881)	131,561	109,824	(11,938)	97,886
Past due unimpaired loans	<u>2,772</u>	<u>(241)</u>	<u>2,531</u>	<u>6,803</u>	<u>(492)</u>	<u>6,311</u>
Total past due loans	<u>3,401,699</u>	<u>(844,845)</u>	<u>2,556,854</u>	<u>3,541,189</u>	<u>(903,459)</u>	<u>2,637,730</u>
<b>Total loans to customers</b>	<b><u>22,427,747</u></b>	<b><u>(2,521,667)</u></b>	<b><u>19,906,080</u></b>	<b><u>28,248,073</u></b>	<b><u>(2,866,031)</u></b>	<b><u>25,382,042</u></b>

The aging analysis of past due but not impaired loans to customers is set out in the following table:

Category	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total December 31, 2010
Past due but not impaired loans	2,772	-	-	-	-	2,772

Category	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total December 31, 2009
Past due but not impaired loans	6,803	-	-	-	-	6,803

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at December 31, 2010 are presented as follows:

	December 31, 2010	
	Carrying value of loan	Fair value of collateral
Promissory notes of Russian companies	95,445	95,445
<b>Total</b>	<b>95,445</b>	<b>95,445</b>

As at December 31, 2010 and 2009, 845 and 952 loans to customers amounted to RUB 2,559,658 thousand and RUB 2,997,780 thousand, respectively, were pledged as collateral under securitization transactions (Note 24).

As at December 31, 2010 and 2009 the Group entered into a finance lease of equipment and non-production buildings for five years period with annual interest rates from 18% to 29% as a lessor.

The components of net investment in finance lease are as follows:

	December 31, 2010	December 31, 2009
Less than 1 year	47,248	98,243
From one year to five years	14,843	71,818
Overdue payments	1,789	30,973
Minimum lease payments	63,880	201,034
Less unearned income	(9,293)	(30,960)
<b>Net investment in finance lease</b>	<b>54,587</b>	<b>170,074</b>
Short-term portion	40,391	77,653
Long-term portion	14,137	61,448
Overdue portion	1,789	30,973
<b>Net investment in finance lease</b>	<b>56,317</b>	<b>170,074</b>
Less: allowance for impairment losses	(1,126)	(3,913)
<b>Net investment in finance lease less allowance for impairment losses</b>	<b>55,191</b>	<b>166,161</b>

## 17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

	<b>Buildings and other real estate</b>	<b>Furniture and equipment</b>	<b>Capital invest- ments</b>	<b>Other</b>	<b>Intangible assets</b>	<b>Total</b>
<b>At Initial/indexed cost</b>						
December 31, 2008	105,163	190,270	176,428	50,395	71,541	593,797
Additions	-	4,307	165	2,546	12,231	19,249
Impairment losses	-	-	(47,775)	-	-	(47,775)
Disposals	-	(14,272)	(30,998)	(9,652)	-	(54,922)
December 31, 2009	105,163	180,305	97,820	43,289	83,772	510,349
Additions	-	2,418	11,402	12,716	3,795	30,331
Revaluation	14,882	-	-	-	-	14,882
Impairment losses	(6,111)	-	-	-	(10,113)	(16,224)
Disposals	-	(8,099)	(2,827)	(22,712)	-	(33,638)
December 31, 2010	113,934	174,624	106,395	33,293	77,454	505,700
<b>Accumulated depreciation</b>						
December 31, 2008	6,970	84,661	67,326	12,807	24,391	196,155
Charge for the year	3,505	39,895	29,346	7,110	18,176	98,032
Impairment losses	-	-	(23,903)	-	-	(23,903)
Eliminated on disposal	-	(8,572)	(10,269)	(3,126)	-	(21,967)
December 31, 2009	10,475	115,984	62,500	16,791	42,567	248,317
Charge for the year	3,753	31,403	20,136	6,026	18,388	79,706
Impairment losses (revaluation)	-	-	-	-	(3,722)	(3,722)
Eliminated on disposal	-	(4,058)	(2,417)	(9,988)	-	(16,463)
December 31, 2010	14,228	143,329	80,219	12,829	57,233	307,838
<b>Net book amount</b>						
<b>December 31, 2010</b>	<b>99,706</b>	<b>31,295</b>	<b>26,176</b>	<b>20,464</b>	<b>20,221</b>	<b>197,862</b>
<b>December 31, 2009</b>	<b>94,688</b>	<b>64,321</b>	<b>35,320</b>	<b>26,498</b>	<b>41,205</b>	<b>262,032</b>

As at December 31, 2010 and 2009 included in property, equipment and intangible assets was fully depreciated furniture, equipment and software of RUB 97,119 thousand and RUB 29,433 thousand, respectively.

Intangible assets mainly include software with useful lives from 4 to 10 years.

## 18. OTHER ASSETS

Other assets comprise:

	December 31, 2010	December 31, 2009
Accounts receivables	138,913	50,921
<b>Total other financial assets</b>	<b>138,913</b>	<b>50,921</b>
Prepayments	63,932	43,520
Taxes, other than income tax	21,771	5,981
Other debtors	11,432	38,113
<b>Total other non-financial assets</b>	<b>97,135</b>	<b>87,614</b>
<b>Total other assets</b>	<b>236,048</b>	<b>138,535</b>

## 19. ASSETS HELD FOR SALE

Held for sale assets comprise:

	December 31, 2010	December 31, 2009
Land plots and residential housing	455,247	320,622
Apartments	188,820	120,830
Commercial real estate	29,078	28,646
Other structures	-	10,849
<b>Total held for sale assets</b>	<b>673,145</b>	<b>480,947</b>

As at December 31, 2010 and 2009 held for sale assets comprise real estate received the Group as a result of taking possession of collateral held as security for delinquent loans. The carrying amount of repossessed assets will be recovered through sales transactions. The Group's management approved a sales plan and the Group started the process of active marketing of held for sale assets in order to sell them within 12 months starting from the date of their classification into this category.

There are circumstances beyond the Group's control that extend the period to complete the sale beyond one year, such as legal proceedings in respect of de-registering former residents from repossessed property.

Reversal of impairment losses recognized in the year 2010 in respect of held for sale assets totals RUB 106,234 thousand.

## 20. DUE TO BANKS

Due to banks comprise:

	December 31, 2010	December 31, 2009
Term deposits of banks	12,026,441	17,579,335
Correspondent accounts of other banks	303,173	195,079
Loans received under repurchase agreements	-	-
<b>Total due to banks</b>	<b>12,329,614</b>	<b>17,774,414</b>

As at December 31, 2010 and 2009 due to banks in the amounts of RUB 9,154,478 thousand (65%) borrowed from 2 banks and RUB 10,291,366 thousand (58%) borrowed from 2 banks, respectively, represents significant concentration.

## 21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31, 2010 and 2009 financial liabilities at fair value through profit or loss comprise interest rate swaps entered into by the Group to manage fluctuations in interest rates of the Group's residential mortgage-backed securities issued. The Group does not apply hedge accounting because these transactions do not meet the requirements set out in IAS 39 "Financial Instruments: Recognition and measurement" for hedge accounting.

Net loss on financial liabilities at fair value through profit or loss for the year 2010 amounts to RUB 27,390 thousand. Net gain on financial liabilities at fair value through profit or loss for the year 2009 amounts to RUB 146,311 thousand.

## 22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2010	December 31, 2009
Term deposits	6,101,563	2,105,478
Current/settlement accounts and demand deposits	<u>952,645</u>	<u>988,209</u>
<b>Total customer accounts</b>	<b><u>7,054,208</u></b>	<b><u>3,093,687</u></b>

As at December 31, 2010 and 2009 customer accounts of RUB 1,584,552 thousand (22%) and RUB 1,244,845 thousand (40%), respectively, were due to 10 customers, which represents significant concentration.

	December 31, 2010	December 31, 2009
<b>Analysis by sector:</b>		
Individuals	5,083,914	1,353,210
Trade	884,891	736,546
Foods and agriculture	306,195	323,949
Real estate	241,829	139,753
Construction	157,355	79,263
Finance	57,964	270,374
Culture and art	23,929	6,647
Transport and communications	22,814	24,132
Marketing, advertising, mass media	19,210	19,492
Chemical industry	7,598	28,045
Consumer industry	7,146	4,061
Mining and metallurgy	6,728	19,435
Health care	5,988	515
Machinery construction	4,663	3,760
Hotel business	2,873	6,989
Energy	1,396	527
Education	937	404
Other expenses	<u>218,778</u>	<u>76,585</u>
<b>Total customer accounts</b>	<b><u>7,054,208</u></b>	<b><u>3,093,687</u></b>

## 23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date month/year	Annual coupon rate, %	December 31, 2010	December 31, 2009
Residential mortgage-backed securities (RMBS)	09/2016- 04/2022	2.0131-5.5103%	2,337,580	2,752,071
Interest-bearing promissory notes	02/2008- 01/2013	7.00-14.50%	532,239	1,341,159
Discounted promissory notes	11/2008- 03/2010	3.4910-9.0044%	101,453	29,120
Ruble-denominated bonds	-	-	-	11,618
<b>Total debt securities issued</b>			<b>2,971,272</b>	<b>4,133,968</b>

In July 2007 the Group issued RMBS (Class A, B, C) that mature on December 15, 2034, bear interest rate equal to one month LIBOR plus 1.75%, one month LIBOR plus 5.25% and fixed rate of 7%, respectively, payable monthly. The RMBS are denominated in US dollars. The RMBS are secured by the Group's mortgage loans (Note 16).

In 2010 the Group repurchased its own issued debt securities traded in the Russian stock market for RUB 11,320 thousand. In 2009 the Group also repurchased its own issued debt securities traded in the Russian stock market for RUB 4,993,681 thousand.

## 24. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2010	December 31, 2009
Accrued staff costs	20,221	28,845
Other accounts payable	7,433	12,062
<b>Total other financial liabilities</b>	<b>27,654</b>	<b>40,907</b>
Taxes payable, other than income tax	33,447	13,701
Other accounts payable	879	924
<b>Total other non-financial liabilities</b>	<b>34,326</b>	<b>14,625</b>
<b>Total other liabilities</b>	<b>61,980</b>	<b>55,532</b>

## 25. SUBORDINATED DEBT

	Foreign currencies	Maturity date	Interest rate, %	December 31, 2010	December 31, 2009
Subordinated debt received from JSC "Kazkommertsbank"	U.S. Dollar	19/04/2017	10%	1,243,457	1,233,964
Subordinated debt received from JSC "Kazkommertsbank"	U.S. Dollar	15/05/2016	10%	617,220	612,507
<b>Total subordinated debt</b>				<b>1,860,677</b>	<b>1,846,471</b>

In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group's liabilities to all other creditors.

## 26. SHARE CAPITAL

As at December 31, 2010 and 2009 the share capital authorized, issued and fully paid amounted to RUB 1,455,548 thousand.

Share premium is the amount by which the contributions to the share capital from the shareholders exceeded the authorized share capital. As at December 31, 2010 and 2009 the Group's share premium amounted to RUB 694,890 thousand.

The Group's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. As at December 31, 2010 and 2009 non-distributable reserves in the amount of RUB 930,411 thousand, RUB 1,197,753 thousand, respectively, are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Group's statute that provides for the creation of a reserve for these purposes of not less than 15% of the Group's share capital reported in statutory books.

## 27. COMMITMENTS AND CONTINGENCIES

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

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

Provision for losses on contingent liabilities totaled RUB 7,199 thousand and RUB 8,316 thousand as at December 31, 2010 and 2009, respectively.

Movements in allowances for losses on guarantees issued and other loan commitments for the years ended December 31, 2010 and 2009 are disclosed in Note 6.

As at December 31, 2010 and 2009 contingent liabilities comprise:

	December 31, 2010	December 31, 2009
<b>Contingent liabilities and credit commitments</b>		
Guarantees issued and other commitments	210,132	155,997
Commitments on loans and unused credit lines	84,930	325,798
Letters of credit and other transaction related contingent obligations	-	-
<b>Total contingent liabilities and credit commitments</b>	<b>295,062</b>	<b>481,795</b>

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

**Operating lease commitments** – Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases of office buildings are as follows:

	December 31, 2010	December 31, 2009
Less than 1 year	41,820	73,552
Later than 1 year and not later than 5 years	10,737	66,798
<b>Total operating lease</b>	<b>52,557</b>	<b>140,350</b>

**Fiduciary activities** – The Group provides depository services to its customers. As at December 31, 2010 and 2009, the Group had customer securities totaling 25,479 items and 936,291 items, respectively, in its nominal holder accounts.

**Legal proceedings** – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

**Taxation** – Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, occur with regard to tax treatment of financial instruments / derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Besides, in accordance with clarifications of courts, reviews may cover longer periods where the judicial authorities rule that the audit by the tax authorities was impeded.

**Operating environment** – The Group’s principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group’s assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and Russia’s economy in general.

Laws and regulations affecting businesses in Russian Federation continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has receded and Russian economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Russia is facing a relatively high level of inflation (according to the government’s statistical data consumer price inflation for the years ended December 31, 2010 and 2009 was 8.8% and 9.0%, respectively).

## 28. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	December 31, 2010		December 31, 2009	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Due from banks, gross		3,213,299		2,484,374
- entity with joint control over or significant influence on the Group	13,213		11,294	
- entities under common control	1		40	
Loans to customers, gross		22,427,747		28,248,073
- entities under common control	-		1,220,895	
- key management personnel of the Group	4,096		-	
Allowance for impairment of loans to customers		2,521,667		2,866,031
- entities under common control	-		64,258	
- key management personnel of the Group	1,993			
Other assets		236,048		138,535
- entity with joint control over or significant influence on the Group	-		2,223	
- key management personnel of the Group	-		-	
Due to banks		12,329,614		17,774,414
- entity with joint control over or significant influence on the Group	2,302,922		193,383	
- entities under common control	1,341		1,054	
Customer accounts		7,054,208		3,093,687
- entity with joint control over or significant influence on the Group	-		-	
- key management personnel of the Group	3,643		355	
- entities under common control	-		7,303	
Other liabilities		61,980		55,532
- entity with joint control over or significant influence on the Group	-		-	
Subordinated debt		1,860,677		1,846,471
- entity with joint control over or significant influence on the Group	1,860,677		1,846,471	
Commitments on loans and unused credit lines		84,930		325,798
- key management personnel of the Group	-		300	
Guarantees issued, letters of credit and other transactions related to contingent obligations		210,132		155,997
- entity with joint control over or significant influence on the Group	138,020		125,755	

Included in the consolidated statement of comprehensive income for the years ended December 31, 2010 and 2009 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Interest income		3,121,767		5,063,960
- entities under common control	-		187,322	
- key management personnel of the Group	485,897		-	
Interest expenses		2,222,307		3,151,178
- entity with joint control over or significant influence on the Group	363,221		239,665	
- key management personnel of the Group	9,778		932	
Provision for impairment losses on interest bearing assets		(340,884)		543,328
- key management personnel of the Group	1,993		-	
- entities under common control	(64,258)		64,258	
Fee and commission income		85,791		114,661
- entity with joint control over or significant influence on the Group	30,482		6,283	
- key management personnel of the Group	3,811		25	
- entities under common control	2		2,496	
Fee and commission expense		18,171		34,464
- entity with joint control over or significant influence on the Group	32,418		11,336	
- entities under common control	-		2,246	
Operating expenses		1,132,797		1,262,304
- entity with joint control over or significant influence on the Group	2,747		963	
- key management personnel of the Group	28,868		16,479	
- entities under common control	-		-	
<b>Key management personnel compensation:</b>		528,510		562,649
Short-term benefits	28,868		16,479	

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### ***Assets for which fair value approximates carrying value***

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

### ***Loans and advances to banks***

The fair value of loans and advances to banks has been estimated using the same valuation technique for financial instruments accounted for at fair value as described in the valuation techniques below.

The fair value of financial assets and liabilities compared with the corresponding carrying value in the financial statements of the Group is presented below:

	December 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the CBR	617,139	617,139	525,701	525,701
Financial assets at fair value				
through profit or loss	2,690,303	2,690,303	902,677	902,677
Due from banks	3,213,275	3,213,275	2,484,350	2,484,350
Loans to customers	19,906,080	19,906,080	25,382,042	25,382,042
Financial liabilities at fair value				
through profit or loss	326,964	326,964	308,544	308,544
Due to banks	12,329,614	12,329,614	17,774,414	17,774,414
Customer accounts	7,054,208	7,054,208	3,093,687	3,093,687

The fair value of other financial assets and other financial liabilities can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

#### ***Fair value measurements recognized in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's approach to valuation and fair value hierarchy categorization for financial instruments recognized at fair value is as follows:

	December 31, 2010		
	Quoted prices in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Cash and balances with the CBR	617,139	-	-
Financial assets at fair value through profit or loss	2,690,303	-	-
Financial liabilities at fair value through profit or loss	938	326,026	-

	Quoted prices in an active market (Level 1)	December 31, 2009 Valuation techniques using observable inputs (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Cash and balances with the CBR	525,701	-	-
Financial assets at fair value through profit or loss	902,677	-	-
Financial liabilities at fair value through profit or loss	12,284	296,260	-

### 30. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amount and ratio of its capital to total risk weighted assets at 10%.

The ratio was calculated according to the principles specified in Instruction No. 110-I issued by the CBR by applying certain risk estimates to the assets and off-balance sheet commitments net of the allowance for impairment losses.

As at December 31, 2010 and 2009 the Group's total capital amount for capital adequacy purposes was RUB 4,708,184 thousand and RUB 4,651,546 thousand with ratios of 20.31% and 18.51%, respectively.

As at December 31, 2010 and 2009, the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group's liabilities to all other creditors.

### 31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to its shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 25, and equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, contributions of its participants as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2009.

### 32. RISK MANAGEMENT POLICIES

Management of risks is fundamental to the Group's business. The main risks inherent to the Group's operations are those related to:

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

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

### **Credit risk**

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

Risk management and monitoring are performed within set limits of authority by the Credit Committees and Management Board of the Bank. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

### **Credit subdivisions**

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

### **Maximum exposure of credit risk**

The Groups maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet accounts, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral pledged</b>	<b>December 31, 2010 Net exposure after offset and collateral</b>
Cash and balances with the CBR	1,109,588	-	1,109,588	-	1,109,588
Financial assets at fair value through profit or loss	2,690,303	-	2,690,303	-	2,690,303
Due from banks	3,213,275	-	3,213,275	596,574	2,616,701
Loans to customers	19,906,080	140,557	19,765,523	20,517,408	-
Other financial assets	138,913	-	138,913	-	138,913
Guarantees issued and other commitments	210,132	-	210,132	63,302	146,830
Commitments on loans and unused credit lines	84,930	9,518	75,412	11,490	63,922

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	December 31, 2009 Net exposure after offset and collateral
Cash and balances with the CBR	719,388	-	719,388	-	719,388
Financial assets at fair value through profit or loss	902,677	-	902,677	-	902,677
Due from banks	2,484,350	-	2,484,350	581,453	1,902,897
Loans to customers	25,382,042	233,739	25,148,303	25,836,554	-
Other financial assets	50,921	-	50,921	-	50,921
Guarantees issued and other commitments	155,997	-	155,997	13,610	142,387
Commitments on loans and unused credit lines	325,798	10,076	315,722	315,722	-

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

As at December 31, 2010 and 2009 balances with the CBR amounted to RUB 794,164 thousand and RUB 453,028 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2010 corresponded to investment level BBB.

The following table details the credit ratings of financial assets held by the Group as at December 31, 2010 and 2009:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2010 Total
Balances with CBR	-	-	-	794,164	-	-	794,164
Financial assets at fair value through profit or loss	-	-	-	1,110,598	1,579,705	-	2,690,303
Due from banks	1,576	1,234,080	387,608	312,434	487,980	789,597	3,213,275
Loans to customers	-	-	-	-	-	19,906,080	19,906,080
Other financial assets	-	-	-	-	-	138,913	138,913

As at December 31, 2009:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2009 Total
Balances with CBR	-	-	-	453,028	-	-	453,028
Financial assets at fair value through profit or loss	-	-	-	55,087	-	847,590	902,677
Due from banks	-	1,486,303	9	7,243	108,449	882,346	2,484,350
Loans to customers	-	-	-	-	-	25,382,042	25,382,042
Other financial assets	-	-	-	403	84	50,434	50,921

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Russia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group applies internal models for certain loans to corporate customers and for groups of loans to individuals. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. Consequently, it is impossible to compare the assessments assigned to different products and to break down the whole credit portfolio by ratings. Therefore, more detailed information is not provided.

### Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Group’s Management Board sets up country limits, which mainly apply to banks of the Commonwealth of Independent States and Baltic countries.

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

	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2010 Total
<b>FINANCIAL ASSETS</b>				
Cash and balances with the CBR	1,109,588	-	-	1,109,588
Financial assets at fair value				
through profit or loss	2,689,221	1,082	-	2,690,303
Due from banks	1,476,224	13,313	1,723,738	3,213,275
Loans to customers	19,672,388	194,856	38,836	19,906,080
Other financial assets	138,913	-	-	138,913
<b>TOTAL FINANCIAL ASSETS</b>	<b>25,086,334</b>	<b>209,251</b>	<b>1,762,574</b>	<b>27,058,159</b>
<b>FINANCIAL LIABILITIES</b>				
Due to banks	1,311	2,304,263	10,024,040	12,329,614
Financial liabilities at fair value				
through profit or loss	938	-	326,026	326,964
Customer accounts	6,105,873	195,394	752,941	7,054,208
Debt securities issued	617,139	16,553	2,337,580	2,971,272
Other financial liabilities	26,283	-	1,371	27,654
Subordinated debt	-	1,860,677	-	1,860,677
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>6,751,544</b>	<b>4,376,887</b>	<b>13,441,958</b>	<b>24,570,389</b>
<b>NET POSITION</b>	<b>18,334,790</b>	<b>(4,167,636)</b>	<b>(11,679,384)</b>	
	Russian Federation	Other non-OECD countries	OECD countries	December 31, 2009 Total
<b>FINANCIAL ASSETS</b>				
Cash and balances with the CBR	719,388	-	-	719,388
Financial assets at fair value				
through profit or loss	902,677	-	-	902,677
Due from banks	797,185	11,379	1,675,786	2,484,350
Loans to customers	25,025,333	309,946	46,763	25,382,042
Other financial assets	50,883	38	-	50,921
<b>TOTAL FINANCIAL ASSETS</b>	<b>27,495,466</b>	<b>321,363</b>	<b>1,722,549</b>	<b>29,539,378</b>
<b>FINANCIAL LIABILITIES</b>				
Due to banks	3,343,489	2,324,715	12,106,210	17,774,414
Financial liabilities at fair value				
through profit or loss	12,284	-	296,260	308,544
Customer accounts	2,256,668	118,556	718,463	3,093,687
Debt securities issued	1,366,865	15,032	2,752,071	4,133,968
Other financial liabilities	38,137	434	2,336	40,907
Subordinated debt	-	1,846,471	-	1,846,471
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>7,017,443</b>	<b>4,305,208</b>	<b>15,875,340</b>	<b>27,197,991</b>
<b>NET POSITION</b>	<b>20,478,023</b>	<b>(3,983,845)</b>	<b>(14,152,791)</b>	

Liquidity risk refers to the availability of sufficient funds to meet cash withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. The information on maturities is presented based on contractual cash flows. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined	December 31, 2010 Total
<b>FINANCIAL ASSETS</b>								
Financial assets at fair value through profit or loss	10,0	2,689,221	-	-	-	-	-	2,689,221
Due from banks	1,0	2,721,901	-	-	-	-	-	2,721,901
Loans to customers	13,0	416,014	322,103	4,060,809	5,032,578	10,074,576	-	19,906,080
Total fixed interest bearing financial assets		5,827,136	322,103	4,060,809	5,032,578	10,074,576	-	25,317,202
Total interest bearing assets		5,827,136	322,103	4,060,809	5,032,578	10,074,576	-	25,317,202
Cash and balances with the CBR		617,139	-	-	-	-	492,449	1,109,588
Financial assets at fair value through profit or loss		1,082	-	-	-	-	-	1,082
Due from banks		491,374	-	-	-	-	-	491,374
Other financial assets		61,962	-	76,951	-	-	-	138,913
<b>TOTAL FINANCIAL ASSETS</b>		<b>6,998,693</b>	<b>322,103</b>	<b>4,137,760</b>	<b>5,032,578</b>	<b>10,074,576</b>	<b>492,449</b>	<b>27,058,159</b>
<b>FINANCIAL LIABILITIES</b>								
Due to banks	9,0	-	1,871,469	3,458,108	6,696,864	-	-	12,026,441
Customer accounts	10,0	1,003,518	766,243	3,087,669	874,631	369,502	-	6,101,563
Debt securities issued	10,0	102,655	146,175	230,939	149,758	-	-	629,527
Subordinated debt	10,0	24,381	7,682	-	-	1,828,614	-	1,860,677
Total interest bearing liabilities at fixed rates		1,130,554	2,791,569	6,776,716	7,721,253	2,198,116	-	20,618,208
Debt securities issued	3,0	52,415	96,126	388,040	1,207,154	593,845	-	2,337,580
Total variable interest bearing liabilities		52,415	96,126	388,040	1,207,154	593,845	-	2,337,580
Total interest bearing liabilities		1,182,969	2,887,695	7,164,756	8,928,407	2,791,961	-	22,955,788
Due to banks		303,173	-	-	-	-	-	303,173
Financial liabilities at fair value through profit or loss		13,316	23,842	92,700	178,530	18,576	-	326,964
Customer accounts		952,645	-	-	-	-	-	952,645
Debt securities issued		4,165	-	-	-	-	-	4,165
Other financial liabilities		1,246	5,212	21,196	-	-	-	27,654
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>2,457,514</b>	<b>2,916,749</b>	<b>7,278,652</b>	<b>9,106,937</b>	<b>2,810,537</b>	<b>-</b>	<b>24,570,389</b>

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined	December 31, 2010 Total
Liquidity gap on financial assets and liabilities		4,541,179	(2,594,646)	(3,140,892)	(4,074,359)	7,264,039		
Interest sensitivity gap for fixed assets and liabilities bearing fixed interest rates		4,696,582	(2,469,466)	(2,715,907)	(2,688,675)	7,876,460		
Interest sensitivity gap for variable assets and liabilities bearing variable interest rates		<u>(52,415)</u>	<u>(96,126)</u>	<u>(388,040)</u>	<u>(1,207,154)</u>	<u>(593,845)</u>		
Interest sensitivity gap on financial assets and liabilities		<u>4,644,167</u>	<u>(2,565,592)</u>	<u>(3,103,947)</u>	<u>(3,895,829)</u>	<u>7,282,615</u>		
<b>Cumulative interest sensitivity gap</b>		<u><b>4,644,167</b></u>	<u><b>2,078,575</b></u>	<u><b>(1,025,372)</b></u>	<u><b>(4,921,201)</b></u>	<u><b>2,361,414</b></u>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>		<u><b>17%</b></u>	<u><b>8%</b></u>	<u><b>(4%)</b></u>	<u><b>(18%)</b></u>	<u><b>9%</b></u>		

Subsequent to the balance sheet date the Group took the following measures to close the cumulative liquidity gap up to 1 year as of December 31, 2010:

- The amount of customer accounts increased from RUB 7 billion as of December 31, 2010 to RUB 10.3 billion as at the end of May 2011, providing RUB 3.3 billion of financing;
- Loans to customers with maturities in the first half of the year 2011 were timely repaid providing RUB 3 billion of financing by 1 June 2011.
- In the second quarter of 2011 the Group received a deposit from another bank of RUB 0.4 billion maturing at the end of 2012.

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined	December 31, 2009 Total
<b>FINANCIAL ASSETS</b>								
Financial assets at fair value through profit or loss	13,0	902,677	-	-	-	-	-	902,677
Due from banks	2,0	2,144,538	-	-	-	4,011	-	2,148,549
Loans to customers	13,0	500,122	938,335	6,485,460	4,843,189	12,614,936	-	25,382,042
Total fixed interest bearing financial assets		3,547,337	938,335	6,485,460	4,843,189	12,618,947	-	28,433,268
Total interest bearing assets		3,547,337	938,335	6,485,460	4,843,189	12,618,947	-	28,433,268
Cash and balances with the CBR		525,701	-	-	-	-	193,687	719,388
Financial assets at fair value through profit or loss		-	-	-	-	-	-	-
Due from banks		335,801	-	-	-	-	-	335,801
Other financial assets		3,617	658	420	46,040	186	-	50,921
<b>TOTAL FINANCIAL ASSETS</b>		<b>4,412,456</b>	<b>938,993</b>	<b>6,485,880</b>	<b>4,889,229</b>	<b>12,619,133</b>	<b>193,687</b>	<b>29,539,378</b>
<b>FINANCIAL LIABILITIES</b>								
Due to banks	9,0	5,311,678	876,004	5,217,124	6,175,108	-	-	17,579,914
Customer accounts	10,0	316,676	332,680	642,796	143,824	669,502	-	2,105,478
Debt securities issued	12,0	6,706	29,437	12,448	1,332,369	-	-	1,380,960
Subordinated debt	10,0	24,196	7,623	-	-	1,814,652	-	1,846,471
Total interest bearing liabilities at fixed rates		5,659,256	1,245,744	5,872,368	7,651,301	2,484,154	-	22,912,823
Debt securities issued	3,0	56,835	110,366	446,131	1,399,668	735,843	-	2,748,843
Total variable interest bearing liabilities		56,835	110,366	446,131	1,399,668	735,843	-	2,748,843
Total interest bearing liabilities		5,716,091	1,356,110	6,318,499	9,050,969	3,219,997	-	25,661,666
Due to banks		194,500	-	-	-	-	-	194,500
Financial liabilities at fair value through profit or loss		26,886	27,987	100,067	145,967	7,637	-	308,544
Customer accounts		988,209	-	-	-	-	-	988,209
Debt securities issued		4,165	-	-	-	-	-	4,165
Other financial liabilities		3,786	9,547	27,574	-	-	-	40,907
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>6,933,637</b>	<b>1,393,644</b>	<b>6,446,140</b>	<b>9,196,936</b>	<b>3,227,634</b>	<b>-</b>	<b>27,197,991</b>
Liquidity gap on financial assets and liabilities		(2,521,181)	(454,651)	39,740	(4,307,707)	9,391,499		
Interest sensitivity gap for fixed assets and liabilities bearing fixed interest rates		(2,111,919)	(307,409)	613,092	(2,808,112)	10,134,793		
Interest sensitivity gap for variable assets and liabilities bearing variable interest rates		(56,835)	(110,366)	(446,131)	(1,399,668)	(735,843)		
Interest sensitivity gap on financial assets and liabilities		(2,168,754)	(417,775)	166,961	(4,207,780)	9,398,950		
<b>Cumulative interest sensitivity gap</b>		<b>(2,168,754)</b>	<b>(2,586,529)</b>	<b>(2,419,568)</b>	<b>(6,627,348)</b>	<b>2,771,602</b>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>		<b>(7%)</b>	<b>(9%)</b>	<b>(8%)</b>	<b>(23%)</b>	<b>9%</b>		

In the tables above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	December 31, 2010 Total
<b>FINANCIAL LIABILITIES</b>							
Due to banks	9,0	24,066	2,033,990	4,115,688	6,817,682	-	12,991,426
Customer accounts	10,0	1,012,270	810,983	3,322,012	1,109,298	388,364	6,642,927
Debt securities issued	10,0	107,266	152,744	255,835	160,985	-	676,830
Subordinated debt	10,0	39,912	37,240	137,772	731,947	2,009,972	2,956,843
Total fixed interest bearing financial liabilities		<u>1,183,514</u>	<u>3,034,957</u>	<u>7,831,307</u>	<u>8,819,912</u>	<u>2,398,336</u>	<u>23,268,026</u>
Debt securities issued	3,0	57,948	106,657	437,125	1,467,930	791,980	2,861,640
Total variable interest bearing financial liabilities		<u>57,948</u>	<u>106,657</u>	<u>437,125</u>	<u>1,467,930</u>	<u>791,980</u>	<u>2,861,640</u>
Total interest bearing liabilities		<u>1,241,462</u>	<u>3,141,614</u>	<u>8,268,432</u>	<u>10,287,842</u>	<u>3,190,316</u>	<u>26,129,666</u>
Due to banks		303,173	-	-	-	-	303,173
Financial liabilities at fair value through profit or loss		13,316	23,842	92,700	178,530	18,576	326,964
Customer accounts		952,645	-	-	-	-	952,645
Debt securities issued		4,165	-	-	-	-	4,165
Other liabilities		1,246	5,212	21,196	-	-	27,654
Financial guarantees issued		210,132	-	-	-	-	210,132
Commitments on loans and unused credit lines		84,930	-	-	-	-	84,930
<b>TOTAL UNDISCOUNTED FINANCIAL LIABILITIES</b>		<u><b>2,811,069</b></u>	<u><b>3,170,668</b></u>	<u><b>8,382,328</b></u>	<u><b>10,466,372</b></u>	<u><b>3,208,892</b></u>	<u><b>28,039,329</b></u>

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	December 31, 2009 Total
<b>FINANCIAL LIABILITIES</b>							
Due to banks	9,0	5,333,926	1,046,857	5,874,704	6,461,207	-	18,716,694
Customer accounts	10,0	321,386	346,015	738,206	434,609	750,158	2,590,374
Debt securities issued	12,0	3,462	29,864	13,677	1,523,442	-	1,570,445
Subordinated debt	10,0	30,493	15,246	135,725	725,859	2,207,516	3,114,839
Total fixed interest bearing financial liabilities		<u>5,689,267</u>	<u>1,437,982</u>	<u>6,762,312</u>	<u>9,145,117</u>	<u>2,957,674</u>	<u>25,992,352</u>
Debt securities issued	3,0	64,095	123,947	503,778	1,603,793	852,941	3,148,554
Total variable interest bearing financial liabilities		<u>64,095</u>	<u>123,947</u>	<u>503,778</u>	<u>1,603,793</u>	<u>852,941</u>	<u>3,148,554</u>
Total interest bearing liabilities		<u>5,753,362</u>	<u>1,561,929</u>	<u>7,266,090</u>	<u>10,748,910</u>	<u>3,810,615</u>	<u>29,140,906</u>
Due to banks		194,500	-	-	-	-	194,500
Financial liabilities at fair value through profit or loss		26,886	27,987	100,067	145,967	7,637	308,544
Customer accounts		988,209	-	-	-	-	988,209
Debt securities issued		4,165	-	-	-	-	4,165
Other liabilities		3,786	9,547	27,574	-	-	40,907
Financial guarantees issued		155,997	-	-	-	-	155,997
Commitments on loans and unused credit lines		325,798	-	-	-	-	325,798
<b>TOTAL UNDISCOUNTED FINANCIAL LIABILITIES</b>		<u><b>7,452,703</b></u>	<u><b>1,599,463</b></u>	<u><b>7,393,731</b></u>	<u><b>10,894,877</b></u>	<u><b>3,818,252</b></u>	<u><b>31,159,026</b></u>

## **Market risk**

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The Group's analysis of sensitivity to market risk is presented below.

### **Interest rate sensitivity**

The Group manages interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at December 31, 2010 and 2009 is as follows:

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Interest rate +1%</b>	<b>Interest rate -1%</b>	<b>Interest rate +1%</b>	<b>Interest rate -1%</b>
<b>Assets:</b>				
Financial assets at fair value through profit or loss	(88,949)	94,051	(19,524)	20,214
Due from banks	-	-	-	-
Loans to customers	-	-	-	-
<b>Liabilities:</b>				
Due to banks	-	-	-	-
Financial liabilities at fair value through profit or loss	5,977	(5,148)	4,279	(3,953)
Customer accounts	-	-	-	-
Debt securities issued	23,812	(23,812)	27,975	(27,975)
<b>Net impact on profit before tax</b>	<b>(59,160)</b>	<b>65,091</b>	<b>12,730</b>	<b>(11,714)</b>

Impact on shareholders equity:

	December 31, 2010		December 31, 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Assets:</b>				
Financial assets at fair value				
through profit or loss	(88,949)	94,051	(19,524)	20,214
Due from banks	-	-	-	-
Loans to customers	-	-	-	-
<b>Liabilities:</b>				
Due to banks	-	-	-	-
Financial liabilities at fair value				
through profit or loss	5,977	(5,148)	4,279	(3,953)
Customer accounts	-	-	-	-
Debt securities issued	23,812	(23,812)	27,975	(27,975)
<b>Net impact on equity</b>	<b>(59,160)</b>	<b>65,091</b>	<b>12,730</b>	<b>(11,714)</b>

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and consolidated cash flows.

The ALMC controls currency risk by managing open currency position based on estimated devaluation of RUB and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations against national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBR.

The Group's exposure to foreign currency exchange rate risk is presented in the tables below:

	RUB	USD USD 1 = RUB 30.4769	EUR EUR 1 = RUB 40.3331	Other currency	December 31, 2010 Total
<b>ASSETS</b>					
Cash and balances with the CBR	924,473	140,460	44,253	402	1,109,588
Financial assets at fair value					
through profit or loss	2,690,303	-	-	-	2,690,303
Due from banks	614,021	2,103,120	494,931	1,203	3,213,275
Loans to customers	4,974,235	14,931,845	-	-	19,906,080
Other financial assets	138,866	3	44	-	138,913
<b>TOTAL FINANCIAL ASSETS</b>	<b>9,341,898</b>	<b>17,175,428</b>	<b>539,228</b>	<b>1,605</b>	<b>27,058,159</b>
<b>LIABILITIES</b>					
Due to banks	661,841	11,665,114	2,214	445	12,329,614
Financial liabilities at fair value					
through profit or loss	938	326,026	-	-	326,964
Customer accounts	4,480,062	2,037,240	536,505	401	7,054,208
Debt securities issued	112,758	2,858,514	-	-	2,971,272
Other financial liabilities	26,295	1,359	-	-	27,654
Subordinated debt	-	1,860,677	-	-	1,860,677
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,281,894</b>	<b>18,748,930</b>	<b>538,719</b>	<b>846</b>	<b>24,570,389</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>4,060,004</b>	<b>(1,573,502)</b>	<b>509</b>	<b>759</b>	

### ***Derivative financial instruments and spot deals***

Fair values of derivative financial instruments and spot contracts are included in the currency analysis presented above. The currency risk analysis of spot and derivative contracts is presented below:

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 30.4769	<b>EUR</b> EUR 1 = RUB 40.3331	<b>Other currency</b>	<b>December 31, 2010 Total</b>
Accounts payable on spot and derivative contracts	(144)	(530,848)	-	-	(530,992)
Accounts receivable on spot and derivative contracts	294,689	-	-	236,303	530,992
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>294,545</b>	<b>(530,848)</b>	<b>-</b>	<b>236,303</b>	
<b>TOTAL NET POSITION</b>	<b>4,354,549</b>	<b>(2,104,350)</b>	<b>509</b>	<b>237,062</b>	

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 30.2442	<b>EUR</b> EUR 1 = RUB 43.3883	<b>Other currency</b>	<b>December 31, 2009 Total</b>
<b>ASSETS</b>					
Cash and balances with the CBR	364,056	116,683	43,896	1,066	525,701
Financial assets at fair value through profit or loss	902,677	-	-	-	902,677
Due from banks	610,765	1,685,212	187,965	408	2,484,350
Loans to customers	7,548,879	17,833,163	-	-	25,382,042
Other financial assets	50,852	21	48	-	50,921
<b>TOTAL FINANCIAL ASSETS</b>	<b>9,477,229</b>	<b>19,635,079</b>	<b>231,909</b>	<b>1,474</b>	<b>29,345,691</b>
<b>LIABILITIES</b>					
Due to banks	3,813,085	13,953,175	8,092	62	17,774,414
Financial liabilities at fair value through profit or loss	12,284	296,260	-	-	308,544
Customer accounts	2,312,012	559,207	222,167	301	3,093,687
Debt securities issued	58,081	4,075,887	-	-	4,133,968
Other financial liabilities	37,160	3,747	-	-	40,907
Subordinated debt	-	1,846,471	-	-	1,846,471
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>6,232,622</b>	<b>20,734,747</b>	<b>230,259</b>	<b>363</b>	<b>27,197,991</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>3,244,607</b>	<b>(1,099,668)</b>	<b>1,650</b>	<b>1,111</b>	

### ***Derivative financial instruments and spot deals***

Fair values of derivative instruments and spot contracts are included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 30.2442	<b>EUR</b> EUR 1 = RUB 43.3883	<b>Other currency</b>	<b>December 31, 2009 Total</b>
Accounts payable on spot and derivative contracts	(24,248)	(1,043,425)	-	-	(1,067,673)
Accounts receivable on spot and derivative contracts	1,043,478	24,195	-	-	1,067,673
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>1,019,230</b>	<b>(1,019,230)</b>	<b>-</b>	<b>-</b>	
<b>TOTAL NET POSITION</b>	<b>4,263,837</b>	<b>(2,118,898)</b>	<b>1,650</b>	<b>1,111</b>	

### **Derivative financial instruments and spot deals**

Fair values of derivative instruments and spot contracts are included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 29.3804	<b>EUR</b> EUR 1 = RUB 41.4411	<b>Other currency</b>
Accounts payable on spot and derivative contracts	-	(793 305)	-	-
Accounts receivable on spot and derivative contracts	454 855	338 450	-	-
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>454 855</b>	<b>-454 855)</b>	<b>-</b>	<b>-</b>

### **Analysis of currency risk sensitivity**

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and the EUR against the RUB. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on profit before income tax and equity based on asset values as at December 31, 2010 and 2009:

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>RUB/USD +10%</b>	<b>RUB/USD -10%</b>	<b>RUB/USD +10%</b>	<b>RUB/USD -10%</b>
Profit before tax	(210,435)	210,435	(211,890)	211,890
Effect on equity	(168,348)	168,348	(169,512)	169,512

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>RUB/EUR +10%</b>	<b>RUB/EUR -10%</b>	<b>RUB/EUR +10%</b>	<b>RUB/EUR -10%</b>
Impact on consolidated profit or loss	51	(51)	165	(165)
Effect on equity	41	(41)	132	(132)

### **Limitations of sensitivity analysis**

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

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

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. The assumption that all interest rates change in an identical manner is another limitation.