Russian National Commercial Bank

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

Contents

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Russian National Commercial Bank

We have audited the accompanying financial statements of Russian National Commercial Bank, which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of matter paragraph

Without qualifying our opinion, we draw attention to Note 11 to the financial statements which describes the fact that the financial result of Russian National Commercial Bank for the year 2010 is primarily generated by means of income in the amount of RUR 363 805 thousand from the sales transaction relating to the sale of a building in Moscow. The selling cost was defined based on the appraiser's report and amounted to RUR 549 830 thousand, net of VAT.

Anton V. Efremov
Senior Partner

28 June 2011

ZAO BDO

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

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

On behalf of the Bank's management the financial statements for the year ended 31 December 2010 were authorised for issue on 28 June 2011 by:

O.N. Safina Vice-president	O.V. Isakeeva Chief Accountant

Russian National Commercial Bank

28 June 2011

(in thousands of Russian Roubles)

	Note	2010	2009
Assets			
Cash and cash equivalents	5	258 618	87 183
Mandatory cash balances with the Bank of Russia		35 763	23 953
Financial assets at fair value through profit or loss	6	1 539 892	909 010
Due from other banks	7	209 747	1 107 702
Loans to customers	8	444 936	393 787
Financial assets available for sale	9	20 924	27 883
Investments held to maturity	10	170 105	10 050
Investment property	11	51 226	231 219
Premises and equipment	12	20 760	26 394
Other assets	13	63 108	363 449
Total assets		**2 815 079**	**3 180 630**
Liabilities			
Due to other banks	14	100 012	1
Customer accounts	15	1 319 114	2 139 006
Other liabilities	16	125 349	38 220
Current tax liabilities		71 747	3 885
Deffered tax liabilities	22	18 161	45 598
Total liabilities		**1 634 383**	**2 226 710**
Equity			
Share capital	17	1 133 435	1 133 435
Revaluation reserve for financial assets available for sale		(5 313)	(5 313)
Revaluation reserve for premises and equipment		-	56 602
Retained earnings/(Accumulated deficit)		52 574	(230 804)
Total equity		**1 180 696**	**953 920**
Total liabilities and equity		**2 815 079**	**3 180 630**

O.N. Safina
Vice-president

O.V. Isakeeva
Chief Accountant

28 June 2011

The notes set out on pages 9 to 53 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	Note	2010	2009
Interest income	19	202 763	166 503
Interest expense	19	(38 987)	(28 695)
Net interest income		**163 776**	**137 808**
Provision for impairment of loans to customers	8	(145 673)	22 182
Net interest income after provision for impairment of loans to customers		**18 103**	**159 990**
Gains less losses arising from financial assets and liabilities at fair value through profit or loss		14 291	34 119
Gains less losses from dealing in foreign currency		7 042	79 245
Gains less losses from revaluation of foreign currency		(3 646)	(27 055)
Fee and commission income	20	327 692	282 396
Fee and commission expense	20	(3 017)	(2 931)
Gains from sale of investment property	11	363 805	-
Gains from revaluation of investment property	11	6 032	17 428
Provision for impairment of financial assets available for sale	9	621	14
Provision for impairment of other assets	13	(225)	78
Other operating income		30 509	32 278
Operating income		**761 207**	**575 562**
Operating expenses	21	(466 619)	(440 487)
Profit before taxation		**294 588**	**135 075**
Income tax expense	22	(61 072)	(25 906)
Net profit		**233 516**	**109 169**
Total comprehensive income for the period		**233 516**	**109 169**

O.N. Safina
Vice-president

O.V. Isakeeva
Chief Accountant

28 June 2011

The notes set out on pages 9 to 53 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	2010	2009
Cash flows from operating activities		
Interest received	192 178	168 888
Interest paid	(37 771)	(30 110)
Gains less losses arising from financial assets at fair value through profit or loss	(7 019)	(21 961)
Gains less losses arising from dealing in foreign currencies	7 042	79 245
Fees and commissions received	327 692	282 396
Fees and commissions paid	(3 017)	(2 931)
Other operating income	30 523	32 278
Operating expenses	(456 531)	(430 224)
Income tax paid	(20 647)	(3 548)
Cash flows from operating activities before changes in operating assets and liabilities	**32 450**	**74 033**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Bank of Russia	(11 810)	(20 623)
Financial assets at fair value through profit or loss	(603 226)	(103 905)
Due from other banks	897 803	(995 871)
Loans to customers	(209 091)	35 883
Other assets	294 108	(161 913)
Net increase/(decrease) in operating liabilities		
Due to other banks	100 000	(234 494)
Customer accounts	(806 114)	1 400 417
Other liabilities	(8 466)	1 143
Net cash flows from operating activities	**(314 349)**	**(5 330)**
Cash flows from investing activities		
Purchase of investments held to maturity	(158 155)	(10 002)
Proceeds from sale of financial assets available for sale	7 799	2 899
Purchase of premises and equipment	(6 850)	(7 295)
Proceeds from sale of investment property and premises and equipment	650 719	240
Net cash flows from investing activities	**493 513**	**(14 158)**
Cash flows from financing activities		
Dividends paid (Note 23)	(6 732)	(9 570)
Net cash flows from financing activities	**(6 732)**	**(9 570)**
Effect of exchange rate changes on cash and cash equivalents	(997)	1 915
Net change in cash and cash equivalents	**171 435**	**(27 143)**
Cash and cash equivalents at the beginning of the year	87 183	114 326
Cash and cash equivalents at the end of the year (Note 5)	**258 618**	**87 183**

O.N. Safina
Vice-president

O.V. Isakeeva
Chief Accountant

28 June 2011

(in thousands of Russian Roubles)

	Share capital	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	(Accumulated deficit)/ Retained earnings	Total equity
Balance as at 1 January 2009	**1 133 435**	**(5 313)**	**57 918**	**(331 660)**	**854 380**
Depreciation of revaluation reserve for premises and equipment less taxation	-	-	(1 316)	1 316	-
Dividends declared for the year 2008 (Note 23)	-	-	-	(9 629)	(9 629)
Comprehensive income for the year 2009	-	-	-	109 169	109 169
Balance as at 31 December 2009	**1 133 435**	**(5 313)**	**56 602**	**(230 804)**	**953 920**
Write-off of revaluation for disposed premises and equipment	-	-	(56 602)	56 602	-
Dividends declared for the year 2009 (Note 23)	-	-	-	(6 740)	(6 740)
Comprehensive income for the year 2010	-	-	-	233 516	233 516
Balance as at 31 December 2010	**1 133 435**	**(5 313)**	**-**	**52 574**	**1 180 696**

O.N. Safina
Vice-president

28 June 2011

O.V. Isakeeva
Chief Accountant

(in thousands of Russian Roubles)

1. Principal Activities of the Bank

Russian National Commercial Bank (the Bank) was established by the decision of the founders and registered by the State Bank of the RSFSR on 25 January 1991 under No. 1354 as Russian National Commercial Bank (limited liability partnership). On 4 July 1997, the Bank was reorganized into an open joint stock company. The main state registration number of the Bank is 1027700381290, state registration date is 31 October 2002.

The Bank operates under General Banking License No. 1354 for conducting banking transactions in roubles and foreign currency issued by the Central Bank of the Russian Federation (Bank of Russia or CBR) on 6 February 2003. The Bank also holds licenses of the professional securities market participant.

The principal activities of the Bank are commercial and retail banking services on the territory of the Russian Federation.

The Bank has no branches.

The Bank's legal address is: 9/5 Krasnoproletarskaya str., Moscow, 127030.

Since 24 February 2005, the Bank has been a member of the obligatory deposit insurance system regulated by the state corporation Deposit Insurance Agency.

The average number of the Bank's employees for the year 2010 was 213 (2009: 213).

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

Shareholder	2010 Ownership (%)	2009 Ownership (%)
OJSC Moscow Interrepublican Winery	46.3	46.3
LLC Khimpromstroi	20.0	4.9
LLC GarantTehnologiya	9.9	4.9
CJSC StroyGenerator	5.0	5.0
LLC Transmagistral	4.9	4.9
LLC Torgsistema	4.8	4.8
Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company)	-	20.0
Shareholders with shareholdings less than 4% of the Bank's share capital	9.1	9.2
Total	**100.0**	**100.0**

As at 31 December 2010, the largest equity interests were held by:

- Valeris Kolodinskis (29.2%);
- D.V. Maslov (16.8%);
- I.V. Kravchenko (8.9%).

2. Operating Environment of the Bank

General

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

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

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

(in thousands of Russian Roubles)

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

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

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

Inflation

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

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

Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation. The table below shows the CBR exchange rates of RUR relative to USD and EUR:

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

Financial market transactions

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

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

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

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

3. Basis of Presentation

General principles

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

Functional and presentation currency

These financial statements are presented in Russian Roubles being the Bank's functional and presentation currency. All figures were rounded to the nearest thousand roubles.

Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Notes 4, 8, 9, 13, 26.

Going concern

These financial statements were prepared on a going concern assumption.

These financial statements reflect the Bank management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The Bank's management cannot predict what impact these factors can have on the Bank's financial position in future.

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

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

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

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

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

IFRSs and IFRIC interpretations not yet effective

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

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2011). The main amendments clarify disclosures in the statement of changes in equity.
- IAS 24 (amended in 2009) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011). This standard is a revised version of IAS 24 (amended in 2003). The main objectives of this Standard are as follows:
  - disclosure exemption for entities that are controlled, jointly controlled or significantly influenced by the state or government bodies (government-related entities);
  - clarification of definition of a related party and related party transaction to improve the understanding and remove contradictions.
- IFRS 7 "Financial Instruments: Disclosure" (effective for annual periods beginning on or after 1 January 2011). The changes refer to disclosure of qualitative and quantitative information about the nature and size of risks arising from financial instruments.
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 as the first part of phase 1 of the project to replace IAS 39 and replaces those parts of IAS 39 that relate to recognition and measurement of financial assets. The main principles of the Standard are as follows:
  - classification of financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
  - initial measurement of the financial asset at fair value, plus, in case of a financial asset not at fair value through profit or loss, particular transaction costs;
  - subsequent measurement of the financial asset at amortised cost or fair value.
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 January 2011). This IFRIC addresses measurement of award credits by reference to fair value.
- IFRIC 14 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2011). The main amendments address treatment of prepayments of minimum contributions.

The Bank's management believes that the application of all the provisions above will not have a material effect on the Bank's financial statements, except for the application of IFRS 9.

The Bank is currently assessing the impact of application of IFRS 9 on the Bank's financial statements and the timing of its adoption.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

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

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

Mandatory cash balances with the Bank of Russia

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

Financial assets

The Bank classifies its financial assets in the following categories:

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

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

Initial recognition of financial instruments

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

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

Fair value measurement

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

If quoted market prices are not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Judgement is based on the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and

- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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

Financial assets at fair value through profit or loss

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

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

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

Due from other banks

In the normal course of business, the Bank places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity.

Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

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

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

Investments held to maturity

This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank's management determines the appropriate classification of financial assets at the time of purchase.

The Bank assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognised, but also at each subsequent reporting date.

Initially, investments held to maturity are recorded at fair value (which includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on investments held to maturity are recognised in the statement of comprehensive income when such assets are impaired, as well as through the amortisation process.

If the Bank sells a significant portion of its portfolio of investments held to maturity before their maturity the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest income on investments held to maturity is recognised in the statement of comprehensive income within interest income.

Financial assets available for sale

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

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

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

Interest earned on debt securities available for sale is determined using the effective interest method and recorded in the statement of comprehensive income as interest income.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, investments held to maturity, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

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

Impairment of due from other banks and loans to customers

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

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

- default in any payments due;

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

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

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

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

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively impaired financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

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

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

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

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

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

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

Impairment of investments held to maturity

The Bank assesses on an individual basis whether there is any objective evidence that the value of the investments held to maturity has been impaired. In case of such objective evidence of impairment loss the amount of loss is determined as a difference between the carrying value of the asset and the present value of the expected future cash flows. The carrying value of the asset is decreased and the loss is recognised in the statement of comprehensive income. If in the next year the amount of expected impairment losses decreases due to the event occurred after the recognition of impairment losses, the previously recognised amounts are recorded as income in the statement of comprehensive income.

Impairment of financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that an investment available for sale is impaired.

The criterion used for determining objective evidence of impairment would include significant financial difficulty of the issuer supported by financial information at the Bank's disposal. To assess whether there is any indication of impairment the Bank analyses the issuer's activities taking into account the influence of economic factors, including consequences of changes in the technical, market, economic or legal environment in which the issuer operates, and also assesses other factors. Cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through the profit and loss accounts, is transferred from other comprehensive income to the profit and loss accounts.

Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within interest income in the statement of comprehensive income.

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

Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss if they are incurred for the purpose of selling or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities or obligations to return borrowed securities sold to third parties. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss unless they are designated as hedges. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the statement of comprehensive income.

Financial liabilities at fair value through profit or loss are recorded within other liabilities.

Financial liabilities measured at amortised cost

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

Due to other banks. Due to other banks are recorded when funds or other assets are advanced to the Bank by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals and corporate customers on settlement accounts and deposits.

Debt securities issued. Debt securities issued include certificates of deposit issued by the Bank and are recorded within other liabilities.

Reverse repurchase agreements

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

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and impairment provision. Premises and equipment acquired prior to 1 January 2003 are restated to the equivalent purchasing power of the Russian Rouble as at that date.

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

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

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

Depreciation

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

- Structures - 50 years;
- Furniture - 7 years;
- Office and computer equipment - 6 years;
- Motor vehicles - 5 years.

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

Investment property

Investment property is the property held by the Bank to earn rental income or for capital appreciation or both, but not for: (a) use during ordinary activities of the Bank; or (b) sale during ordinary activities.

Originally, the investment property is recognised at acquisition cost. Subsequently, investment property is remeasured at fair value that is based on its market value. The market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have professional experience in valuation of property of similar location and category. Changes in the fair value of investment property are recorded in the statement of com prehensive income as a separate item. In addition, the following amounts are recognised in the statement of comprehensive income as other income/operating expenses: rental income; direct operating expenses arising from investment property that generates rental income; other direct operating expenses arising from investment property that does not generate rental income.

If the Bank elects to use the investment property for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Bank;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets acquired separately are initially carried at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible asset represents the trade mark and has a limited useful life. Intangible asset is amortized during 10 years and also it is reviewed for impairment if any indication of impairment of an intangible asset exists. Terms and methods of amortization of intangible asset with a limited useful life are analyzed at least every year at the end of each reporting year.

Intangible asset is recorded within other assets.

Finance lease - the Bank as a lessee

Leases where all the risks and rewards of ownership of the asset are substantially transferred from the lessor to the lessee are classified as finance leases.

The Bank recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property, or at the present value of the minimum lease payments, if this amount is less than the fair value of the asset. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Bank's borrowing rate shall be used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating lease - the Bank as lessee

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

Share capital

Ordinary shares are classified as share capital. The share capital contributed before 1 January 2003 was restated for the effects of inflation. The share capital contributed after the above date is stated at original cost.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the reporting date only if they are declared before or on the reporting date. Information on dividends is disclosed in the subsequent events note. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

Dividends are accrued upon their approval by the General Meeting of Shareholders and recorded in the financial statements as distribution of profit.

Credit related commitments

The Bank enters into commitments to extend credits. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

Taxation

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods.

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

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

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

Income and expense recognition

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

(in thousands of Russian Roubles)

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

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided.

Employee benefits and social insurance contributions

The Bank pays social contributions on the territory of the Russian Federation. The contributions are recorded on an accrual basis. The social contributions comprise contributions to the Russian Federation State Pension Fund, Social Insurance Fund, and Obligatory Medical Insurance Fund in respect of the Bank's employees. These expenses are recognised as incurred and included in staff costs. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

Foreign currency

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

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

5. Cash and Cash Equivalents

	2010	2009
Cash balances with the Bank of Russia (other than mandatory cash balances)	192 672	3 709
Cash on hand	26 230	22 687
Correspondent accounts with other banks:		
- the Russian Federation	28 923	21 900
- other countries	10 292	30 093
Cash for settlements at Stock Exchange	501	8 794
Total cash and cash equivalents	**258 618**	**87 183**

Cash for settlements at Stock Exchange represent cash that is not limited in use and is intended for participation in the trade sessions and settlements at the Moscow Interbank Currency Exchange.

(in thousands of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss as at 31 December 2010 and 31 December 2009 included trading securities.

	2010	2009
Government and municipal debt securities		
- Municipal bonds	44 018	63 803
- Russian Federation bonds (OFZ)	-	5 512
Corporate debt securities		
- Corporate bonds	1 355 092	627 742
- Corporate eurobonds	140 782	98 856
- Promissory notes	-	113 097
Total financial assets at fair value through profit or loss	**1 539 892**	**909 010**

Municipal bonds are Rouble-denominated securities issued by subjects of the Russian Federation and local administrations and freely tradable on the MICEX. As at 31 December 2010, municipal bonds in the Bank's portfolio have maturity dates from December 2011 to August 2013 (2009: from May 2010 to December 2013), coupon rates ranging from 7.7% to 19.1% (2009: from 8.2% to 19.1%) and yield to maturity from 5.7% to 8.2% (2009: from 9.1% to 12.0%).

Russian Federation bonds (OFZ) are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2009, OFZ bonds in the Bank's portfolio have maturity in November 2021, coupon rates ranging 8.5% and yield to maturity 8.7%.

Corporate bonds are represented by Rouble-denominated securities issued by large Russian companies and credit institutions. As at 31 December 2010, corporate bonds in the Bank's portfolio have maturity dates from February 2011 to November 2020 (2009: from June 2010 to July 2016), coupon rates ranging from 7.0% to 18.5% (2009: from 0.5% to 18.0%) and yield to maturity from 5.1% to 14.2% (2009: from 4.2% to 100.7%)

Corporate Eurobonds are represented by US dollar-denominated securities issued by Russian companies and credit institutions. As at 31 December 2010, corporate Eurobonds in the Bank's portfolio have maturity dates from October 2011 to November 2015 (2009: from October 2011 to June 2013), coupon rates ranging from 6.0% to 8.4% (2009: from 6.6% to 8.4%).

As at 31 December 2009 promissory notes in the Bank's portfolio are represented by Rouble-denominated securities issued by large credit institution with maturity dates from March to October 2010 and yield to maturity 11%.

(in thousands of Russian Roubles)

The table below presents the credit quality analysis by issuer of trading debt securities as at 31 December 2010 in accordance with available ratings of the international rating agencies:

	S&P	Moody's	Fitch	Amount
Government and municipal debt securities				
- Russian Federation bonds (OFZ)				
- Municipal bonds				
Irkutsk region	B+	-	-	2 540
Kazan	-	-	B+	7 852
Karelia	-	-	BB-	13 308
Nizhny Novgorod region	-	Ba2	B+	5 122
Khakassiya	-	-	BB-	15 196
Total municipal bonds				***44 018***
Corporate debt securities				
- Corporate bonds				
AFK "System"	BB	-	BB-	70 245
Bank Zenith OJSC	-	-	B+	70 754
Raiffaisenbank CJSC	BBB	Baa3	BBB+	49 578
SSMO LenSpetsSMU CJSC	B	-	-	10 814
CB "Moscow Mortgage Agency" OJSC	-	Ba2	-	187 417
Bank for Foreign Trade OJSC	BBB	Baa1	BBB	25 435
Gazprom oil OJSC	BBB-	-	-	49 208
Gazprombank OJSC	BB	Baa3	-	30 080
MDM Bank OJSC	B+	Ba2	BB	48 831
Mobile TeleSystems OJSC	BB	-	BB+	154 802
Moscow United Energy Company OJSC	BB+	-	BB+	15 353
Mosenergo OJSC	BB-	-	-	10 676
Novolipetsk Steel OJSC	BBB-	-	-	15 762
Nomos- Bank OJSC	-	-	BB-	40 580
Russian Agricultural Bank OJSC	-	Baa1	BBB	2 137
Severstal OJSC	BB-	-	B+	40 132
JSC Yakutskenergo OJSC	-	-	BB	23 942
VTB-Leasing Finance LTD	BBB	-	-	95 237
X 5 FINANCE LTD	BB-	-	-	106 012
- Other corporate bonds without ratings	-	-	-	308 097
Total corporate bonds				1 355 092
- Corporate eurobonds				
Foreign trade Bank OJSC	BBB	Baa1	BBB	16 417
Bank of Moscow OJSC	-	Baa1	BBB-	71 436
Vimpel-Communications OJSC	BB+	Ba2	-	36 582
Gazprombank OJSC	BB	Baa3	-	16 347
Total corporate eurobonds				**140 782**
Total debt securities at fair value through profit or loss				**1 539 892**

(in thousands of Russian Roubles)

The table below presents the credit quality analysis by issuer of trading debt securities as at 31 December 2009 in accordance with available ratings of the international rating agencies:

	S&P	Moody's	Fitch	Amount
Government and municipal debt securities				
- Russian Federation bonds (OFZ)	BBB	Baa1	BBB	5 512
- Municipal bonds				
Volgograd region	BB-	-	-	1 001
Irkutsk region	B	-	-	4 898
Kazan	-	-	B+	10 149
Karelia	-	-	BB-	23 079
Krasnoyarsky kray	BB+	-	BB+	5 223
Moscow	BBB	Baa1	BBB	6 035
Nizhny Novgorod region	-	Ba2	BB-	7 329
Yakutia (Sakha)	BB-	-	BB	6 089
Total municipal bonds				**63 803**
Corporate debt securities				
- Corporate bonds				
VTB 24 CJSC	BBB	Baa1	BBB	12 549
Foreign trade Bank OJSC	BBB	Baa1	BBB	26 358
Bank Zenith OJSC	-	Ba3	B+	20 339
CB "Moscow Mortgage Agency" OJSC	-	Ba2	-	83 537
MDM Bank OJSC	B+	Ba2	BB-	65 371
TransKreditBank OJSC	BB	Ba1	-	21 999
Mortgage Housing Credit Agency OJSC	BBB	Baa1	-	8 524
VTB-Leasing Finance LTD	BBB	-	-	13 052
Gazprom oil OJSC	BBB-	Baa3	-	23 613
Mobile TeleSystems OJSC	BB	Ba2	BB+	11 872
Moscow United Energy Company OJSC	BB+	-	BB+	14 358
Mosenergo OJSC	BB-	-	-	10 169
LUKOIL oil company OJSC	BBB-	Baa2	BBB-	12 518
Novolipetsk Steel OJSC	BBB-	Ba1	BB+	10 451
Russian railways OJSC	BBB	Baa1	BBB	5 199
Severstal OJSC	BB-	Ba3	B+	21 905
AFK "System"	BB	B1	BB-	5 611
Territorial Generating Company №2	-	-	B	33 014
Federal Grid Company of Unified Energy System OJSC	BBB	Baa2	-	5 030
- Other corporate bonds without ratings	-	-	-	222 273
Total corporate bonds				**627 742**
- Corporate eurobonds				
Foreign trade Bank OJSC	BBB	Baa1	BBB	15 581
Bank of Moscow OJSC	-	Baa1	BBB-	31 893
Vimpel-Communications OJSC	BB+	Ba2	-	35 688
Gazprombank OJSC	BB	Baa3	-	15 694
Total corporate eurobonds				**98 856**
- Promissory notes				
Foreign trade Bank OJSC	BBB	Baa1	BBB	48 573
Gazprombank OJSC	BB	Baa3	-	18 426
Russian agricultural bank OJSC	-	Baa1	BBB	46 098
Total promissory notes				**113 097**
Total debt securities at fair value through profit or loss				**909 010**

(in thousands of Russian Roubles)

7. Due from Other Banks

	2010	2009
Reverse repo agreements with other banks	163 724	64 034
Loans and deposits with other banks	46 023	1 043 668
Total due from other banks	**209 747**	**1 107 702**

As at 31 December 2010 the Bank had no cash balances above 10% of the Bank's capital with counterparties (2009: 4 counterparties with aggregate amount RUR 1 043 365 thousand or 94.2% of the total amount of due from other banks).

As at 31 December 2010 due from Other Banks in the amount of RUR 163 724 thousand (2009: RUR 64 034 thousand) were collateralized by securities through repurchase agreement at fair value RUR 186 998 thousand (2009: RUR 64 053 thousand).

As at 31 December 2010 and 31 December 2009 the credit quality analysis of due from other banks revealed that due from other banks amounted to RUR 209 747 thousand (2009: RUR 1 107 702 thousand) are current with similar characteristics of credit risk.

8. Loans to Customers

	2010	2009
Corporate loans	478 623	328 047
Reverse repo agreements	124 687	-
Consumer loans to individuals	9 787	90 043
Loans to individual entrepreneurs, small and medium business	6 245	4 430
Less: provision for impairment of loans to customers	(174 406)	(28 733)
Total loans to customers	**444 936**	**393 787**

As at 31 December 2010, the accrued interest income on impaired loans amounted to RUR 973 thousand (2009: RUR 81 thousand).

The table below presents movements in the provision for impairment of loans to customers during 2010 and 2009:

	Corporate loans	Consumer loans to individuals	Loans to individual entrepreneurs, small and medium business	Total
Provision for impairment of loans to customers as at 1 January 2009	**48 586**	**71**	**2 258**	**50 915**
(Recovery of provision)/provision for loan impairment during 2009	(29 911)	8 749	(1 020)	(22 182)
Provision for impairment of loans to customers as at 31 December 2009	**18 675**	**8 820**	**1 238**	**28 733**
Provision/(Recovery of provision) for loan impairment during 2010	149 466	(5 976)	2 183	145 673
Provision for impairment of loans to customers as at 31 December 2010	**168 141**	**2 844**	**3 421**	**174 406**

(in thousands of Russian Roubles)

The table below presents economic sector concentrations within the Bank's loan portfolio:

	2010		2009	
	Amount	%	Amount	%
Real estate activities	278 660	45.0	97 500	23.1
Financial services	239 801	38.7	36 095	8.5
Production of alcoholic beverages	78 736	12.7	198 392	47.0
Metal industry	11 875	1.9	-	-
Individuals	9 787	1.6	90 043	21.3
Other	483	0.1	490	0.1
Total loans to customers (gross)	**619 342**	**100.0**	**422 520**	**100.0**

As at 31 December 2010, the Bank issued loans to 2 borrowers (2009: 2 borrowers) with the loan amount of each borrower exceeding 10% of the Bank's capital. The aggregate amount of these loans was RUR 329 848 thousand or 53.3% of the total amount of loans to customers (2009: RUR 266 500 thousand or 63.1% of the total amount of loans to customers).

The credit quality analysis of loans to customers as at 31 December 2010 is as follows:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Corporate loans				
Unimpaired loans				
Current loans	109 352	-	109 352	0.0%
Loans, impaired on an individual basis				
Current loans	369 271	168 141	201 130	45.5%
Total corporate loans	**478 623**	**168 141**	**310 482**	**35.1%**
Reverse repo agreements				
Unimpaired loans				
Current loans	124 687	-	124 687	0.0%
Total reverse repo agreements	**124 687**	-	**124 687**	**0.0%**
Consumer loans to individuals				
Unimpaired loans				
Current loans	1 767	-	1 767	0.0%
Loans, impaired on an individual basis				
Current loans	8 020	2 844	5 176	35.5%
Total consumer loans to individuals	**9 787**	**2 844**	**6 943**	**29.1%**
Loans to individual entrepreneurs, small and medium business				
Loans, impaired on an individual basis				
Current loans	5 762	2 938	2 824	51.0%
Loans, more than 1 year overdue	483	483	-	100.0%
Total loans to individual entrepreneurs, small and medium business	**6 245**	**3 421**	**2 824**	**54.8%**
Total loans to customers	**619 342**	**174 406**	**444 936**	**28.2%**

(in thousands of Russian Roubles)

The credit quality analysis of loans to customers as at 31 December 2009 is as follows:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Corporate loans				
Loans, impaired on an individual basis				
Current loans	328 047	18 675	309 372	5.7%
Total corporate loans	**328 047**	**18 675**	**309 372**	**5.7%**
Consumer loans to individuals				
Unimpaired loans				
Current loans	136	-	136	0.0%
Loans, impaired on an individual basis				
Current loans	89 907	8 820	81 087	9.8%
Total consumer loans to individuals	**90 043**	**8 820**	**81 223**	**9.8%**
Loans to individual entrepreneurs, small and medium business				
Loans, impaired on an individual basis				
Current loans	3 940	748	3 192	19.0%
Loans, more than 1 year overdue	490	490	-	100.0%
Total loans to individual entrepreneurs, small and medium business	**4 430**	**1 238**	**3 192**	**28.0%**
Total loans to customers	**422 520**	**28 733**	**393 787**	**6.8%**

Current unimpaired loans represent loans issued to borrowers with high level of liquidity and profitability.

Loans, impaired on an individual basis include loans which show certain signs of impairment and are material in value.

Due to small number of borrowers, inessential small-sized loans are also added to loans, impaired on an individual basis.

(in thousands of Russian Roubles)

The table below presents information on the collateral held as security as at 31 December 2010:

	Corporate loans	Reverse repo agreements	Consumer loans to individuals	Loans to individual entrepreneurs, small and medium business	Total
Rights of claim of funds under product sales agreements	651 595	-	-	-	651 595
Securities	-	335 524			335 524
Sureties	218 037	-	31 080	661	249 778
Equipment	125 922	-	-	665	126 587
Goods for sale	82 658	-	-	-	82 658
Transport	-	-	-	2 253	2 253
Bank guarantee	-	-	890	-	890
Total collateral	**1 078 212**	**335 524**	**31 970**	**3 579**	**1 449 285**

The table below presents information on the collateral held as security as at 31 December 2009:

	Corporate loans	Consumer loans to individuals	Loans to individual entrepreneurs, small and medium business	Total
Rights of claim	473 598	-	-	473 598
Real estate claims	272 851	-	-	272 851
Sureties	254 931	15 796	661	271 388
Goods for sale	82 658	-	-	82 658
Construction equipment	59 112	-	-	59 112
Transport	-	-	6 724	6 724
Bank guarantee	-	890	-	890
Equipment	-	-	665	665
Total collateral	**1 143 150**	**16 686**	**8 050**	**1 167 886**

Discounts were used for calculation of the collateral value, depending on its type. The fair value of the collateral may differ from the carrying amount.

As at 31 December 2010, loans to customers in the amount of RUR 292 927 thousand or 47.3% of total loans are not secured (2009: RUR 80 198 thousand or 19.0% of total loans).

9. Financial Assets Available for Sale

	2010	2009
Government debt securities		
- Eurobonds of Russian Federation	-	33
Corporate debt securities		
- Corporate bonds	3 970	3 970
Corporate equity securities		
- Shares in share capitals of other organizations	18 638	18 638
- Units of investment funds	2 361	9 896
- Corporate shares	286	298
Less: provision for impairment of financial assets available for sale	(4 331)	(4 952)
Total financial assets available for sale	**20 924**	**27 883**

(in thousands of Russian Roubles)

As at 31 December 2009 the Bank's portfolio composed of Eurobonds of Russian Federation, which are USD-denominated government debt liabilities. They carry an annual coupon of 8.3% with maturity in March 2010.

Corporate bonds are represented by Rouble-denominated securities issued by Volzhskaya Textile Company OJSC with the maturity date until December 2008 and a coupon rate of 14.00%. The securities issued by Volzhskaya Textile Company OJSC are overdue, 100% provision is created.

Shares in share capitals of other organizations are represented by shares in share capital of "Pension reserve" LLC.

As at 31 December 2010 Units of investment funds are represented by Rouble-denominated units in "Red Square- companies shares with government interest" (2009: "Kuznitsky most", "Trading Floor - MICEX Index", "Red Square- companies shares with government interest").

Corporate shares are represented by shares denominated in Russian roubles, Lithuanian litas, euros: Vilnius Stock Exchange JSC, Siberian Interbank Currency Exchange, JV "Stock Exchange Congress" CJSC, SWIFT Company, RusServiceBusiness JSC, JS Bank "Caucasian Bank".

Due to the absence of available market quotes and inability to determine fair value on the regular basis, corporate equity securities are recorded at cost and tested for impairment.

Below is the credit quality analysis of issuers of debt securities available for sale as at 31 December 2010 in accordance with international agencies' ratings:

	Without rate	Total
Corporate debt securities		
- Corporate bonds		
Volzhskaya Textile Company OJSC	3 970	3 970
Total debt securities available for sale (gross)		**3 970**

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

	S&P	Moody's	Fitch	Amount	Without rate	Total
Government debt securities						
- Eurobonds of Russian Federation	BBB	Baa1	BBB	33	-	33
Corporate debt securities						
- Corporate bonds						
Volzhskaya Textile Company OJSC	-	-	-	-	3 970	3 970
Total debt securities available for sale (gross)				**33**	**3 970**	**4 003**

Movements in provision for impairment of financial assets available for sale during 2010 and 2009 are as follows:

	Corporate debt securities	Corporate equity securities	Total
Provision for impairment as at 1 January 2009	**3 986**	**980**	**4 966**
(Recovery of provision)/provision for impairment during the year 2009	(16)	2	(14)
Provision for impairment as at 31 December 2009	**3 970**	**982**	**4 952**
Recovery of provision for impairment during the year 2010	-	(621)	(621)
Provision for impairment as at 31 December 2010	**3 970**	**361**	**4 331**

(in thousands of Russian Roubles)

10. Investments Held To Maturity

	2010	2009
Municipal corporate debt securities		
- Municipal bonds	73 919	10 050
Corporate debt securities		
- Corporate bonds	96 186	-
Total investments held to maturity	**170 105**	**10 050**

Municipal bonds are represented by Rouble-denominated debt securities issued by subjects of the Russian Federation and local administrations and freely tradable on the MICEX. As at 31 December 2010, these bonds have maturity from May 2013 to December 2014 (2009:June 2014), coupon rates from 8.3% to 12.5% (2009: 12.5%) and yield to maturity from 7.2% to 8.8% (2009:12.8%).

Corporate bonds are represented by Rouble-denominated securities issued by large Russian companies and credit. As at 31 December 2010, corporate bonds in the Bank's portfolio have maturity dates from March to August 2013, coupon rates ranging from 7.2% to 7.8% and yield to maturity from 7.2% to 8.8%.

Below is the credit quality analysis of issuers of investments held to maturity as at 31 December 2010 in accordance with ratings of international agencies:

	S&P	Moody's	Fitch	Amount
Government and municipal debt securities				
- Municipal bonds				
Kazan	-	-	B+	20 046
Krasnodar	-	Ba2	-	15 621
Krasnodar Territory	BB	-	BB	8 028
Tver region	B+	-	-	10 053
Yaroslavl region	-	-	BB-	20 171
Total municipal bonds				**73 919**
Corporate debt securities				
- Corporate bonds				
Bank for Foreign Trade OJSC	BBB	Baa1	BBB	55 421
Russian Agricultural Bank OJSC	-	Baa1	BBB	10 244
Aeroflot - Russian airlines OJSC	-	-	BB+	30 521
Total corporate bonds				**96 186**
Total debt securities available for sale (gross)				**170 105**

Below is the credit quality analysis of issuers of investments held to maturity as at 31 December 2009 in accordance with ratings of international agencies:

	S&P	Amount
Government and municipal debt securities		
- Municipal bonds		
Tver region	B+	10 050
Total investments held to maturity		**10 050**

11. Investment Property

The table below presents information on changes in the fair value of investment property:

	2010	2009
Cost at 1 January	**231 219**	**213 791**
Disposal of investment property	(186 025)	-
Change in fair value during the year	6 032	17 428
Cost at 31 December	**51 226**	**231 219**

(in thousands of Russian Roubles)

In 2010 the Bank sold a building located at 33, stroyenie 1, ulitsa Bolshaya Nikitskaya, Moscow owned by CJSC Dossom controlled by the Bank of Moscow (OJSC). The selling cost was defined based on the appraiser's report and amounted to RUR 549 830 thousand, excluding VAT. Sale revenue in the amount of RUR 363 805 thousand is recognised in the statement of comprehensive income for 2010.

As at 31 December 2009, investment property includes buildings in Moscow located at 33/1 Bolshaya Nikitskaya Street and 12/1 Bolshaya Molchanovka Street leased to earn rental income. Before 2006 these buildings were recorded as premises and equipment of the Bank and from the first of January 2006 were reclassified as investment property.

The fair value of the Bank's investment property as at 31 December 2010 was determined by independent valuation firm NEO Centre LLC and is based on the market value. Gain on revaluation of investment property in the amount of RUR 6 032 thousand (2009:17 428 thousand) is included in the statement of comprehensive income for the year ended 31 December 2010 as "Gains from revaluation of investment property".

During 2010, the direct operating expenses relating to investment property that generates a rental income amounted to RUR 6 083 thousand (2009: RUR 3 404 thousand). The rental income for 2010 amounted to RUR 27 976 thousand (2009: RUR 30 883 thousand).

12. Premises and Equipment

	Structures	Furniture	Computers and office equipment	Motor vehicles	Total
Net book value as at 31 December 2009	**790**	**3 440**	**5 873**	**16 291**	**26 394**
Cost					
Balance as at 1 January 2010	816	7 616	21 304	37 401	67 137
Additions	-	74	1 709	42	1 825
Purchases under lease contracts	-	-	-	3 107	3 107
Disposals	-	-	(1 588)	(4 351)	(5 939)
Balance as at 31 December 2010	**816**	**7 690**	**21 425**	**36 199**	**66 130**
Accumulated depreciation					
Balance as at 1 January 2010	26	4 176	15 431	21 110	40 743
Depreciation charge	16	878	1 705	7 029	9 628
Depreciation of premises and equipment acquired under lease contracts	-	-	-	132	132
Disposals	-	-	(1 519)	(3 614)	(5 133)
Balance as at 31 December 2010	**42**	**5 054**	**15 617**	**24 657**	**45 370**
Net book value as at 31 December 2010	**774**	**2 636**	**5 808**	**11 542**	**20 760**

(in thousands of Russian Roubles)

	Structures	Furniture	Computers and office equipment	Motor vehicles	Total
Net book value as at 31 December 2008	**806**	**4 290**	**6 943**	**21 101**	**33 140**
Cost					
Balance as at 1 January 2009	816	8 818	27 273	37 138	74 045
Additions	-	32	735	146	913
Purchases under lease contracts	-	-	-	2 448	2 448
Disposals	-	(1 234)	(6 704)	(2 331)	(10 269)
Balance as at 31 December 2009	**816**	**7 616**	**21 304**	**37 401**	**67 137**
Accumulated depreciation					
Balance as at 1 January 2009	10	4 528	20 330	16 037	40 905
Depreciation charge	16	882	1 738	5 482	8 118
Depreciation of premises and equipment acquired under lease contracts	-	-	-	1 922	1 922
Disposals	-	(1 234)	(6 637)	(2 331)	(10 202)
Balance as at 31 December 2009	**26**	**4 176**	**15 431**	**21 110**	**40 743**
Net book value as at 31 December 2009	**790**	**3 440**	**5 873**	**16 291**	**26 394**

Premises and equipment in the Bank's balance sheet include long-term lease premises and equipment received by the Bank under finance lease contracts.

As at 31 December 2010, the carrying value of the motor vehicles received by the Bank under finance lease contracts amounted to RUR 3 107 thousand (2009: RUR 9 919 thousand).

As at 31 December 2010, the finance lease liabilities amounted to RUR 2 797 thousand (2009 : RUR 3 407 thousand), including short-term liabilities amounted to RUR 1 411 thousand (2009 : RUR 3 407 thousand), long-term liabilities amounted to RUR 1 386 thousand (2009 : none) (Note 16).

13. Other Assets

	2010	2009
Receivables	54 672	52 512
Settlements related to conversion transactions	6 189	303 791
Advance payments	1 297	-
Prepaid taxes (other than income tax)	920	514
Intangible assets	6	7
Deferred expenses	-	6 503
Other	302	175
Less: provision for impairment of other assets	(278)	(53)
Total other assets	**63 108**	**363 449**

Settlements related to conversion transactions represent amounts deposited with National Clearing Centre CJSC.

(in thousands of Russian Roubles)

The table below presents movements in the provision for impairment of other assets during 2010 and 2009:

	Receivables	Advance payments	Other	Total
Provision for impairment of other assets as at 1 January 2009	**115**	**57**	**92**	**264**
(Recovery of provision) for impairment of other assets during the year 2009	(21)	(57)	-	(78)
Other assets written off during the year 2009	(50)	-	(83)	(133)
Provision for impairment as at 31 December 2009	**44**	**-**	**9**	**53**
Provision/(recovery of provision) for impairment of other assets during the year 2010	212	22	(9)	225
Provision for impairment as at 31 December 2010	**256**	**22**	**-**	**278**

The table below presents the credit quality analysis of other financial assets as at 31 December 2010:

	Current and not impaired	Individually impaired	Total
Settlements related to conversion transactions	6 189	-	6 189
Receivables	54 416	256	54 672
Less: provision for impairment of other financial assets	-	(256)	(256)
Total other financial assets	**60 605**	**-**	**60 605**

Current and not impaired other financial assets represent assets with low level of credit risk.

The table below presents analysis of impaired other financial assets as at 31 December 2010:

	Less than 30 days	1 to 6 months	Past due over 1 year	Total
Receivables	81	154	21	256
Less: provision for impairment of other financial assets	(81)	(154)	(21)	(256)
Total impaired other financial assets	**-**	**-**	**-**	**-**

The table below presents the credit quality analysis of other financial assets as at 31 December 2009:

	Current and not impaired	Impaired	Total
Settlements related to conversion transactions	303 791	-	303 791
Receivables	52 439	73	52 512
Less: provision for impairment of other financial assets	-	(44)	(44)
Total other financial assets	**356 230**	**29**	**356 259**

The table below presents analysis of impaired other financial assets as at 31 December 2009:

	Outstanding	Past due over 1 year	Total
Receivables	34	39	73
Less: provision for impairment of other financial assets	(5)	(39)	(44)
Total impaired other financial assets	**29**	**-**	**29**

(in thousands of Russian Roubles)

14. Due to Other Banks

	2010	2009
Correspondent accounts	1	1
Deposits of other Banks	100 011	-
Total due to other banks	**100 012**	**1**

15. Customer Accounts

	2010	2009
Legal entities		
- Current/settlement accounts	533 072	850 637
- Term deposits	620 076	1 014 355
Individuals		
- Current/demand accounts	49 560	44 533
- Term deposits	116 406	229 481
Total customer accounts	**1 319 114**	**2 139 006**

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

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
	Amount	%	Amount	%
Lease of immovable property	555 346	42.1	758 877	35.5
Financial services	200 527	15.2	983 921	46.0
Individuals	165 966	12.6	274 014	12.8
Advertising	162 016	12.3	-	-
Industry	68 415	5.2	23 906	1.1
Trade	37 784	2.9	37 017	1.7
Transport services	18 834	1.4	10 682	0.5
Service sector	-	-	1 585	0.1
Other	110 226	8.3	49 004	2.3
Total customer accounts	**1 319 114**	**100.0**	**2 139 006**	**100.0**

As at 31 December 2010, the Bank had 2 customers (2009: 4 customer) with total balances over 10% of the Bank's capital. The aggregate amount of these customer accounts was RUR 651 599 thousand or 49.4% of total customer accounts (2009: RUR 1 164 511 thousand or 54.4% of total customer accounts).

16. Other Liabilities

	Note	2010	2009
Taxes other than income tax		113 446	22 082
Payables		6 604	6 584
Finance lease liabilities	12	2 797	3 407
Payables to employees		1 803	2 280
Dividends payable	23	78	112
Debt securities issued		2	2
Contracts with foreign currency		-	2 933
Other		619	820
Total other liabilities		**125 349**	**38 220**

Other taxes include value added tax (VAT) in the amount of RUR 112 316 thousand (2009: RUR 20 829 thousand), including VAT relating to the investment property sales in the amount of RUR 98 969 thousand (2009: none).

Payables to employees include unused vacation obligations.

(in thousands of Russian Roubles)

As at 31 December 2010, debt securities issued included deposit certificates issued by the Bank in the amount of RUR 2 thousand (2009: RUR 2 thousand). The above certificates of deposit matured in 1994 but were not claimed for payment on their maturity.

The table below presents information on the contracts with foreign currency as at 31 December 2009:

	Contractual amount	Fair value
Contracts with foreign currency		
- sale of USD	668 397	(7 742)
- purchase of USD	408 297	4 809
Total financial liabilities at fair value through profit or loss		**(2 933)**

17. Share Capital

Authorised, issued and fully paid share capital comprises:

	2010			2009		
	Number of shares	Nominal value	Inflation adjusted value	Number of shares	Nominal value	Inflation adjusted value
Ordinary shares	32 097 200	320 972	1 133 435	32 097 200	320 972	1 133 435
Total share capital	**32 097 200**	**320 972**	**1 133 435**	**32 097 200**	**320 972**	**1 133 435**

All ordinary shares have a nominal value of RUR 10 per share and carry one vote.

18. Retained Earnings according to Russian Accounting Standards

According to the Russian legislation only accumulated retained earnings recorded in the Bank's statutory financial statements may be distributed as dividends among the shareholders. As at 31 December 2010, the Bank's retained earnings amounted to RUR 679 789 thousand (2009: RUR 362 629 thousand), including profit of the reporting period in the amount of RUR 152 195 thousand (2009: RUR 60 820 thousand).

Equity reflected in the Bank's statutory records includes a reserve fund in the amount of RUR 48 146 thousand (2009: RUR 48 146 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general banking risks, including future losses and other unforeseen risks or contingent liabilities.

19. Interest Income and Expense

	2010	2009
Interest income		
Financial assets at fair value through profit or loss	113 653	99 319
Loans to customers	59 466	56 799
Due from other banks	23 522	10 331
Investments held to maturity	6 121	48
Financial assets available for sale	1	6
Total interest income	**202 763**	**166 503**
Interest expense		
Deposits of individuals	29 069	10 853
Deposits of legal entities	8 928	13 198
Due to other banks	574	2 269
Other	416	2 375
Total interest expense	**38 987**	**28 695**
Net interest income	**163 776**	**137 808**

(in thousands of Russian Roubles)

20. Fee and Commission Income and Expense

	2010	2009
Fee and commission income		
Commission on cash collection	319 245	271 336
Commission on settlement transactions	3 474	2 804
Commission on foreign currency transactions	641	761
Commission on cash transactions	528	1 041
Other	3 804	6 454
Total fee and commission income	**327 692**	**282 396**
Fee and commission expense		
Commission on securities transactions	1 003	841
Commission on cash transfer services	588	550
Commission on settlement transactions	540	594
Commission on transactions with plastic cards	506	241
Commission on foreign currency transactions	368	693
Other	12	12
Total fee and commission expense	**3 017**	**2 931**
Net fee and commission income	**324 675**	**279 465**

21. Operating Expenses

	Note	2010	2009
Staff costs		188 467	172 591
Professional services (security, communications, etc.)		99 881	91 131
Rent		77 058	74 608
Administrative expenses		47 956	34 785
Taxes other than income tax		22 165	40 275
Other expenses related to premises and equipment		18 409	14 878
Depreciation of premises and equipment	12	9 760	10 040
Other		2 923	2 179
Total operating expenses		**466 619**	**440 487**

22. Income Tax

Income tax expense comprises the following:

	2010	2009
Current income tax expense	88 509	14 115
Effect of deferred taxation movement due to origination and reversal of temporary differences	(27 437)	11 462
Effect of deferred taxation in respect of revaluation reserve of premises and equipment, charged directly to equity	-	329
Income tax expense for the year	**61 072**	**25 906**

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

The table below presents reconciliation between the theoretical and the actual taxation charge.

	2010	2009
IFRS profit before taxation	**294 602**	**135 075**
Theoretical tax charge at the applicable statutory rate (2010: 20%; 2009: 20%)	58 920	27 015
Income on government securities taxed at 15%	(448)	(518)
Income on securities taxed at 9%	(5)	(1 044)
Non-deductible expenses less non-taxable income	2 605	453
Income tax expense for the year	**61 072**	**25 906**

(in thousands of Russian Roubles)

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Bank profits tax purposes. Deferred tax liabilities have the rate of 20% (2009: 20%).

	2010	Movement	2009
Tax effect of deductible temporary differences			
Financial assets at fair value through profit or loss	6 409	6 218	191
Revaluation of financial assets available for sale	1 328	-	1 328
Lease liabilities	559	(122)	681
Unused vacation pay accruals	361	(95)	456
Other	1 675	1 401	274
Gross deferred tax assets	**10 332**	**7 402**	**2 930**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	20 798	12 117	8 681
Revaluation of investment property	5 455	(18 958)	24 413
Premises and equipment	2 240	955	1 285
Revaluation of premises and equipment	-	(14 149)	14 149
Gross deferred tax liabilities	**28 493**	**(20 035)**	**48 528**
Total net deferred tax liability	**(18 161)**	**27 437**	**(45 598)**

	2009	Movement	2008
Tax effect of deductible temporary differences			
Revaluation of financial assets available for sale	1 328	-	1 328
Revaluation of financial assets at fair value through profit or loss	191	(328)	519
Lease liabilities	681	(739)	1 420
Unused vacation pay accruals	456	39	417
Other	274	70	204
Gross deferred tax assets	**2 930**	**(958)**	**3 888**
Tax effect of taxable temporary differences			
Revaluation of investment property	24 413	3 485	20 928
Revaluation of premises and equipment	14 149	(329)	14 478
Provision for impairment of other assets	8 681	7 862	819
Premises and equipment	1 285	(514)	1 799
Gross deferred tax liabilities	**48 528**	**10 504**	**38 024**
Total net deferred tax liability	**(45 598)**	**(11 462)**	**(34 136)**

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

As at 31 December 2009, the total deferred tax liability in the amount of RUR 14 149 thousand was calculated in respect of positive revaluation of buildings at fair value before reclassification to investment property and recorded within the Bank's capital in accordance with IAS 16.

As at 31 December 2010 deferred tax asset in the amount of RUR 1 328 thousand (2009: RUR 1 328 thousand) was calculated in respect of revaluation of financial assets available for sale. Revaluation of financial assets available for sale is accounted within other comprehensive income. Deferred tax attributable to revaluation of financial assets available for sale is accounted as changes in equity and is translated to profit or loss at the moment of disposal of financial assets available for sale.

(in thousands of Russian Roubles)

23. Dividends

	2010	2009
Dividends payable as at 1 January	112	53
Dividends declared during the year	6 740	9 629
Dividends paid during the year	(6 732)	(9 570)
Dividends classified as income	(42)	-
Dividends payable as at 31 December	78	112

All dividends are declared and paid in Russian Roubles.

Dividends classified as income are dividends unclaimed by shareholders within legally established time.

24. Risk Management

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

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

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

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

Maximum level of credit risk of the Bank is usually reflected in the value of financial assets shown in the statement of financial position. Possible offsetting of assets and liabilities is not material for reducing possible credit risk. For credit related commitments maximum level of credit risk is equal to the total amount of liabilities shown in the Note 26.

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

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

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

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

(in thousands of Russian Roubles)

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

The market risk is assessed by the Bank in accordance with the requirements of CBR Regulation No. 313-P of 14 November 2007 "On Procedure of Market Risk Calculation by Credit Institutions".

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

	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	248 326	10 194	98	258 618
Mandatory cash balances with the Bank of Russia	35 763	-	-	35 763
Financial assets at fair value through profit or loss	1 399 110	140 782	-	1 539 892
Due from other banks	164 028	45 719	-	209 747
Loans to customers	316 575	-	128 361	444 936
Financial assets available for sale	20 813	111	-	20 924
Investments held to maturity	170 105	-	-	170 105
Investment property	51 226	-	-	51 226
Premises and equipment	20 760	-	-	20 760
Other assets	62 773	335	-	63 108
Total assets	**2 489 479**	**197 141**	**128 459**	**2 815 079**
Liabilities				
Due to other banks	100 012	-	-	100 012
Customer accounts	1 017 282	986	300 846	1 319 114
Other liabilities	125 315	34	-	125 349
Current tax liabilities	71 747	-	-	71 747
Deferred tax liabilities	18 161	-	-	18 161
Total liabilities	**1 332 517**	**1 020**	**300 846**	**1 634 383**
Net balance sheet position	**1 156 962**	**196 121**	**(172 387)**	**1 180 696**

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

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	57 090	29 998	95	87 183
Mandatory cash balances with the Bank of Russia	23 953	-	-	23 953
Financial assets at fair value through profit or loss	810 154	98 856	-	909 010
Due from other banks	714 509	393 193	-	1 107 702
Loans to customers	368 746	-	25 041	393 787
Financial assets available for sale	27 764	119	-	27 883
Investments held to maturity	10 050	-	-	10 050
Investment property	231 219	-	-	231 219
Premises and equipment	26 394	-	-	26 394
Other assets	363 295	154	-	363 449
Total assets	**2 633 174**	**522 320**	**25 136**	**3 180 630**
Liabilities				
Due to other banks	1	-	-	1
Customer accounts	2 084 279	947	53 780	2 139 006
Other liabilities	38 168	52	-	38 220
Current tax liabilities	3 885	-	-	3 885
Deferred tax liabilities	45 598	-	-	45 598
Total liabilities	**2 171 931**	**999**	**53 780**	**2 226 710**
Net balance sheet position	**461 243**	**521 321**	**(28 644)**	**953 920**

* OECD- Organization for economic co-operation and development

(in thousands of Russian Roubles)

Currency risk. The Bank takes on exposure to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The Credit committee sets limits on conversion deals and «stop-loss» limits. The Treasure Department controls limits of open currency position in compliance with CBR regulation on the daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2010. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by major currencies.

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	226 529	12 074	19 689	326	258 618
Mandatory cash balances with the Bank of Russia	35 763	-	-	-	35 763
Financial assets at fair value through profit or loss	1 399 111	140 781	-	-	1 539 892
Due from other banks	163 724	46 023	-	-	209 747
Loans to customers	442 743	2 193	-	-	444 936
Financial assets available for sale	20 813	-	111	-	20 924
Investments held to maturity	170 105	-	-	-	170 105
Investment property	51 226	-	-	-	51 226
Premises and equipment	20 760	-	-	-	20 760
Other assets	56 581	6 446	81	-	63 108
Total assets	**2 587 355**	**207 517**	**19 881**	**326**	**2 815 079**
Liabilities					
Due to other banks	100 011	1	-	-	100 012
Customer accounts	1 092 593	206 431	19 931	159	1 319 114
Other liabilities	125 289	57	3	-	125 349
Current tax liabilities	71 747	-	-	-	71 747
Deferred tax liabilities	18 161	-	-	-	18 161
Total liabilities	**1 407 801**	**206 489**	**19 934**	**159**	**1 634 383**
Net balance sheet position	**1 179 554**	**1 028**	**(53)**	**167**	**1 180 696**

(in thousands of Russian Roubles)

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

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	38 729	13 091	35 039	324	87 183
Mandatory cash balances with the Bank of Russia	23 953	-	-	-	23 953
Financial assets at fair value through profit or loss	810 154	98 856	-	-	909 010
Due from other banks	714 207	393 495	-	-	1 107 702
Loans to customers	393 787	-	-	-	393 787
Financial assets available for sale	27 731	152	-	-	27 883
Investments held to maturity	10 050	-	-	-	10 050
Investment property	231 219	-	-	-	231 219
Premises and equipment	26 394	-	-	-	26 394
Other assets	60 875	298 018	4 556	-	363 449
Total assets	**2 337 099**	**803 612**	**39 595**	**324**	**3 180 630**
Liabilities					
Due to other banks	-	1	-	-	1
Customer accounts	1 549 255	549 870	39 741	140	2 139 006
Other liabilities	35 227	2 976	17	-	38 220
Current tax liabilities	3 885	-	-	-	3 885
Deferred tax liabilities	45 598	-	-	-	45 598
Total liabilities	**1 633 965**	**552 847**	**39 758**	**140**	**2 226 710**
Net balance sheet position	**703 134**	**250 765**	**(163)**	**184**	**953 920**
Net off-balance sheet position	**260 100**	**(260 100)**	**-**	**-**	**-**
Net balance and off-balance sheet position	**963 234**	**(9 335)**	**(163)**	**184**	**953 920**

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

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

	2010	
	Effect on profit before taxation	**Effect on comprehensive income**
USD appreciation by 4%	41	33
USD depreciation by 4%	(41)	(33)
EUR appreciation by 5%	(3)	(2)
EUR depreciation by 5%	3	2
Appreciation of other currencies by 5%	8	6
Depreciation of other currencies by 5%	(8)	(6)

(in thousands of Russian Roubles)

The table below shows the change in the financial result and comprehensive income due to possible fluctuations of exchange rates used as at 31 December 2009 if all other conditions remain unchanged.

	2009	
	Effect on profit before taxation	**Effect on comprehensive income**
USD appreciation by 6%	(569)	(446)
USD depreciation by 6%	569	446
EUR appreciation by 7%	(11)	(9)
EUR depreciation by 7%	11	9
Appreciation of other currencies by 5%	9	7
Depreciation of other currencies by 5%	(9)	(7)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls from customers on its available cash resources from current accounts, maturing deposits, loan draw downs and other calls on cash settled derivatives. The Bank does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. The Bank's approach to liquidity management is to ensure sufficient liquidity to meet its liabilities when due (both under normal and unexpected conditions) without incurring unacceptable losses and risking damage to the Bank's reputation. The liquidity risk is managed Treasury Department of the Bank. To assess the liquidity risk, the Bank analyses the incoming payments and write offs on which basis the liquidity is balanced by maturity and cash flow dates. The assessment is based on management of assets and liabilities and planning of the expected margin income from asset- and liability-related transactions.

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

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

- Quick ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2010, this ratio was 50.5% (2009: 58.6%). Minimum ratio is established by the Bank of Russia at the level of 15%.
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. As at 31 December 2010, this ratio was 258.5% (2009: 96.5%). Minimum ratio is established by the Bank of Russia at the level of 50%.
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2010, this ratio was 18.7% (2009: 33.3%). Maximum ratio is established by the Bank of Russia at the level of 120%.

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

The daily liquidity position is monitored by the Treasury.

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

(in thousands of Russian Roubles)

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

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	100 132	-	-	-	100 132
Customer accounts	696 203	626 061	2 158	-	1 324 422
Finance lease liabilities	163	784	878	1 558	3 383
Total potential future payments under financial liabilities	**796 498**	**626 845**	**3 036**	**1 558**	**1 427 937**

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1	-	-	-	1
Customer accounts	1 982 632	162 031	1 796	136	2 146 595
Finance lease liabilities	522	2 248	937	-	3 707
Total potential future payments under financial liabilities	**1 983 155**	**164 279**	**2 733**	**136**	**2 150 303**

(in thousands of Russian Roubles)

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	258 618	-	-	-	-	258 618
Mandatory cash balances with the Bank of Russia	-	-	-	-	35 763	35 763
Financial assets at fair value through profit or loss	1 539 892	-	-	-	-	1 539 892
Due from other banks	209 747	-	-	-	-	209 747
Loans to customers	135 173	48 077	48 815	212 871	-	444 936
Financial assets available for sale	-	-	-	-	20 924	20 924
Investments held to maturity	-	-	-	170 105	-	170 105
Investment property	-	-	-	-	51 226	51 226
Premises and equipment	-	-	-	-	20 760	20 760
Other assets	55 706	7 352	44	-	6	63 108
Total assets	**2 199 136**	**55 429**	**48 859**	**382 976**	**128 679**	**2 815 079**
Liabilities						
Due to other banks	100 012	-	-	-	-	100 012
Customer accounts	696 026	621 003	2 085	-	-	1 319 114
Other liabilities	7 171	116 086	706	1 386	-	125 349
Current tax liabilities	-	71 747	-	-	-	71 747
Deferred tax liabilities	-	-	-	-	18 161	18 161
Total liabilities	**803 209**	**808 836**	**2 791**	**1 386**	**18 161**	**1 634 383**
Net liquidity gap as at 31 December 2010	**1 395 927**	**(753 407)**	**46 068**	**381 590**	**110 518**	**1 180 696**
Cumulative liquidity gap as at 31 December 2010	**1 395 927**	**642 520**	**688 588**	**1 070 178**	**1 180 696**	

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

(in thousands of Russian Roubles)

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	87 183	-	-	-	-	87 183
Mandatory cash balances with the Bank of Russia	-	-	-	-	23 953	23 953
Financial assets at fair value through profit or loss	909 010	-	-	-	-	909 010
Due from other banks	1 107 501	201	-	-	-	1 107 702
Loans to customers	5 338	25 563	92 248	270 638	-	393 787
Financial assets available for sale	-	33	-	-	27 850	27 883
Investments held to maturity	-	-	-	10 050	-	10 050
Investment property	-	-	-	-	231 219	231 219
Premises and equipment	-	-	-	-	26 394	26 394
Other assets	357 586	1 897	929	3 030	7	363 449
Total assets	**2 466 618**	**27 694**	**93 177**	**283 718**	**309 423**	**3 180 630**
Liabilities						
Due to other banks	1	-	-	-	-	1
Customer accounts	1 977 369	159 747	1 754	136	-	2 139 006
Other liabilities	34 622	2 137	1 449	-	12	38 220
Current tax liabilities	-	3 885	-	-	-	3 885
Deferred tax liabilities	-	-	-	-	45 598	45 598
Total liabilities	**2 011 992**	**165 769**	**3 203**	**136**	**45 610**	**2 226 710**
Net liquidity gap as at 31 December 2009	**454 626**	**(138 075)**	**89 974**	**283 582**	**263 813**	**953 920**
Cumulative liquidity gap as at 31 December 2009	**454 626**	**316 551**	**406 525**	**690 107**	**953 920**	

As the above analysis as at 31 December 2010 and 31 December 2009 is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as "On demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

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

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

The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(in thousands of Russian Roubles)

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

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

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

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	15 290	-	-	-	243 328	258 618
Mandatory cash balances with the Bank of Russia	-	-	-	-	35 763	35 763
Financial assets at fair value through profit or loss	1 539 892	-	-	-	-	1 539 892
Due from other banks	209 747	-	-	-	-	209 747
Loans to customers	135 173	48 077	48 815	212 871	-	444 936
Financial assets available for sale	-	-	-	-	20 924	20 924
Investments held to maturity	-	-	-	170 105	-	170 105
Investment property	-	-	-	-	51 226	51 226
Premises and equipment	-	-	-	-	20 760	20 760
Other assets	-	-	-	-	63 108	63 108
Total assets	**1 900 102**	**48 077**	**48 815**	**382 976**	**435 109**	**2 815 079**
Liabilities						
Due to other banks	100 011	-	-	-	1	100 012
Customer accounts	127 773	621 003	2 085	-	568 253	1 319 114
Other liabilities	118	587	706	1 386	122 552	125 349
Current tax liabilities	-	-	-	-	71 747	71 747
Deferred tax liabilities	-	-	-	-	18 161	18 161
Total liabilities	**227 902**	**621 590**	**2 791**	**1 386**	**780 714**	**1 634 383**
Net interest rate gap as at 31 December 2010	**1 672 200**	**(573 513)**	**46 024**	**381 590**	**(345 605)**	**1 180 696**
Cumulative interest rate gap as at 31 December 2010	**1 672 200**	**1 098 687**	**1 144 711**	**1 526 301**	**1 180 696**	

(in thousands of Russian Roubles)

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

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	29 954	-	-	-	57 229	87 183
Mandatory cash balances with the Bank of Russia	-	-	-	-	23 953	23 953
Financial assets at fair value through profit or loss	909 010	-	-	-	-	909 010
Due from other banks	1 107 501	201	-	-	-	1 107 702
Loans to customers	5 338	25 563	92 248	270 638	-	393 787
Financial assets available for sale	-	33	-	-	27 850	27 883
Investments held to maturity	-	-	-	10 050	-	10 050
Investment property	-	-	-	-	231 219	231 219
Premises and equipment	-	-	-	-	26 394	26 394
Other assets	-	-	-	-	363 449	363 449
Total assets	**2 051 803**	**25 797**	**92 248**	**280 688**	**730 094**	**3 180 630**
Liabilities						
Due to other banks	-	-	-	-	1	1
Customer accounts	1 082 199	159 747	1 754	136	895 170	2 139 006
Other liabilities	458	2 122	827	-	34 813	38 220
Current tax liabilities	-	-	-	-	3 885	3 885
Deferred tax liabilities	-	-	-	-	45 598	45 598
Total liabilities	1 082 657	161 869	2 581	136	979 467	2 226 710
Net interest rate gap as at 31 December 2009	**969 146**	**(136 072)**	**89 667**	**280 552**	**(249 373)**	**953 920**
Cumulative interest rate gap as at 31 December 2009	**969 146**	**833 074**	**922 741**	**1 203 293**	**953 920**	

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

	2010			2009		
	RUR	**USD**	**EUR**	**RUR**	**USD**	**EUR**
Assets						
Financial assets at fair value through profit or loss	11.2%	7.2%	-	12.8%	7.7%	-
Due from other banks	7.8%	0.1%	-	5.4%	0.1%	-
Loans to customers	10.4%	10.0%	-	12.8%	10.0%	-
Financial assets available for sale	-	-	-	-	8.3%	-
Investments held to maturity	8.3%	-	-	12.5%	-	-
Liabilities						
Due to other banks	4.0%	0.0%	-	-	-	-
Customer accounts						
- current and settlement accounts	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- term deposits of legal entities	2.9%	-	-	6.5%	-	-
- term deposits of individuals	7.0%	3.7%	3.2%	7.9%	5.6%	4.4%
Other liabilities	9.8%	-	-	11.9%	-	-

The "-" sign in the table above means that the Bank does not have assets or liabilities in the corresponding currency.

(in thousands of Russian Roubles)

25. Capital Management

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation, in particular, deposit insurance system requirements; to ensure the Bank's ability to operate as a going concern and maintain capital base at the level required to sustain capital adequacy ratio at 10% required by the CBR. The control over compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised daily in respect of the projected and actual data and on the basis of monthly reports with the corresponding calculations that are verified by the Bank's Executive Board. As a result during 2010 and 2009 the capital to assets ratio was sustained at the level not below 11%, being in compliance with financial stability requirements prescribed by the deposit insurance system.

The Bank's policy is aimed at sustaining the Bank's capital required to maintain the confidence of creditors, investors and the market as a whole and to assure future development of the Bank. In accordance with the existing capital requirements set by the CBR the banks are required to maintain the risk-adjusted capital to asset ratio (capital adequacy ratio) at the level above the mandatory minimum level. The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Russian legislation:

	2010	2009
Core capital	896 706	652 762
Additional capital	189 941	216 996
Total regulatory capital	**1 086 647**	**869 758**

During 2010 and 2009 the Bank complied with all capital requirements set by the CBR. As at 31 December 2010, the Bank's capital adequacy ratio (H1) was 44.4% (2009: 40.5%). The minimum admissible value is set by the CBR at 10%.

26. Contingent Liabilities

Legal issues. In the ordinary course of business the Bank is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

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

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

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

	2010	2009
Less than 1 year	11 231	11 231
Total operating lease commitments	**11 231**	**11 231**

Credit related commitments. The main objective of these instruments is to provide funds to customers when necessary. The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

With respect to credit risk on undrawn credit lines, the Bank is less exposed to the risk of loss since in the case of impairment of loans issued the Bank will not pay the remaining amounts. Therefore, no provision for these credit related commitments is created.

(in thousands of Russian Roubles)

As at 31 December 2010 credit related commitments include undrawn credit lines in the amount of RUR 20 151 thousand (2009: RUR 30 143 thousand).

27. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for the major part of the Bank's financial instruments, the fair value shall be estimated based on current market conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

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

		2010		2009
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	258 618	258 618	87 183	87 183
Financial assets at fair value through profit or loss	1 539 892	1 539 892	909 010	909 010
Due from other banks	209 747	209 747	1 107 702	1 107 702
Loans to customers	444 936	444 936	393 787	393 787
Financial assets available for sale	20 924	20 924	27 883	27 883
Investments held to maturity	170 105	172 334	10 050	9 948
Financial liabilities				
Due to other banks	100 012	100 012	1	1
Customer accounts	1 319 114	1 319 114	2 139 006	2 139 006

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

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

Due from other banks. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The management believes that the fair values of due from other banks as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts. This is primarily due to the short-term nature of investments and the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

Investments held to maturity. The fair value of investments held to maturity is based on market quotations.

Due to other banks. The fair value of due to other banks maturing within one month approximates the carrying amount due to their relatively short-term maturity. For longer-term deposits, the estimated fair value is based on discounted cash flows using year-end market interest rates. The Bank believes that fair values of due to other banks do not materially differ from their carrying amounts as at 31 December 2010 and 31 December 2009. This is primarily due to the short-term nature of these liabilities.

(in thousands of Russian Roubles)

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

Below is the fair value hierarchy of financial assets as at 31 December 2010. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 3 includes financial assets whose fair value is determined based on judgment.

	Level 1	Level 3	Total
Financial assets at fair value through profit or loss	1 539 892	-	1 539 892
Financial assets available for sale	-	20 924	20 924

Below is the fair value hierarchy of financial assets as at 31 December 2009. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 2 includes financial assets whose fair value is measured using different valuation techniques. These models are based on observable data characterizing market conditions and factors which may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined based on judgment.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	795 913	113 097	-	909 010
Financial assets available for sale	33	-	27 850	27 883

(in thousands of Russian Roubles)

28. Reconciliation of Categories of Financial Instruments to Balance Sheet

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale; 4) investments held to maturity. IFRS 7 «Financial Instruments - disclosures» requires financial instruments to be presented by classes in financial statements.

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

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Investments held to maturity	Total
Cash and cash equivalents	258 618	-	-	-	258 618
Financial assets at fair value through profit or loss					
- Government and municipal debt securities	44 018	-	-	-	44 018
- Corporate debt securities	1 495 874	-	-	-	1 495 874
Due from other banks					
- Reverse repo agreements with other banks	-	163 724	-	-	163 724
- Loans and deposits with other banks	-	46 023	-	-	46 023
Loans to customers					
- Corporate loans	-	310 482	-	-	310 482
- Reverse repo agreements	-	124 687	-	-	124 687
- Consumer loans to individuals	-	6 943	-	-	6 943
- Loans to individual entrepreneurs, small and medium business	-	2 824	-	-	2 824
Financial assets available for sale					
- Corporate equity securities	-	-	20 924	-	20 924
Investments held to maturity					
- Municipal debt securities	-	-	-	73 919	73 919
- Corporate equity securities	-	-	-	96 186	96 186
Other financial assets					
- Settlements related to conversion transactions	-	6 189	-	-	6 189
- Receivables	-	54 416	-	-	54 416
Total financial assets	**1 798 510**	**715 288**	**20 924**	**170 105**	**2 704 827**
Non-financial assets					110 252
Total assets					**2 815 079**

(in thousands of Russian Roubles)

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

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Investments held to maturity	Total
Cash and cash equivalents	87 183	-	-	-	87 183
Financial assets at fair value through profit or loss					
- Government and municipal debt securities	69 315	-	-	-	69 315
- Corporate debt securities	839 695	-	-	-	839 695
Due from other banks					
- Loans and deposits with other banks	-	1 043 668	-	-	1 043 668
- Reverse repo agreements with other banks	-	64 034	-	-	64 034
Loans to customers					
- Corporate loans	-	309 372	-	-	309 372
- Consumer loans to individuals	-	81 223	-	-	81 223
- Loans to individual entrepreneurs, small and medium business	-	3 192	-	-	3 192
Financial assets available for sale					
- Government l debt securities	-	-	33	-	33
- Corporate equity securities	-	-	27 850	-	27 850
Investments held to maturity					
- Municipal debt securities	-	-	-	10 050	10 050
Other financial assets					
- Settlements related to conversion transactions	-	303 791	-	-	303 791
- Receivables	-	52 468	-	-	52 468
Total financial assets	**996 193**	**1 857 748**	**27 883**	**10 050**	**2 891 874**
Non-financial assets					288 756
Total assets					**3 180 630**

29. Related Party Transactions

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

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

(in thousands of Russian Roubles)

The table below presents the outstanding balances at the year end, asset-related transactions with related parties for 2010 and 2009:

	Shareholders	
	2010	2009
Due from other banks		
Due from other banks as at 1 January (gross)	84 120	15 929
Due from other banks issued during the year	-	8 100 096
Due from other banks repaid during the year	(84 120)	(8 031 905)
Due from other banks as at 31 December (gross)	**-**	**84 120**
Loans to customers		
Loans to customers as at 1 January (gross)	198 919	198 831
Loans to customers issued during the year	-	2 500
Loans to customers repaid during the year	(120 183)	(2 412)
Loans to customers as at 31 December (gross)	**78 736**	**198 919**
Provision for impairment of loans to customers		
Provision for impairment of loans to customers as at 1 January	11 713	24 290
Provision/(Recovery of provision) for impairment of loans to customers during the year	51 276	(12 577)
Provision for impairment of loans to customers as at 31 December	**62 989**	**11 713**
Loans to customers as at 1 January (less provision for loan impairment)	**187 206**	**174 541**
Loans to customers as at 31 December (less provision for loan impairment)	**15 747**	**187 206**

The table below presents the outstanding balances at the year end, liability-related transactions with related parties for 2010 and 2009:

	Shareholders		Directors and key management personnel	
	2010	2009	2010	2009
Due to other banks				
Due to other banks as at 1 January	324 974	-	-	-
Due to other banks received during the year	-	3 759 155	-	-
Due to other banks repaid during the year	(324 974)	(3 434 181)	-	-
Due to other banks as at 31 December	**-**	**324 974**	**-**	**-**
Customer accounts				
Customer accounts as at 1 January	-	2 969	22 793	11 661
Customer accounts received during the year	-	-	80 391	35 106
Customer accounts repaid during the year	-	(2 969)	(98 676)	(23 974)
Customer accounts as at 31 December	**-**	**-**	**4 508**	**22 793**

As at 31 December 2009 guarantees and sureties received from shareholders were RUR 40 725 thousands (2009: 39 084 thousands).

The table below presents income and expense items with related parties for the years 2010 and 2009:

	Shareholders		Directors and key management personnel	
	2010	2009	2010	2009
Interest income	4 608	12	-	126
Interest expense	-	247	705	971
Fee and commission income	-	15	196	126

In 2010 remuneration paid to key management personnel totalled RUR 15 613 thousand (2009: RUR 11 974 thousand).