LLC CB Aljba Alliance

Consolidated Financial Statements
For the Year Ended December 31, 2010

COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)

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**COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the "Group") as at December 31, 2010, and the consolidated results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

These consolidated financial statements for the year ended December 31, 2010 were authorized for issue on June 24, 2011 by the Management Board of the Bank.

On behalf of the Bank

A.N. Yakimov
Chairman of the Management Board

June 24, 2011
Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ALJBA ALLIANCE ОГРН 1025000004787 ★ г. МОСКВА ★ Лицензия № 2593

O.I. Anokhina
Chief Accountant

June 24, 2011
Moscow

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INDEPENDENT AUDITORS' REPORT

To the Participants and the Board of Directors of Commercial Bank Aljba Alliance (Limited Liability Company):

Report on the financial statements

We have audited the accompanying consolidated financial statements of Commercial Bank Aljba Alliance (Limited Liability Company) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated income statement, the consolidated statements of comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Deloitte & Touche

June 24, 2011
Moscow

COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)

	Note	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	3,25	335,652	349,572
Interest expense	3,25	(171,187)	(261,914)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		164,465	87,658
Recovery of provision for impairment losses on interest bearing assets	4, 25	13,789	20,254
NET INTEREST INCOME		178,254	107,912
Net (loss)/gain on financial assets at fair value through profit or loss	5	(150,358)	228,084
Net gain on foreign exchange operations	6	318,862	276,582
Net gain on precious metals operations		1,541	7,383
Fee and commission income	7	231,467	118,441
Fee and commission expense	7	(12,254)	(9,042)
Gain on sale of non-current assets held for sale	10	-	118,633
Other income	8	8,402	22,166
NET NON-INTEREST INCOME		397,660	762,247
OPERATING INCOME		575,914	870,159
OPERATING EXPENSES	9,25	(468,722)	(467,767)
PROFIT BEFORE INCOME TAX		107,192	402,392
Income tax expense	11	(27,011)	(55,532)
Profit from continuing operations		80,181	346,860
Profit from discontinued operations	12	-	65,090
NET INCOME		**80,181**	**411,950**

On behalf of the Bank

A.N. Yakimov
Chairman of the Management Board

June 24, 2011
Moscow

O.I. Anokhina
Chief Accountant

June 24, 2011
Moscow

The notes on pages 9-48 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)

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

	Year ended December 31, 2010	Year ended December 31, 2009
NET PROFIT	**80,181**	**411,950**
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences on translating foreign operations	2,370	(773)
TOTAL COMPREHENSIVE INCOME	**82,551**	**411,177**

On behalf of the Bank

A.N. Yakimov
Chairman of the Management Board

June 24, 2011
Moscow

O.I. Anokhina
Chief Accountant

June 24, 2011
Moscow

The notes on pages 9-48 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)

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

	Note	December 31, 2010	December 31, 2009
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	13	567,603	705,269
Financial assets at fair value through profit or loss	14	1,429,918	1,086,233
Due from banks and other financial institutions	15	2,554,305	2,104,824
Loans to customers	16,25	1,411,646	1,350,658
Property and equipment	17	633,464	642,428
Current income tax assets		5,714	26,045
Other assets	18	24,787	26,768
TOTAL ASSETS		**6,627,437**	**5,942,225**
LIABILITIES:			
Due to banks	19	-	94,351
Customer accounts	20,25	4,134,237	3,597,770
Debt securities issued	21	268,309	228,053
Current income tax liability		-	6,847
Deferred income tax liability	11	55,067	52,487
Other liabilities	22	296,291	106,676
Net assets attributable to the participants of the Group	23	1,873,533	1,856,041
TOTAL LIABILITIES		**6,627,437**	**5,942,225**

On behalf of the Bank

A.N. Yakimov
Chairman of the Management Board

June 24, 2011
Moscow

O.I. Anokhina
Chief Accountant

June 24, 2011
Moscow

The notes on pages 9-48 form an integral part of these consolidated financial statements.

COMMERCIAL BANK ALJBA ALLIANCE
(LIMITED LIABILITY COMPANY)

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax, including profit from discontinued operations		107,192	467,482
Adjustments:			
Recovery of provision for impairment losses on interest bearing assets		(13,789)	(20,254)
Depreciation		28,205	30,993
Net change in interest accruals		41,297	(38,515)
Income from sale of property and equipment		(1,185)	(4,329)
Net change in fair value of financial assets at fair value through profit or loss		34,231	(46,458)
Exchange difference on precious metals operations		(1,406)	(6,772)
Gain on disposal of non-current assets held for sale		-	(118,633)
Gain on discontinued operations		-	(65,090)
Translation differences		(93,895)	(15,806)
Cash flows from operating activities before changes in operating assets and liabilities		**100,650**	**182,618**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank of the Russian Federation		(11,904)	(77,336)
Loans and advances to banks		(594,034)	363,287
Financial assets at fair value through profit or loss		(397,972)	(750,215)
Loans to customers		(44,171)	602,935
Other assets		5,564	131,838
Increase/(decrease) in operating liabilities:			
Loans from the Central Bank of the Russian Federation		-	(1,102,026)
Due to banks		(94,463)	(157,957)
Customer accounts		593,407	(653,809)
Debt securities issued		37,560	(536,173)
Other liabilities		192,440	8,108
Cash outflow from operating activities before taxation		(212,923)	(1,988,730)
Income tax paid		(10,947)	(22,099)
Net cash outflow from operating activities		(223,870)	(2,010,829)

COMMERCIAL BANK "ALJBA ALLIANCE" (LIMITED LIABILITY COMPANY)

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(20,782)	(2,464)
Proceeds on disposal of property end equipment		2,726	5,686
Proceeds on disposal of non-current assets held for sale		-	(179)
Net cash outflow on Group reorganization		-	(25)
Net cash (outflow)/inflow from investing activities		(18,056)	3,018
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions to Group participants		(65,059)	(70,000)
Net cash outflow from financing activities		(65,059)	(70,000)
Effect of foreign exchange rate changes on cash and cash equivalents		11,271	232,659
NET DECREASE IN CASH AND CASH EQUIVALENTS		(295,714)	(1,845,152)
CASH AND CASH EQUIVALENTS, beginning of year	**13**	**2,302,591**	**4,147,743**
CASH AND CASH EQUIVALENTS, end of year	**13**	**2,006,877**	**2,302,591**

Interest paid and received by the Group during the year ended December 31, 2010 amounted to RUB 215,526 thousand and RUB 338,694 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2009 amounted to RUB 234,052 thousand and RUB 343,663 thousand, respectively.

On behalf of the Bank

A.N. Yakimov
Chairman of the Management Board

June 24, 2011
Moscow

O.I. Anokhina
Chief Accountant

June 24, 2011
Moscow

РОССИЙСКАЯ ФЕДЕРАЦИЯ ★ Коммерческий Банк "Альба Альянс" (Общество с ограниченной ответственностью) ★ Лицензия № 2593 ★ г. МОСКВА ★ ОГРН 1025000004787
ALJBA ALLIANCE

The notes on pages 9-48 form an integral part of these consolidated financial statements.

1. ORGANIZATION

Commercial Bank Aljba Alliance (Limited Liability Company) (the "Bank") is a limited liability company, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2593. In addition, the Bank holds licenses for broker, dealer, depositary and security management operations issued by the Federal Service for Financial Markets in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank's activities include commercial banking, financial and other operations. These operations include attraction of deposits, issue of commercial loans in freely convertible currencies and in Russian rubles, settlements on customer export/import operations, currency exchange operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players, and operations with securities and derivatives. The Bank conducts operations in the Russian and international markets.

The registered office of the Bank is located at: 1 Kremlevskaya nab., bld. 2, Moscow, Russian Federation.

The Bank is a parent company of a group of companies (the "Group") which include the following companies consolidated in the financial statements:

Name	Country of operation	Proportion of ownership interest/ voting rights, % December 31, 2010	December 31, 2009	Type of operation
OOO SOVLINK	Russia	100%	100%	Broker and dealer services, corporate finance and financial advisory services
OOO Aljba Vehicle	Russia	100%	100%	Transportation services
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, broker operations, securities management, agency and other services to Russian debt and equity securities market players
Lopilato Investments Limited	Cyprus	100%	100%	Investments, securities management, agency and advisory finance services

As at December 31, 2010 and 2009, the following participants (ultimate beneficiaries) owned 100% of the Bank's share capital:

Participants	% in share capital
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
Total	**100.0**

These consolidated financial statements for the year ended December 31, 2010 were authorized for issue on June 24, 2011 by the Management Board of Commercial Bank Aljba Alliance (Limited Liability Company).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

The US dollar was the Group's functional currency before January 1, 2005, for which reason the Group did not apply IAS 29 *Financial Reporting in Hyperinflationary Economies*.

Other basis of presentation criteria

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

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

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Bank maintain their accounting records in accordance with IFRS. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months (non—current) is presented in Note 28.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to December 31 each year. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.
Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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

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

Recognition of income on repurchase and reverse repurchase agreements

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

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed.

All other commissions are recognized as services are provided.

Recognition of dividend income

Dividend income is recognized on the ex-dividend date (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of rental income

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

Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘Net gain/(loss) on financial assets and liabilities at fair value through profit or loss’ line item in the consolidated income statement.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Available-for-sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value.

Corporate bonds and equity securities held by the Group that are traded in an active market are classified as AFS and are stated at amortized cost/cost less impairment loss (if any), unless the fair value can be measured reliably. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and receivables

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

Securities repurchase and reverse repurchase agreements and securities lending transactions

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

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

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

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

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

Impairment of financial assets

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

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

For all other financial assets objective evidence of impairment could include:

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

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

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

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

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

Write-off of loans and advances

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

Derecognition of financial assets

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

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

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

Financial liabilities issued

Classification as debt or equity

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

Financial Liabilities

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

Other financial liabilities

Other financial liabilities, including due to banks, customer accounts, debt securities issued, and other liabilities are initially recognized at fair value, less transaction costs.

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

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

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

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

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

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

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps.

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

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts and balances with banks and other financial institutions with original maturities within 90 days, which may be converted to cash within a short period of time and thus are considered liquid.

For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. The cost of an item of property and equipment is the cash price equivalent at the recognition date.

Depreciation of property and equipment is designed to write off assets (other than a land plot) over their useful economic lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	2%-4%
Furniture and equipment	5%-20%
Motor vehicles	14%-20%

Freehold land is not depreciated.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange (LME) rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are directly recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

Operating taxes

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

Provisions

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

Contingencies

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

Fiduciary activities

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary), all of the exchange differences accumulated in net assets attributable to the Group's participants are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in net assets attributable to the Group's participants.

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

	December 31, 2010	**December 31, 2009**
RUB/1 US Dollar	30.4769	30.2442
RUB/1 Euro	40.3331	43.3883

Collateral

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

Non-current assets held-for-sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held-for-sale.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Net assets attributable to the participants of the Group

As the Bank is incorporated as a limited liability company, participants may leave the company at any time regardless of the agreement of other participants or the company. If any of the participants leaves the company the participant's share is transferred to the company. The company shall pay to such participant the value of its share or transfer property of the same value subject to agreement of the participant. For this reason, shares of the participants in the company's share capital, and retained earnings of the company are reported as net assets attributable to the participants of the Group.

Areas of significant management judgment and sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Impairment of loans to customers

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

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

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

As at December 31, 2010 and 2009, the gross loans to customers totaled RUB 1,525,515 thousand and RUB 1,479,595 thousand, respectively, and allowance for impairment losses amounted to RUB 113,869 thousand and RUB 128,937 thousand, respectively.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the consolidated statement of financial position as well as its profit/(loss) could have a material impact on its financial statements in future periods.

The management of the Group believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments as at the reporting date.

Adoption of new and revised IFRSs

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group’s accounting policies that have affected the amounts reported for the current or prior years.

New and revised IFRSs affecting presentation and disclosure only

Amendments to IAS 7 *Statement of Cash Flows* (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. No changes were necessary as a result of the adoption of this amendment.
Amendments to IFRS 7 *Financial Instruments: Disclosures* (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. This amendment has had no effect on the amounts reported as the Group has not applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011).
Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). No changes were necessary as a result of the adoption of this amendment.

New and revised IFRSs in issue but not yet effective

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

Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
IFRS 9 (as amended in 2010)	Financial instruments
IAS 24 (as amended in 2009)	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues.
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments.

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

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

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

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

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

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

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

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

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

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

3. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
Interest income		
Interest income on financial assets recorded at amortized cost:		
Interest on impaired financial assets	94,370	150,034
Interest on unimpaired financial assets	161,867	169,316
Interest on financial assets held for trading	79,415	30,222
Total interest income	**335,652**	**349,572**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	222,992	275,301
Interest on due from banks	33,245	44,049
Total interest income on financial assets recorded at amortized cost	**256,237**	**319,350**
Interest expense		
Interest on financial liabilities recorded at amortized cost	(171,187)	(261,914)
Total interest expense	**(171,187)**	**(261,914)**
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on customer accounts	(152,570)	(199,065)
Interest on debt securities issued	(18,572)	(27,241)
Interest on due to banks	(45)	(11,543)
Interest on loans from the Central Bank of the Russian Federation	-	(24,065)
Total interest expense on financial liabilities recorded at amortized cost	**(171,187)**	**(261,914)**
Net interest income before recovery of provision for impairment losses on interest bearing financial assets	**164,465**	**87,658**

4. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Due from banks and other financial institutions	Loans to customers	Total
December 31, 2008	**-**	**179,012**	**179,012**
Recovery of provisions	-	(20,254)	(20,254)
Write-off of assets	-	(29,821)	(29,821)
December 31, 2009	**-**	**128,937**	**128,937**
Provisions/(recovery of provisions)	1,279	(15,068)	(13,789)
December 31, 2010	**1,279**	**113,869**	**115,148**

5. NET (LOSS)/GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net (loss)/gain on financial assets at fair value through profit or loss includes gain/(loss) on financial assets held for trading and comprises the following:

	Year ended December 31, 2010	Year ended December 31, 2009
Net gain/(loss) on operations with financial assets held for trading comprises:		
Gain on operations with securities	113,344	267,576
Loss on operations with derivative financial instruments	(272,053)	(48,999)
Dividend income	8,351	9,507
Total net gain/(loss) on operations with financial assets held for trading	**(150,358)**	**228,084**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	224,967	260,776
Translation differences, net	93,895	15,806
Total net gain on foreign exchange operations	**318,862**	**276,582**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission income:		
Consulting services	117,699	46,209
Broker operations with securities	86,789	34,483
Settlement services	14,244	13,537
Trust and fiduciary activities	8,336	6,132
Guarantees	3,238	5,319
Foreign currency operations	284	1,327
Agency services on bank operations	-	4,969
Other	877	6,465
Total fee and commission income	**231,467**	**118,441**
Fee and commission expense:		
Settlement services	(4,630)	(2,670)
Trust and fiduciary activities	(3,966)	(1,515)
Broker operations with securities	(1,747)	(2,452)
Foreign currency operations	(536)	(819)
Consulting services	-	(1,197)
Other	(1,375)	(389)
Total fee and commission expense	**(12,254)**	**(9,042)**

8. OTHER INCOME

Other income comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Property rental income	5,371	4,074
Income from sale of property and equipment	1,185	4,329
Penalties received from customers on securities operations	39	13,244
Other	1,807	519
Total other income	**8,402**	**22,166**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Payroll and bonuses	265,980	235,897
Taxes, other than income tax	29,064	51,536
Depreciation of property and equipment	28,205	30,993
Unified social tax	24,578	27,635
Professional services	19,557	14,215
Operating lease	18,805	23,406
Communications	16,999	17,146
Write-off of material costs and other assets	15,218	17,751
Security expenses	13,330	12,797
Payments to the Deposit Insurance Fund	9,762	10,209
Property and equipment maintenance	8,562	7,781
Insurance	4,656	4,081
Fines and penalties	3,724	231
Data processing	2,508	4,145
Business trip expenses	1,556	1,819
Unused vacation provision	673	1,656
Other expenses	5,545	6,469
Total operating expenses	**468,722**	**467,767**

10. GAIN ON DISPOSAL OF NON-CURRENT ASSETS HELD FOR SALE

In July 2008 the Group purchased a building and a land plot in St.-Petersburg with a view to their subsequent sale and recognized them as non-current assets held for sale as at December 31, 2008.

In 2009 the Group sold the non-current assets held for sale and recognized gain on disposal of non-current assets of RUB 118,633 thousand in the consolidated income statement for the year ended December 31, 2009.

11. INCOME TAX

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

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

The tax rate used for the 2010 and 2009 reconciliations is the corporate tax rate of 20% payable by corporate entities in the Russian Federation and 10% in Cyprus on taxable profits under tax law in that jurisdiction. As at December 31, 2010 and 2009, deferred income tax was calculated at the rate of 20%.

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

	December 31, 2010	December 31, 2009
Deductible temporary differences:		
Debt securities issued	5,715	1,761
Other liabilities	3,668	5,778
Financial assets at fair value through profit or loss	49,752	-
Other assets	9,664	9,177
Loans to customers	-	37,658
Total deductible temporary differences	**68,799**	**54,374**
Taxable temporary differences:		
Property and equipment	(298,905)	(285,287)
Loans to customers	(44,070)	-
Financial assets at fair value through profit or loss	-	(15,029)
Due from banks and other financial institutions	-	(11,073)
Total taxable temporary differences	**(342,975)**	**(311,389)**
Net taxable temporary differences	**(274,176)**	**(257,015)**
Deferred income tax liabilities	(54,835)	(51,403)
Unrecognized deferred income tax assets	(232)	(1,084)
Deferred income tax liabilities	**(55,067)**	**(52,487)**

A reconciliation of income tax expense and accounting profit for the years ended December 31, 2010 and 2009 is presented below:

	Year ended December 31, 2010	Year ended December 31, 2009
Profit before income tax	107,192	402,392
Tax at the statutory tax rate (20%)	21,438	80,478
Change in unrecognized deferred tax assets	(852)	(2,686)
Tax effect of permanent differences	10,632	(8,496)
Effect of tax rate different from the prime rate of 20%	(4,207)	(13,764)
Income tax expenses	**27,011**	**55,532**

	Year ended December 31, 2010	Year ended December 31, 2009
Current income tax expenses	24,431	24,756
Deferred income tax expenses	2,580	30,776
Income tax expenses	**27,011**	**55,532**

12. DISCONTINUED OPERATIONS

The combined financial results of discontinued operations of OOO VNIIESO, OOO Zavod Elektrik, OOO NPO Zavod Elektric, OOO Komplektatsia i Materialy and ZAO Elektrik-MIKS reported in the consolidated income statement for the year ended December 31, 2009, are presented below. The comparative data on profit and losses and cash flows with respect to discontinued operations are presented on the basis of performance of the entities classified as at December 31, 2009 as discontinued operations.

	Year ended December 31, 2009
Interest expense	(4,744)
Net gain on foreign exchange operations	1,423
Fee and commission expense	(397)
Other income	59,699
Operating expenses	(85,049)
Income tax expense	(226)
	(29,294)
Gain of sale of subsidiaries	94,384
Profit from discontinued operations	**65,090**
Cash flows from discontinued operations	
Net cash flows from operating activities	(328)

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

	December 31, 2010	December 31, 2009
Balances with the CBR	470,249	590,107
Cash	97,354	115,162
Total cash and balances with the Central Bank of the Russian Federation	**567,603**	**705,269**

The balances with the Central Bank of the Russian Federation as at December 31, 2010 and 2009 include RUB 104,030 thousand and RUB 92,126 thousand, respectively, which represents the minimum reserve deposits required by the Central Bank of the Russian Federation. The Group is required to maintain minimum reserve deposits with the Central Bank of the Russian Federation at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2010	December 31, 2009
Correspondent accounts with other banks	1,543,304	1,689,448
Cash and balances with the Central Bank of the Russian Federation	567,603	705,269
	2,110,907	2,394,717
Less: minimum reserve deposits with the Central Bank of the Russian Federation	(104,030)	(92,126)
Total cash and cash equivalents	**2,006,877**	**2,302,591**

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and comprise the following:

	Annual interest rate	December 31, 2010	Annual interest rate	December 31, 2009
Corporate Eurobonds	2.625-13.5%	544,562	7.288-10.25%	394,740
Eurobonds of foreign countries	7.75-12.75%	305,674	8.75-9.625%	104,536
Corporate bonds	13.0-16.5%	32,859	16.5-17.0%	105,275
Total debt securities		**883,095**		**604,551**

	December 31, 2010	December 31, 2009
Shares of Russian companies	332,229	231,483
Shares/Global depositary receipts (GDRs) on non-resident entities	138,281	113,830
Shares of credit institutions	76,313	81,811
Total equity securities	**546,823**	**427,124**

	December 31, 2010			December 31, 2009		
	Notional amount	Fair values Asset	Fair values Liability	Notional amount	Fair values Asset	Fair values Liability
Derivative financial instruments:						
Forward – foreign currency	45,814	-	(1,075)	1,721,325	54,558	-
Forward – securities	-	-	-	43,998	-	(293)
Total derivative financial instruments		**-**	**(1,075)**		**54,558**	**(293)**
Total financial assets at fair value through profit or loss		**1,429,918**			**1,086,233**	

Derivative financial liabilities are recognized in other financial liabilities.

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	December 31, 2010	December 31, 2009
Correspondent accounts with banks	1,544,583	1,689,448
Term deposits with banks	512,622	118,547
Amounts in broker accounts with financial organizations	498,379	296,829
	2,555,584	2,104,824
Less: allowance for impairment losses	(1,279)	-
Total due from banks and other financial institutions	**2,554,305**	**2,104,824**

Amounts at broker accounts with other financial institutions include balances of settlement accounts with MICEX (NCO ZAO National Settlement Depositary) and RTS (ZAO RTS Clearing Center) Russian exchanges, and balances of authorized brokers/CME clearing members (Chicago Mercantile Exchange), Penson GHCO (USA) and MF Global Inc.(USA) placed for broker operations with securities and other financial instruments.

As at December 31, 2010 and 2009 included in balances due from banks and other financial institutions are restricted deposits of RUB 24,991 thousand and RUB 24,801 thousand, respectively, placed by the Group to collateralize its operations with plastic cards, as well as collateral deposit with ZAO RTS Clearing Center in the amount of RUB 10,000 thousand and RUB 8,000 thousand, respectively.

As at December 31, 2010 and 2009, the Group had due from four and five financial institutions totaling RUB 1,874,337 thousand and RUB 1,724,272 thousand, respectively, which individually exceeded 10% of net assets attributable to the Group's participants.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Loans to customers	1,503,730	1,479,595
Loans under reverse repurchase agreements	21,785	-
	1,525,515	1,479,595
Less: allowance for impairment losses	(113,869)	(128,937)
Total loans to customers	**1,411,646**	**1,350,658**

Movements in allowances for impairment losses for the years ended December 31, 2010 and 2009 are disclosed in Note 4.

The table below shows carrying value of collateral:

	December 31, 2010	December 31, 2009
Loans collateralized by pledge of corporate shares	449,073	244,909
Loans collateralized by pledge of real estate or rights thereto	93,661	105,534
Loans collateralized by goods in turnover	65,467	127,147
Loans collateralized by pledge of equipment	46,003	89,777
Loans collateralized by pledge of cash	39,286	2,428
Unsecured loans	832,025	909,800
	1,525,515	1,479,595
Less: allowance for impairment losses	(113,869)	(128,937)
Total loans to customers	**1,411,646**	**1,350,658**

	December 31, 2010	December 31, 2009
Analysis by sector:		
Trade	344,427	186,745
Individuals	271,431	178,606
Finance sector	225,590	82,903
Real estate	213,483	260,756
Oil production	213,338	241,954
Construction	133,000	-
Transport and communication	78,343	123,666
Printing industry	23,163	23,150
Textile industry	19,519	-
Machinery construction	-	136,099
Chemical industry	-	130,000
Food	-	42,342
Gold mining companies	-	31,488
Services	-	30,767
Other	3,221	11,119
	1,525,515	1,479,595
Less: allowance for impairment losses	(113,869)	(128,937)
Total loans to customers	**1,411,646**	**1,350,658**

Loans to individuals comprise:

	December 31, 2010	December 31, 2009
Purchase of securities	114,288	79,142
Consumer loans	80,239	47,661
Housing loans	53,531	30,226
Car loans	21,264	274
Mortgage loans	2,109	21,303
	271,431	178,606
Less: allowance for impairment losses	(5,264)	(9,046)
Total loans to individuals	**266,167**	**169,560**

As at December 31, 2010 and 2009, the Group granted loans to one and two borrowers/group of related borrowers totaling RUB 393,338 thousand and RUB 463,266 thousand, respectively, which individually exceeded 10% of net assets attributable to the Group's participants.

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

	December 31, 2010			December 31, 2009		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	630,416	(112,838)	517,578	792,649	(128,531)	664,118
Loans to customers collectively determined to be impaired	15,178	(1,031)	14,147	13,691	(406)	13,285
Unimpaired loans	879,921	-	879,921	673,255	-	673,255
Total	**1,525,515**	**(113,869)**	**1,411,646**	**1,479,595**	**(128,937)**	**1,350,658**

As at December 31, 2010 and 2009, loans totaling RUB 630,416 thousand and RUB 792,649 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of securities, real estate, equipment, inventories with fair value totaling RUB 55,783 thousand and RUB 254,785 thousand, respectively. For the purposes of estimating impairment of individual loans the Group analyses the financial performance, debt service, credit history and collateral.

As at December 31, 2010 loans under reverse repurchase agreements were secured by Russian blue chips with the fair value of RUB 23,041 thousand.

17. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land, buildings and other real estate	Furniture and equipment	Motor vehicles	Total
At initial cost				
December 31, 2008	**838,595**	**71,663**	**6,775**	**917,033**
Additions	-	1,227	1,237	2,464
Acquisition of subsidiaries	-	(2,617)	-	(2,617)
Disposals	(16)	(11,057)	(1,241)	(12,314)
December 31, 2009	**838,579**	**59,216**	**6,771**	**904,566**
Additions	16,256	1,569	2,957	20,782
Disposals	(2,488)	(1,052)	(2,777)	(6,317)
December 31, 2010	**852,347**	**59,733**	**6,951**	**919,031**
Accumulated depreciation				
December 31, 2008	**186,357**	**51,432**	**4,198**	**241,987**
Charge for the year	24,317	4,980	1,696	30,993
Eliminated on disposal	(16)	(8,979)	(1,232)	(10,227)
Disposal of subsidiaries	-	(615)	-	(615)
December 31, 2009	**210,658**	**46,818**	**4,662**	**262,138**
Charge for the year	23,238	3,661	1,306	28,205
Eliminated on disposal	(1,266)	(1,039)	(2,471)	(4,776)
December 31, 2010	**232,630**	**49,440**	**3,497**	**285,567**
Net book value				
December 31, 2010	**619,717**	**10,293**	**3,454**	**633,464**
December 31, 2009	**627,921**	**12,398**	**2,109**	**642,428**

In 2010 the Group acquired a land plot for RUB 16,256 thousand with the total area of 1,262 sq m located at the address of the Bank, i.e. 1 Kremlevskaya nab., bld. 2, Moscow, to be used for the Bank's administrative purposes.

As at December 31, 2010 and 2009, included in property and equipment were fully depreciated equipment with historical cost of RUB 29,556 thousand and RUB 25,312 thousand, respectively.

18. OTHER ASSETS

Other assets comprise:

	December 31, 2010	December 31, 2009
Other financial assets		
Receivables on other transactions	10,091	13,261
Receivables on securities transactions	-	7,313
Other	2,987	277
Total other financial assets	**13,078**	**20,851**
Precious metals	6,284	4,876
Intangible and other non-current assets	4,150	669
Taxes payable, other than income tax	1,275	372
Total other assets	**24,787**	**26,768**

19. DUE TO BANKS

Due to banks comprise:

	December 31, 2009
Term deposits of banks and other financial institutions	94,112
Correspondent accounts of other banks	239
Total due to banks	**94,351**

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2010	December 31, 2009
Current accounts and demand deposits	2,089,045	1,138,678
Term deposits	2,045,192	2,459,092
Total customer accounts	**4,134,237**	**3,597,770**

	December 31, 2010	December 31, 2009
Analysis by sector:		
Individuals	2,628,629	2,814,862
Finance	521,384	383,620
Transport and communication	488,041	172,863
Electric power industry	324,774	-
Trade and personal services	59,336	56,354
Construction and real estate	28,991	58,365
Development services	24,610	-
Fuel, oil and gas industries	21,380	15,158
Private sector	9,881	11,502
Printing industry	5,881	10,441
Gold mining companies	867	40,167
Agriculture	-	10,370
Other	20,463	24,068
Total customer accounts	**4,134,237**	**3,597,770**

21. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	December 31, 2010			December 31, 2009		
	Maturity date month/year	Annual interest rate %	Amount	Maturity date month/year	Annual interest rate %	Amount
Interest-bearing promissory notes	July-October 2011	6.5-7	268,309	June-October 2010	6.5-8	228,053
Total debt securities issued			**268,309**			**228,053**

22. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2010	December 31, 2009
Other financial liabilities		
Payables on securities transactions	268,280	51,964
Settlements with suppliers and contractors	5,219	30,309
Other	1,991	1,263
	275,490	83,536
Other non-financial liabilities	20,801	23,140
Total other liabilities	**296,291**	**106,676**

23. NET ASSETS ATTRIBUTABLE TO THE PARTICIPANTS OF THE GROUP

Net assets attributable to the participants comprise:

	Net assets attributable to the participants
December 31, 2008	**1,514,864**
Comprehensive income	411,177
Distribution to participants	(70,000)
December 31, 2009	**1,856,041**
Comprehensive income	82,551
Distribution to participants	(65,059)
December 31, 2010	**1,873,533**

As at December 31, 2010 and 2009, net assets attributable to the participants of the Group included paid in share capital of the Bank (parent) of RUB 370,907 thousand.

The Group's reserves distributable among participants are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of financial risks, including future losses and other unforeseen risks or contingencies. In accordance with the Bank's charter (the Group's parent), annual contributions to the reserve fund amount to 5% of the net profit in accordance with RAS, until it equals to 25% of the Bank's share capital reported in accordance with RAS. As at December 31, 2010 and 2009, the Bank's reserve fund amounted to RUB 33,069 thousand and RUB 32,276 thousand, respectively.

24. COMMITMENTS AND CONTINGENCIES

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

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

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

As at 31 December 2010 and 2009, the nominal or contract amounts were:

	December 31, 2010	December 31, 2009
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	152,749	358,593
Commitments on loans and unused credit lines	204,350	102,884
Letters of credit and other transaction related contingent obligations	228,839	29,045
Total contingent liabilities and credit commitments	**585,938**	**490,522**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions characterizing credit risks and assessed by the Group at the time of such decision. As at December 31, 2010 and 2009, included in commitments on loans and unused credit lines are RUB 171,387 thousand and RUB 73,038 thousand, respectively, representing the Bank's commitments to extend loans within unused credit line limits that are conditioned on the above.

Fiduciary activities – In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or willful misconduct by the Group only. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the clients' position. In the judgment of management, as at December 31, 2010 and 2009 the maximum potential financial risk on assets accepted by the Group on behalf of its clients does not exceed RUB 3,718 thousand and RUB 2,850 thousand, respectively. These amounts represent clients' funds and securities under the management of the Group as at December 31, 2010 and 2009, including securities under trusteeship as at December 31, 2010 and 2009 in the amount of RUB 3,599 thousand and RUB 2,763 thousand, respectively.

The Group also provides depositary services to its customers. As at December 31, 2010 and 2009, the Group had 6,127,707,044 and 9,942,778,251 customer securities, respectively, in its nominal holder accounts.

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

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

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

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

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

Operating environment – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the country's economy in general.

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

The global financial turmoil that has negatively affected Russian's financial and capital markets in 2008 and 2009 has receded and Russian's economy returned to growth in 2010. However, significant economic uncertainties remain. Adverse changes arising from systemic risk in global financial system could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Russia is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended December 31, 2010 and 2009 was 6.9% and 11.7%, respectively).

Because Russia produces and exports large volumes of oil and gas, Russian economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010 and 2009.

25. TRANSACTIONS WITH RELATED PARTIES

The Group's transactions with related parties are disclosed below:

	December 31, 2010 Related party balances	December 31, 2010 Total category as per the financial statements caption	December 31, 2009 Related party balances	December 31, 2009 Total category as per the financial statements caption
Loans to customers	**104,452**	**1,525,515**	**151,304**	**1,479,595**
- key management personnel	3,309		367	
- entities with joint control or significant influence over the Group	5,000		9,000	
- entities under common control with the Group	74,343		123,529	
- other related parties	21,800		18,408	
Allowance on loans to customers	**(2,383)**	**(113,869)**	**(5,400)**	**(128,937)**
- key management personnel	(66)		(7)	
- entities under common control with the Group	(1,445)		(4,693)	
- other related parties	(872)		(700)	
Customer accounts	**145,920**	**4,134,237**	**97,433**	**3,597,770**
- key management personnel	106,421		75,250	
- entities with joint control or significant influence over the Group	16,940		4,116	
- entities under common control with the Group	7,910		105	
- other related parties	14,649		17,962	
Guarantees issued and similar commitments	**8,955**	**152,749**	**9,289**	**358,593**
- key management personnel	3,339		3,465	
- entities with joint control or significant influence over the Group	5,311		5,522	
- other related parties	305		302	

Included in the consolidated income statement for the years ended December 31, 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	December 31, 2010 Related party balances	December 31, 2010 Total category as per the financial statements caption	December 31, 2009 Related party balances	December 31, 2009 Total category as per the financial statements caption
Interest income	**23,052**	**335,652**	**20,867**	**349,572**
- entities with joint control or significant influence over the Group	1,093		1,031	
- entities under common control with the Group	16,954		17,281	
- key management personnel	387		91	
- other related parties	4,618		2,464	
Interest expense	**(6,225)**	**(171,187)**	**(4,600)**	**(261,914)**
- entities with joint control or significant influence over the Group	(8)		(20)	
- key management personnel	(5,881)		(4,262)	
- other related parties	(336)		(318)	
Recovery/(provision) for impairment losses on interest bearing assets	**3,017**	**13,789**	**(4,898)**	**20,254**
- key management personnel	(59)		3	
- entities under common control with the Group	3,248		(4,693)	
- other related parties	(172)		(208)	
Salary and bonuses				
- short-term compensation of key management personnel	67,855	**265,980**	62,602	**235,897**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Management considers that the fair value of financial assets and liabilities approximates their carrying value.

Assets for which fair value approximates carrying value

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes).
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Analysis of financial instruments recognized in the consolidated statement of financial position at fair value

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

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

Financial asset class		**December 31, 2010**	
	Level 1	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	1,364,154	-	65,764
Total	**1,364,154**	**-**	**65,764**

There were no transfers between the hierarchy Levels in the period.

Financial asset class		**December 31, 2009**	
	Level 1	**Level 2**	**Level 3**
Derivative financial instruments	54,558	-	-
Non-derivative financial assets at fair value through profit or loss	981,920	-	49,755
Total	**1,036,478**	**-**	**49,755**

As at December 31, 2010 and 2009, Level 1 of the fair value hierarchy include financial assets at fair value through profit or loss (equity securities, debt securities, forwards and futures for securities and foreign currency) of which the fair value is fully determined on the basis of published price quotations in the active market. The share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss is 95.40% and 95.42%.

As at December 31, 2010 and 2009, Level 3 of the fair value hierarchy include equity securities of three issues of which the fair value is determined using a valuation technique based on the available information on the last market transactions for the sale and purchase of shares, the reputation of issuers and discounted future cash flows.

The Group purchased equity securities of the above companies into the trading portfolio in 2008 and 2009. Upon initial recognition, these equity securities held for trading were measured at fair values on the basis of active market quotations. As at December 2009 the Group reclassified these equity securities from Level 1 to Level 3 of the fair value hierarchy due to changes in the level of observability of market data. As at December 31, 2009 the loss on the fair value adjustment of these equity securities amounted to RUB 39,849 thousand on the basis of the valuation technique applied, and was reported in the consolidated income statement for 2009. In 2010 the Group purchased additional equity securities of the above companies for RUB 16,009 thousand at the purchase price equal to the fair value of the securities as at December 31, 2009 (on the basis of the valuation technique applied).

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Asset-backed securities held for trading
January 1, 2009	**5,058**
Impairment loss recognized in the consolidated income statement	(39,849)
Addition	84,546
December 31, 2009	**49,755**
Addition	16,009
December 31, 2010	**65,764**

The following significant assumptions were used in determining Level 3 fair value of financial assets:

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, revenues growth factor of 9% (December 31, 2009: 9.2%) and a risk adjusted weighted average cost of capital factor of 13.7% (December 31, 2009: 13.7%) are used. If these inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the shares would decrease/increase by RUB 5,176 thousand (December 31, 2009: decrease/increase by RUB 5,136 thousand).

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to participants through the optimization of the debt balance and net assets attributable to the Group's participants.

The Group's capital structure includes funds of the Group's participants, which include share capital and retained earnings.

Management considers the structure of net assets attributable to the Group's participants on a quarterly basis. As part of this review, management considers the cost of net assets and risks associated with each class of the net assets attributable to the Group's participants.

Decisions to raise debt are made by an authorized management body depending on the amount of the deal.

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

The Central Bank of the Russian Federation requires banks to maintain a statutory capital adequacy ratio computed based on Russian Accounting Standards.

In accordance with the requirements established by the CBR, banks must maintain the ratio of capital to risk weighted assets ("capital adequacy ratio") above the established minimum level. As at December 31, 2010, the minimum level was 10%. During 2010 and 2009 the Bank complied with the mandatory capital adequacy ratio.

28. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

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

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

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. These processed are performed by the Credit Committees and the Group's Management.

The lending process in the Group is strictly controlled, and the credit policy is balanced and prudent, strongly centralized, and preventing acceptance of unreasonably high risks able to negatively affect the operations of the Group and its customers. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrowers and products are approved by the Bank's Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Group's management. Actual exposures against limits are monitored by the Group's management daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent unused portions of credit in the form of loans and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

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

Maximum credit risk exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	December 31, 2010		December 31, 2009	
	Maximum exposure	Collateral	Maximum exposure	Collateral
Cash and balances with the Central Bank of the Russian Federation	470,249	-	590,107	-
Financial assets at fair value through profit or loss, except for equity securities	883,095	-	659,109	-
Due from banks and other financial institutions	2,554,305	-	2,104,824	-
Loans to customers	1,411,646	693,490	1,350,658	569,795
Other financial assets	13,078	-	20,851	-
Guarantees issued and similar commitments	152,749	-	358,593	-
Commitments on loans and unused credit lines	204,350	-	102,884	-
Letters of credit and other transaction related contingent obligations	228,839	-	29,045	-

Collateral pledged is determined based on its fair value not exceeding the carrying amount of the underlying loans.

The effect of collateral and other risk mitigation techniques is shown below.

Off-balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Collateral

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending, charges over real estate properties, inventory, securities and guarantees, equipment and vehicles;
- For retail lending, mortgages over residential properties, vehicles, cash.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Credit quality by class of financial assets

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

As at December 31, 2010 and 2009, balances with the Central Bank of the Russian Federation amounted to RUB 470,249 thousand and RUB 590,107 thousand, respectively. In 2010 and 2009 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Group that are neither past due nor impaired:

	AAA	AA	A	BBB	>BBB	Not rated	December 31, 2010 Total
Cash and balances with the Central Bank of the Russian Federation	-	-	-	470,249			470,249
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	250,980	567,311	64,804	883,095
Due from banks and other financial institutions	-	41,365	1,147,465	375,761	1,380	988,334	2,554,305
Loans to customers	-	-	-	-	-	879,921	879,921
Other financial assets	-	-	-	-	-	13,078	13,078

	AAA	AA	A	BBB	>BBB	Not rated	December 31, 2009 Total
Cash and balances with the Central Bank of the Russian Federation	-	-	-	590,107	-	-	590,107
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	-	499,276	159,833	659,109
Due from banks and other financial institutions	-	53,463	996,224	391,061	93,750	570,326	2,104,824
Loans to customers	-	-	-	-	-	673,255	673,255
Other financial assets	-	-	-	-	-	20,851	20,851

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess borrowers. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The following table provides an analysis of unimpaired loans to corporate customers that are classified in three categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have unexceptionable credit history with the Group and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability.
- The "Moderately performing" category with temperate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Group and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment.
- The "Other" category includes loans that are not overdue and are granted to borrowers that do not fall within the two categories described above.

	December 31, 2010	December 31, 2009
Unimpaired loans to corporate borrowers net rated by international rating agencies		
Top performing loans	330,055	335,100
Moderately performing loans	314,193	288,139
Other unimpaired	21,785	-
	666,033	**623,239**
Unimpaired loans to individuals		
Top performing loans	189,506	50,016
Moderately performing loans	24,382	-
Other unimpaired	-	-
	213,888	**50,016**
Total	**879,921**	**673,255**
Unimpaired balances with banks and other financial institutions not rated by international rating agencies		
Top performing assets	959,700	542,144
Moderately performing assets	-	-
Other unimpaired	28,634	28,182
Total	**988,334**	**570,326**

There were no past due but not impaired financial assets.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is generally concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Renegotiated loans and advances

As at December 31, 2010 and 2009, loans to customers included loans totaling RUB 31,459 thousand and RUB 25,922 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Geographical concentration

The Group's Management Board and the Credit Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The management sets country limits.

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

	RF	OECD countries	Non-OECD countries	December 31, 2010 Total
FINANCIAL ASSETS:				
Cash and balances with the Central Bank of the Russian Federation	567,603	-	-	567,603
Financial assets at fair value through profit or loss	936,013	49,891	444,014	1,429,918
Due from banks and other financial institutions	412,603	1,806,441	335,261	2,554,305
Loans to customers	1,252,714	-	158,932	1,411,646
Other financial assets	9,915	3,163	-	13,078
TOTAL FINANCIAL ASSETS	**3,178,848**	**1,859,495**	**938,207**	**5,976,550**
FINANCIAL LIABILITIES				
Customer accounts	3,681,607	34,030	418,600	4,134,237
Debt securities issued	48,084	-	220,225	268,309
Other financial liabilities	270,710	4,780	-	275,490
TOTAL FINANCIAL LIABILITIES	**4,000,401**	**38,810**	**638,825**	**4,678,036**

	RF	OECD countries	Non-OECD countries	December 31, 2009 Total
FINANCIAL ASSETS:				
Cash and balances with the Central Bank of the Russian Federation	705,269	-	-	705,269
Financial assets at fair value through profit or loss	223,962	5,999	856,272	1,086,233
Due from banks and other financial institutions	209,487	1,571,885	323,452	2,104,824
Loans to customers	1,264,437	63,858	22,363	1,350,658
Other financial assets	10,235	-	10,616	20,851
TOTAL FINANCIAL ASSETS	**2,413,390**	**1,641,742**	**1,212,703**	**5,267,835**
FINANCIAL LIABILITIES				
Due to banks	239	94,112	-	94,351
Customer accounts	3,068,226	8,611	520,933	3,597,770
Debt securities issued	228,053	-	-	228,053
Other financial liabilities	31,572	-	51,964	83,536
TOTAL FINANCIAL LIABILITIES	**3,328,090**	**102,723**	**572,897**	**4,003,710**

Liquidity risk

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

Group management and the Management Board control these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Currency Department of the Bank, which performs operations on money market maintaining the current liquidity level and cash flows optimization.

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

The review of the balance sheet interest rate and liquidity risks on the basis of carrying amounts of assets and liabilities is provided below:

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2010 Total
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	883,095	-	-	-	-	883,095
Due from banks and other financial institutions	336,229	-	487,630	-	-	823,859
Loans to customers	14,350	426,788	880,261	90,247	-	1,411,646
Total interest bearing financial assets	**1,233,674**	**426,788**	**1,367,891**	**90,247**	**-**	**3,118,600**
Cash and balances with the Central Bank of the Russian Federation	463,573	-	-	-	104,030	567,603
Financial assets at fair value through profit or loss	546,823	-	-	-	-	546,823
Due from banks and other financial institutions	1,695,455	-	-		34,991	1,730,446
Other financial assets	7,040	-	2,588	3,450	-	13,078
TOTAL FINANCIAL ASSETS	**3,946,565**	**426,788**	**1,370,479**	**93,697**	**139,021**	**5,976,550**
FINANCIAL LIABILITIES:						
Customer accounts	656,169	179,274	1,600,049	193,139	-	2,628,631
Debt securities issued	48,084	-	220,225	-	-	268,309
Total interest bearing financial liabilities	**704,253**	**179,274**	**1,820,274**	**193,139**	**-**	**2,896,940**
Customer accounts	1,505,606	-	-	-	-	1,505,606
Other financial liabilities	275,490	-	-	-	-	275,490
Total financial liabilities	**2,485,349**	**179,274**	**1,820,274**	**193,139**	**-**	**4,678,036**
Liquidity gap	1,461,216	247,514	(449,795)	(99,442)		
Cumulative liquidity gap	1,461,216	1,708,730	1,258,935	1,159,493		
Interest sensitivity gap	529,421	247,514	(452,383)	(102,892)		
Cumulative interest sensitivity gap	529,421	1,264,565	324,552	221,660		

The following table presents the analysis of liquidity risk as at December 31, 2010, which represents the expected maturity for non-derivative financial liabilities calculated based on the undiscounted contractual maturities of the financial liabilities including interest that will be earned on those liabilities except where the Group anticipates that the cash flow will occur in a different period:

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES					
Customer accounts	657,823	181,204	1,660,303	215,009	2,714,339
Debt securities issued	48,084	-	231,776	-	279,860
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**705,907**	**181,204**	**1,892,079**	**215,009**	**2,994,199**
Customer accounts	1,505,606	-	-	-	1,505,606
Other financial liabilities	275,490				275,490
Commitments on loans and unused credit lines	204,350	-	-	-	204,350
Liabilities on financial guarantees	-	142,749	10,000	-	152,749
Letters of credit and other transaction related contingent obligations	228,839	-	-	-	228,839
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**2,920,192**	**323,953**	**1,902,079**	**215,009**	**5,361,223**

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2009 Total
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	604,551	-	-	-		604,551
Due from banks and other financial institutions	1,592,306	-	93,746	-	-	1,686,052
Loans to customers	165,290	393,647	633,156	158,565	-	1,350,658
Total interest bearing financial assets	**2,362,147**	**393,647**	**726,902**	**158,565**	**-**	**3,641,261**
Cash and balances with the Central Bank of the Russian Federation	613,143	-	-	-	92,126	705,269
Financial assets at fair value through profit or loss	481,682	-	-	-	-	481,682
Due from banks and other financial institutions	385,971	-	-		32,801	418,772
Other financial assets	20,851	-	-		-	20,851
TOTAL FINANCIAL ASSETS	**3,863,794**	**393,647**	**726,902**	**158,565**	**124,927**	**5,267,835**
FINANCIAL LIABILITIES:						
Due to banks	-	-	94,112	-	-	94,112
Customer accounts	624,793	1,581,442	789,913	15,674	-	3,011,822
Debt securities issued	31, 423	-	196,630	-	-	228,053
Total interest bearing financial liabilities	**656, 216**	**1,581,442**	**1,080,655**	**15,674**	**-**	**3,333,987**
Customer accounts	585,948	-	-	-	-	585,948
Due to banks	239	-	-	-	-	239
Other financial liabilities	83,536	-	-	-	-	83,536
TOTAL FINANCIAL LIABILITIES	**1,325,939**	**1,581,442**	**1,080,655**	**15,674**	**-**	**4,003,710**
Liquidity gap	2,537,855	(1,187,795)	(353,753)	142,891		
Cumulative liquidity gap	2,537,855	1,350,060	996,307	1,139,198		
Interest sensitivity gap	1,705,931	(1,187,795)	(353,753)	142,891		
Cumulative interest sensitivity gap	1,705,931	518,136	164,383	307,274		

The following table presents the analysis of liquidity risk as at December 31, 2009, which represents the expected maturity for non-derivative financial liabilities calculated based on the undiscounted contractual maturities of the financial liabilities including interest that will be earned on those liabilities except where the Group anticipates that the cash flow will occur in a different period:

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	-	-	97,523	-	97,523
Customer accounts	625,203	1,601,587	829,852	16,705	3,073,347
Debt securities issued	31,423	-	204,430	-	235,853
TOTAL INTEREST BEARING FINANCIAL LIABILITIES	**656,626**	**1,601,587**	**1,131,805**	**16,705**	**3,406,723**
Customer accounts	585,948	-	-	-	585,948
Due to banks	239	-	-	-	239
Other financial liabilities	83,536	-	-	-	83,536
Liabilities on financial guarantees	-	137,293	21,300	200,000	358,593
Commitments on loans and unused credit lines	102,884	-	-	-	102,884
Letters of credit and other transaction related contingent obligations	29,045	-	-	-	29,045
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	**1,458,278**	**1,738,880**	**1,153,105**	**216,705**	**4,566,968**

Market risk

Market risk represents the risk of the fair value of future cash flows on a financial instrument changing as a result of market price fluctuations. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2010.

Market risk arises from open positions on interest, currency and equity instruments which are subject to general and specific market fluctuations and changes in market rate volatility.

Interest rate risk

The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on assets at floating interest rates. The sensitivity analysis uses possible changes in interest rate of 5% increase and 10% decrease.

The following table presents a sensitivity analysis of the Group's pretax profit and net assets attributable to the Group's participants to interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports prepared by the Risk Management Department and provided to key management personnel.

Impact on pretax profit and net assets attributable to the Group's participants

	December 31, 2010		December 31, 2009	
	Interest rate +5%	**Interest rate -10%**	**Interest rate +5%**	**Interest rate -10%**
Assets				
Financial assets at fair value through profit or loss	42,300	(84,601)	28,958	(57,916)
Impact on profit before tax	**42,300**	**(84,601)**	**28,958**	**(57,916)**
Impact on net assets attributable to the Group's participants	**33,840**	**(67,681)**	**23,166**	**(46,333)**

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in the carrying value of debt instruments.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's management controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Management Board of the Bank performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR.

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

	RUB	U.S. Dollars USD 1 = RUB 30.4769	Euro EUR 1 = RUB 40.3331	Other currency	December 31, 2010 Total
Non-derivative financial assets					
Cash and balances with the Central Bank of the Russian Federation	475,147	41,519	50,937	-	567,603
Financial assets at fair value through profit or loss	441,432	946,383	42,103	-	1,429,918
Due from banks and other financial institutions	57,218	1,970,722	512,269	14,096	2,554,305
Loans to customers	713,316	657,508	40,822	-	1,411,646
Other financial assets	8,383	4,695	-	-	13,078
Total non-derivative financial assets	**1,695,496**	**3,620,827**	**646,131**	**14,096**	**5,976,550**
Non-derivative financial liabilities					
Customer accounts	1,128,021	1,464,124	1,530,999	11,093	4,134,237
Debt securities issued	-	268,309	-	-	268,309
Other financial liabilities	270,825	3,565	1,095	5	275,490
Total non-derivative financial liabilities	**1,398,846**	**1,735,998**	**1,532,094**	**11,098**	**4,678,036**
OPEN BALANCE SHEET POSITION	**296,650**	**1,884,829**	**(885,963)**	**2,998**	
Derivative financial instruments					
Net settled:					
- foreign exchange forward and spot contracts	697,808	(657,156)	(40,652)	-	
- futures	-	(907,239)	907,239	-	
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**697,808**	**(1,564,395)**	**866,587**	**-**	
OPEN POSITION	**994,458**	**320,434**	**(19,376)**	**2,998**	

	RUB	U.S. Dollars USD 1 = RUB 30.2442	Euro EUR 1 = RUB 43.3883	Other currency	December 31, 2009 Total
Non-derivative financial assets					
Cash and balances with the Central Bank of the Russian Federation	597,629	47,097	60,543	-	705,269
Financial assets at fair value through profit or loss	184,994	901,239	-	-	1,086,233
Due from banks and other financial institutions	19,921	1,826,197	251,371	7,335	2,104,824
Loans to customers	385,136	960,778	4,744	-	1,350,658
Other financial assets	9,161	11,530	160	-	20,851
Total non-derivative financial assets	**1,196,841**	**3,746,841**	**316,818**	**7,335**	**5,267,835**
Non-derivative financial liabilities					
Due to banks	239	94,112	-	-	94,351
Customer accounts	782,182	2,022,637	788,083	4,868	3,597,770
Debt securities issued	-	228,053	-	-	228,053
Other financial liabilities	43,913	39,335	288	-	83,536
Total non-derivative financial liabilities	**826,334**	**2,384,137**	**788,371**	**4,868**	**4,003,710**
OPEN BALANCE SHEET POSITION	**370,507**	**1,362,704**	**(471,553)**	**2,467**	
Derivative financial instruments					
Net settled:					
- foreign exchange forward and spot contracts	628,241	1,431,804	(1,411,975)	(648,070)	
- futures	-	(2,535,079)	1,889,762	645,317	
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**628,241**	**(1,103,275)**	**477,787**	**(2,753)**	
OPEN POSITION	**998,748**	**259,429**	**6,234**	**(286)**	

Currency risk sensitivity

The Group carries out “value at risk” (VaR) analysis and an analysis of projected financial result’s sensitivity to changes in currency rates by one point, their 1% volatility and to change in the amount invested by one unit of functional currency to assess the possible losses due to changes in foreign exchange rates for each currency position and in general for aggregate open currency position. The Bank uses Financial Risk Manager software system produced by INEC company to carry out VaR and sensitivity analyses. The report on VaR analysis provided below presents ruble estimate of loss amounts that with 95% confidence level will not be exceeded by the expected losses on the open currency position within 1 day provided that the current market trends continue.

Currency	**Total open position December 31, 2010 (RUB‘000)**	**95% 1 day volatility**
U.S. Dollars	320,434	0.5704
Euro	(19,376)	0.4605
Swiss franc	1,894	0.5414
UK pound sterling	1,091	0.5443
Japanese yen	13	0.7910
95% 1 day VaR	**3,563**	

Currency	**Total open position December 31, 2009 (RUB‘000)**	**95% 1 day volatility**
U.S. Dollars	259,429	0.6679
Euro	6,234	0.7310
Swiss franc	2,149	0.7589
UK pound sterling	(2,464)	0.8626
Japanese yen	29	1.0471
95% 1 day VaR	**3,416**	

Other price risks

The Group is exposed to equity price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes. The Group is engaged in active trading with such instruments.

The table below presents the amount of loss from equity and debt security portfolios of the Group which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends in the securities market are preserved.

	VaR (1 day, 0.95) (RUB ‘000)	**VaR (1 day, 0.95) %**	**VaR (10 days, 0.95) (RUB ‘000)**	**VaR (10 days, 0.95) %**
December 31, 2010				
Shares	23,134	4.23	73,159	13.38
Bonds	1,662	5.06	5,257	15.99
December 31, 2009				
Shares	36,565	8.74	115,628	27.62
Bonds	12,287	2.93	38,854	9.28

As at December 31, 2010 and 2009, if the value of shares changes by 10% the value of the portfolio will increase or decrease by RUB 54,682 thousand and RUB 42,712 thousand, respectively.

Limitations of sensitivity analysis

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

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

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

Limitations associated with VaR analysis include the availability of a history of quotes for the previous year for a financial instrument within the portfolio. It should be noted that the sum of VaR indicators for individual positions exceeds the overall portfolio VaR as this analysis takes into account the effect of diversification.