Joint-Stock Commercial bank
“Agropromcredit”

Financial Statement*s*
for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To the Board of Directors
Joint-Stock Commercial bank "Agropromcredit"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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30 June 2011

	Notes	2010 RUB'000	2009 RUB'000
Interest income	4	1,610,582	2,449,236
Interest expense	4	(1,122,303)	(1,002,383)
Net interest income		**488,279**	**1,446,853**
Loan impairment	10	1,076	(345,034)
Net interest income after loan impairment		**489,355**	**1,101,819**
Fee and commission income	5	344,881	427,368
Fee and commission expense	6	(35,518)	(39,494)
Net fee and commission income		**309,363**	**387,874**
Net (loss) gain on financial instruments at fair value through profit or loss	7	(4,180)	104,572
Net foreign exchange income	8	46,660	94,926
Net (loss) gain on available-for-sale financial assets		(2,843)	16,549
Other income	9	419,176	175,241
Operating income		**1,257,531**	**1,880,981**
Other general administrative expenses	11	(1,227,037)	(1,767,566)
Profit before income tax		**30,494**	**113,415**
Income tax expense	12	(6,274)	(26,702)
Net profit for the period		**24,220**	**86,713**
Other comprehensive income (loss), net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		62,317	(76,719)
- Net change in fair value transferred to profit or loss		2,274	(13,239)
Other comprehensive income (loss) for the period, net of income tax		**64,591**	**(89,958)**
Total comprehensive income (loss) for the period		**88,811**	**(3,245)**

The financial statements as set out on pages 4 to 56 were approved by the Management Board of the Bank on 30 June 2011.

Kornev Vasiliy Aleksandrovich

Chairman of the Board

Khmeleva Svetlana Aleksandrovna

Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2010 RUB'000	2009 RUB'000
ASSETS			
Cash and cash equivalents	13	2,673,701	5,989,322
Obligatory reserves with the Central Bank of the Russian Federation		111,515	94,610
Loans and advances to banks	14	2,957,104	703,249
Financial instruments at fair value through profit or loss	15	5,526,636	922,044
Loans to customers	16	5,476,342	7,869,720
Available-for-sale financial assets	17	1,348,902	1,490,934
Property, equipment and intangible assets	18	321,223	359,482
Assets held-for-sale	18	1,192,336	-
Investment property	18	-	677,753
Current tax assets		83,619	39,957
Deferred tax assets	12	10, 072	17,213
Other assets	19	536,134	527,356
Total assets		**20,237,584**	**18,691,640**
LIABILITIES			
Deposits and balances from banks	20	26,236	22,661
Current accounts and deposits from customers	21	15,601,845	13,193,310
Promissory notes	22	845,302	1,513,080
Other borrowed funds	23	773,066	773,066
Other liabilities	24	29,558	32,357
Total liabilities		**17,276,007**	**15,534,474**
EQUITY			
Share capital	25	1,890,000	1,000,000
Revaluation reserve for available-for-sale financial assets		(25,367)	(89,958)
Retained earnings		1,096,944	2,247,124
Total equity		**2,961,577**	**3,157,166**
Total liabilities and equity		**20,237,584**	**18,691,640**

The financial statements as set out on pages 4 to 56 were approved by the Management Board of the Bank on 30 June 2011.

Kornev Vasiliy Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2010 RUB'000	2009 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		1,524,620	1,981,602
Interest payments		(1,050,882)	(1,041,848)
Net receipts from financial instruments at fair value through profit or loss		1,721	104,572
Net receipts from foreign exchange		49,431	128,310
Net receipts from available-for-sale financial assets		(2,843)	16,549
Fee and commission receipts		344,881	474,353
Fee and commission payments		(35,518)	(39,494)
Other receipts		225,176	175,241
Other general administrative expenses payments		(1,150,611)	(1,694,008)
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(16,905)	(67,085)
Loans and advances to banks		(2,253,933)	(252,998)
Financial instruments at fair value through profit or loss		(4,569,788)	169,560
Loans to customers		2,361,166	5,427,820
Available-for-sale financial assets		251,513	140,133
Other assets		(8,811)	(351,066)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(19,950)	(2,049,567)
Current accounts and deposits from customers		2,285,177	(7,100,783)
Promissory notes		(699,145)	(46,030)
Other liabilities		(17,528)	1,002
Cash provided from operating activities before income tax paid		**(2,782,229)**	**(4,023,737)**
Income tax paid		(58,943)	(107,215)
Cash flows from operations		**(2,841,172)**	**(4,130,952)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of assets held-for-sale		(261,500)	-
Net purchases of property and equipment and intangible assets		(23,444)	(78,528)
Cash flows from investing activities		**(284,944)**	**(78,528)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(284,400)	-
Cash flows from financing activities		**(284,400)**	-
Net decrease in cash and cash equivalents		**(3,410,516)**	**(4,209,480)**
Effect of changes in exchange rates on cash and cash equivalents		94,895	(170,113)
Cash and cash equivalents as at the beginning of the period		5,989,322	10,368,915
Cash and cash equivalents as at the end of the period	13	**2,673,701**	**5,989,322**

The financial statements as set out on pages 4 to 56 were approved by the Management Board of the Bank on [illegible] June 2011.

Kornev [illegible] Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Share capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**
Balance as at 1 January 2009	1,000,000	-	2,160,411	3,160,411
Total comprehensive loss				
Net profit for the period	-	-	86,713	86,713
Other comprehensive loss				
Net change in fair value of available-for-sale financial assets, net of income tax RUB 19,180 thousand (note 12)	-	(76,719)	-	(76,719)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 3,310 thousand (note 12)	-	(13,239)	-	(13,239)
Total other comprehensive loss	-	(89,958)	-	(89,958)
Total comprehensive loss for the period	**-**	**(89,958)**	**86,713**	**(3,245)**
Balance as at 31 December 2009	**1,000,000**	**(89,958)**	**2,247,124**	**3,157,166**
Total comprehensive income				
Net profit for the period	-	-	24,220	24,220
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of income tax RUB 15,579 thousand (note 12)	-	62,317	-	62,317
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax RUB 569 thousand (note 12)	-	2,274	-	2,274
Total other comprehensive income	**-**	**64,591**	**-**	**64,591**
Total comprehensive income for the period	**-**	**64,591**	**24,220**	**88,811**
Transactions with owners, recorded directly in equity				
Increase in the nominal value of shares with the use of retained earnings	890,000	-	(890,000)	-
Dividends paid (RUB 0.2844 per share)	-	-	(284,400)	(284,400)
Total transactions with owners, recorded directly in equity	**890,000**	**-**	**(1,174,400)**	**(284,000)**
Balance as at 31 December 2010	**1,890,000**	**(25,367)**	**1,096,944**	**2,961,577**

The financial statements as set out on pages 4 to 56 were approved by the Management Board of the Bank on 30 June 2011.

Kornev Vasiliy Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

Organisation and operations

Joint-Stock Commercial bank "Agropromcredit" (the Bank) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 as of 7 July 1993) as a Limited Liability Partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 as of 8 October 1998) the name and the legal structure of the Bank was changed from a Limited Liability Partnership into a Limited Liability Company. In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009 the legal structure of the Bank was changed from a Limited Liability Company into an Open Joint Stock Company (note 25). The Bank conducts its business on the basis of general banking license No. 2880 issued by the Central Bank of the Russian Federation (the CBR). The activities of the Bank are regulated by the CBR. The Bank became a member of the state deposit insurance system for individuals in the Russian Federation in September 2005.

The principal activities of the Bank are deposit taking, customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2010 the Bank has 12 branches and 29 representative offices in the Russian Federation. The Bank's extensive branch network is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of the Bank's employees during 2010 is 295 - in the head office and 940 - in total (2009: 312 - in the head office and 991 - in total).

The majority of the assets and liabilities are located in the Russian Federation.

The Bank's registered office is: Building 13, Block 2, Housing complex 5, Lytkarino, Moscow region, 140061.

Shareholders

As at 31 December the shareholders of the Bank are:

Name	**2010,%**	**2009,%**
LLC "Blaucent"	20.0%	20.0%
LLC "Denciborg"	20.0%	20.0%
LLC "Kinlaut"	20.0%	20.0%
LLC "Avtotransbureau"	20.0%	20.0%
CJSC "Surgutsky Electrichesky Svet"	0.0%	20.0%
CJSC "Predpriyatie proektnogo finansirovaniya"	20.0%	0.0%
	100.0%	**100.0%**

Russian business environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies related to loan impairment estimates is described in note 16.

3 Significant accounting policies

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

As at 31 December 2010 the official rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.4769 and Euro 1 = RUB 40.3331 (31 December 2009: USD 1 = RUB 30.2442 and Euro 1 = RUB 43.3883). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency outside of the Russian Federation.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale financial assets category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method

- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred and in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the reverse repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Property, equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

Leased assets

Where the Bank is the lessee, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to the lessor as a penalty is carried through profit or loss of the period in which the operating lease is cancelled.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

Depreciation is calculated using the following rates.

	Depreciation rate
buildings	2%
motor vehicles	25%
computers	20%-25%
office equipment	10%-20%
other equipment	20%
intangible assets	25%-55%
leasehold improvements	10%-25%

Expenses related to repairs and renewals are charged to profit or loss when incurred and included in profit or loss as other administrative and operating expenses unless they qualify for capitalization.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost.

When the use of a property changes such that it is reclassified as property and equipment, its cost at the date of reclassification becomes its cost for subsequent accounting.

Investment property is initially measured at acquisition cost, including transaction costs. Subsequent investment property is measured at cost. If there is any indication of impairment the Bank measures its recoverable amount, which is calculated as the higher value in use and fair value less sales costs. Reductions in the carrying value to the recoverable amount are recognised in profit or loss.

Subsequent expenditures are capitalised only when they increase future profit or loss economic benefits. All other repairs and maintenance costs are expensed as incurred.

Assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related loan impairment allowance. The Bank writes off a loan balance (and any related loan impairment allowances) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Net gain on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Fiduciary assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from such business are shown in fee and commission income within profit or loss.

Hyperinflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Comparative information

The presentation of certain captions relating to the statement of comprehensive income was changed as at 31 December 2010 and for 2010 year to better present the nature of the underlying transactions. Comparative information for 2009 is reclassified to conform to changes in presentation in the current year. The effect of this change in presentation is as follows:

	2009 as previously reported RUB'000	**2009 as currently reported RUB'000**
Reclassification of captions of the statement of comprehensive income		
Loan impairment	11 272	(345 034)
Loss on sale of loans	(356 306)	-

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued in 2011. Management of the Bank is considering the implications of the standard, the likely impact and the timing of its adoption.
- Improvements to IFRSs 2010 resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Interest income and interest expense

	2010 RUB'000	2009 RUB'000
Interest income		
Loans to customers	1,247,559	2,172,551
Financial instruments at fair value through profit or loss	188,708	65,227
Available-for-sale financial assets	111,267	125,937
Loans and advances to banks	63,048	85,521
	1,610,582	**2,449,236**
Interest expense		
Current accounts and deposits from customers	(955,173)	(745,459)
Promissory notes	(96,912)	(147,468)
Other borrowed funds	(68,386)	(68,787)
Deposits and balances from banks	(1,832)	(40,669)
	(1,122,303)	**(1,002,383)**

5 Fee and commission income

	2010 RUB'000	2009 RUB'000
Guarantees	122,107	144,648
Settlement transactions	105,757	121,961
Cash transactions	88,952	109,950
Cash collections	878	12,564
Other	27,187	38,245
	344,881	**427,368**

6 Fee and commission expense

	2010 RUB'000	2009 RUB'000
Settlement transactions	16,746	19,115
Cash collections	10,066	8,491
Cash transactions	5,759	6,571
Other	2,947	5,317
	35,518	**39,494**

7 Net (loss) gain on financial instruments at fair value through profit or loss

	2010 RUB'000	2009 RUB'000
Debt instruments	(4,226)	88,815
Equity instruments	-	15,330
Other	46	427
	(4,180)	**104,572**

8 Net foreign exchange gain

	2010 RUB'000	2009 RUB'000
Gain on spot transactions and derivatives	49,431	128,310
Loss from revaluation of financial assets and liabilities	(2,771)	(33,384)
	46,660	**94,926**

9 Other income

	2010 RUB'000	2009 RUB'000
Penalties and charges received	395,508	151,385
Income from rent	7,342	6,375
Other	16,326	17,481
	419,176	**175,241**

10 Impairment allowance

	2010 RUB'000	2009 RUB'000
Recovery of (charge for) impairment allowance		
Loans to customers (note 16)	1,076	(345,034)
	1,076	**(345,034)**

11 Other general administrative expenses

	2010 RUB'000	2009 RUB'000
Employee compensation	(793,687)	(1,225,824)
Operating lease expense	(124,082)	(136,903)
Amortization and depreciation	(61,702)	(72,728)
Taxes other than on income	(53,322)	(65,669)
Communications and information services	(45,225)	(47,773)
Repairs and maintenance	(32,620)	(31,568)
Security	(28,089)	(31,644)
Insurance	(24,975)	(27,487)
Advertising and marketing	(24,203)	(26,661)
Expendable supplies and materials	(7,979)	(21,496)
Office supplies	(4,446)	(5,052)
Professional services	(4,050)	(7,578)
Travel expenses	(3,727)	(5,659)
Representation expense	(3,638)	(5,288)
Other	(15,292)	(56,236)
	(1,227,037)	**(1,767,566)**

12 Income tax expense

	2010 RUB'000	2009 RUB'000
Current tax expense		
Current year	15,281	60,982
Deferred tax expense		
Reversal of temporary differences	(9,007)	(34,280)
Income tax expense for the year	**6,274**	**26,702**

In 2010, the applicable tax rate for current and deferred tax is 20% (2009: 20%).

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

	2010 RUB'000	%	2009 RUB'000	%
Profit before tax	30,494		113,415	
Income tax at the applicable tax rate	6,099	20%	22,683	20%
Non-deductible costs and other permanent differences	1,532	5%	5,782	5%
Income on government securities taxed at lower tax rates	(1,357)	(4%)	(1,763)	(2%)
	6,274	**21%**	**26,702**	**23%**

Deferred tax asset and liability

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. As at 31 December 2010 and 31 December 2009 the deferred tax has been calculated at the tax rate of 20%. The tax effect of the movement on temporary differences in 2010 is recorded at the rate of 20% (2009: 20%), except for income on government securities that is taxed at 15% (2009: 15%).

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows.

2010 **RUB'000**	**Balance 1 January 2010**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2010**
Loans and advances to banks	-	(85)	-	(85)
Financial instruments at fair value through profit or loss	29,365	(27,475)	-	1,890
Loans to customers	1,759	5,424	-	7,183
Available-for-sale financial assets	22,490	-	(16,148)	6,342
Property and equipment	(12,059)	9,671	-	(2,388)
Other assets	(26,369)	11,222	-	(15,147)
Current accounts and deposits from customers	2	(2)	-	-
Promissory notes	8,363	102	-	8,465
Other liabilities	(6,338)	10,150	-	3,812
	17,213	**9,007**	**(16,148)**	**10,072**

2009 **RUB'000**	**Balance 1 January 2009**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2009**
Financial instruments at fair value through profit or loss	4,698	24,667	-	29,365
Loans to customers	(33,687)	35,446	-	1,759
Available-for-sale financial assets	-	-	22,490	22,490
Held-to-maturity investments	14,275	(14,275)	-	-
Property and equipment	(20,076)	8,017	-	(12,059)
Other assets	(29,667)	3,298	-	(26,369)
Current accounts and deposits from customers	2,196	(2,194)	-	2
Promissory notes	15,904	(7,541)	-	8,363
Other liabilities	6,800	(13,138)	-	(6,338)
	(39,557)	**34,280**	**22,490**	**17,213**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2010 and 2009 comprise the following.

	2010		
RUB'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	77,896	(15,579)	62,317
Net change in fair value of available-for-sale financial assets transferred to profit or loss	2,843	(569)	2,274
Other comprehensive income	**80,739**	**(16,148)**	**64,591**

	2009		
RUB'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	(95,899)	19,180	(76,719)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(16,549)	3,310	(13,239)
Other comprehensive income	**(112,448)**	**22,490**	**(89,958)**

13 Cash and cash equivalents

	2010 RUB'000	**2009 RUB'000**
Cash on hand	716,196	843,874
Nostro account with the CBR	583,858	1,981,909
Cash in Visa International	53,190	52,674
Nostro accounts with other banks		
Rated from A- to A+	810,574	978,921
Rated from BBB	340,608	83,832
Rated from BB- to BB+	9,265	726,528
Rated from B+ and below B+	26,419	29,713
Not rated	133,591	1,291,871
Total cash and cash equivalents	**2,673,701**	**5,989,322**

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

14 Loans and advances to banks

	2010 RUB'000	**2009 RUB'000**
Nostro accounts with other banks (restricted balances)		
Rated B+ and below B+	807	836
Not rated	1,829	1,813
Total nostro accounts with other banks	2,636	2,649
Loans and advances to banks		
With the CBR	1,400,116	-
Rated from BBB- to BBB+	-	400,599
Rated from BB- to BB+	-	300,001
Total loans and advances to banks	1,400,116	700,600
Reverse repurchase agreements	1,554,352	-
Total loans and advances to banks	**2,957,104**	**703,249**

Ratings are based on Standard & Poor's rating system.

Collateral accepted as security for assets

At 31 December 2010 the fair value of financial assets accepted as collateral under reverse repurchase agreements which the Bank has the right to sell or repledge is RUB 1,749,247 thousand. Collateral accepted include: bonds of the Ministry of Finance of the Russian Federation, Gazprom bonds, Rosselkhozbank bonds, Reiffeisenbank bonds, RZD bonds, MOEK bonds.

Concentration of loans and advances to banks

As at 31 December 2010 the Bank has three counterparties (31 December 2009: two counterparties), whose loans and advances individually exceed 10% of total loans and advances to banks. The gross value of these loans and advances as at 31 December 2010 is RUB 1,717,318 thousand (31 December 2009: RUB 699,986 thousand).

15 Financial instruments at fair value through profit or loss

	2010 RUB'000	**2009 RUB'000**
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	375,367	-
Total government and municipal bonds	**375,367**	
- Corporate bonds		
Rated from BBB- to BBB+	379,459	-
Rated from BB- to BB+	880,792	-
Rated from B- to B+	803,225	-
Total corporate bonds	**2,063,476**	**-**
- Banks' promissory notes		
Rated from BBB- to BBB+	1,125,644	254,943
Rated from BB- to BB+	1,376,513	-
Rated from B- to B+	402,623	-
Not rated	183,013	667,101
Total banks' promissory notes	**3,087,793**	**922,044**
	5,526,636	**922,044**

Ratings are based on Standard & Poor's rating system.

Reclassifications out of securities held for trading

Pursuant to the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, the Bank reclassified certain quoted securities out of the financial instruments at fair value through profit or loss to held-to-maturity investments. The Bank identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the financial instruments at fair value through profit or loss.

Under IAS 39 *Financial Instruments: Recognition and Measurement* as amended, the reclassifications were made with effect from 1 August 2008 at fair value at that date of reclassification. Securities reclassified to held-to-maturity investments as at 1 August 2008, were subsequently reclassified to available-for-sale financial assets due to breach of requirements set for held-to-maturity securities portfolio (note 17).

	2010 RUB '000		**2009 RUB '000**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Held-to-maturity financial instruments reclassified to available-for-sale financial assets due to breach of requirements	1,348,902	1,348,902	1,490,934	1,490,934
	1,348,902	**1,348,902**	**1,490,934**	**1,490,934**

The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008, if the reclassifications had not been made, as well as the actual amounts of income and expense recognised in profit or loss with respect to financial assets reclassified out of securities held for trading.

	2010 RUB'000		**2009 RUB'000**		**2008 RUB'000**	
	Recognized for reclassified assets	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**	**Recognized for reclassified assets**	**Would have been recognized if the reclassifications were not made**
Interest income	111,267	111,267	125,937	125,937	129,845	129,845
Net gain (loss) on financial instruments at fair value through profit or loss	-	77,896	-	(95,899)	(62,657)	(213,964)
Net (loss) gain on available-for-sale financial assets	(2,843)	-	16,549	-	-	-
Total recognised in profit or loss for the period (before tax)	**108,424**	**189,163**	**142,486**	**30,038**	**67,188**	**(84,119)**
Net change in fair value of available-for-sale financial assets	80,739	-	(112,448)	-	-	-
Total amount recognised within a statement of comprehensive income for the period (before tax)	**189,163**	**189,163**	**30,038**	**30,038**	**67,188**	**(84,119)**

16 Loans to customers

	2010 RUB'000	2009 RUB'000
Loans to corporate customers		
Loans to large corporates	1,954,781	1,781,408
Loans to small and medium size companies	1,513,852	2,725,936
Total loans to corporate customers	**3,468,633**	**4,507,344**
Loans to retail customers		
Auto loans	917,076	1,982,205
Consumer loans with collateral	701,833	1,012,666
Mortgage loans	342,462	504,272
Entrepreneurs	261,715	536,032
Consumer loans without collateral	261,444	522,290
Overdrafts	32,899	21,512
Other loans to individuals	256,939	169,111
Total loans to retail customers	**2,774,368**	**4,748,088**
Gross loans to customers	**6,243,001**	**9,255,432**
Impairment allowance	(766,659)	(1,385,712)
Net loans to customers	**5,476,342**	**7,869,720**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	(204,146)	(1,181,566)	(1,385,712)
Net (charge) recovery	(24,940)	26,016	1,076
Sold loans	68,235	542,252	610,487
Write-offs	7,490	-	7,490
Balance at the end of the year	**(153,361)**	**(613,298)**	**(766,659)**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance at the beginning of the year	(453,236)	(949,552)	(1,402,788)
Net (charge) recovery	243,286	(588,320)	(345,034)
Sold loans	-	356,306	356,306
Write-offs	5,804	-	5,804
Balance at the end of the year	**(204,146)**	**(1,181,566)**	**(1,385,712)**

As at 31 December 2010 and 2009, gross interest accrued on impaired loans amounted to RUB 218,895 thousand and RUB 546,431 thousand, respectively.

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2010:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment:				
- standard loans	1,852,917	(33,535)	1,819,382	1.81%
- watch list loans	65,227	(1,122)	64,105	1.72%
Total loans without individual signs of impairment	1,918,144	(34,657)	1,883,487	1.81%
Impaired loans:				
- overdue more than 1 year	36,637	(1,066)	35,571	2.91%
Total impaired loans	36,637	(1,066)	35,571	2.91%
Total loans to large corporates	**1,954,781**	**(35,723)**	**1,919,058**	**1.83%**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- standard loans	773,861	(13,045)	760,816	1.69%
- watch list loans	511,086	(3,336)	507,750	0.65%
Total loans without individual signs of impairment	1,284,947	(16,381)	1,268,566	1.27%
Impaired loans:				
- overdue less than 90 days	38,535	(8,429)	30,106	21.87%
- overdue more than 90 days but less than 1 year	27,490	(19,373)	8,117	70.47%
- overdue more than 1 year	162,880	(73,455)	89,425	45.10%
Total impaired loans	228,905	(101,257)	127,648	44.24%
Total loans to small and medium size companies	**1,513,852**	**(117,638)**	**1,396,214**	**7.77%**
Total loans to corporate customers	**3,468,633**	**(153,361)**	**3,315,272**	**4.42%**
Loans to retail customers				
Auto loans				
- not overdue	687,696	-	687,696	0.00%
- overdue less than 30 days	23,967	(93)	23,874	0.39%
- overdue 31-60 days	26,253	(1,754)	24,499	6.68%
- overdue 61-90 days	4,914	(708)	4,206	14.41%
- overdue more than 90 days	174,246	(168,011)	6,235	96.42%
Total auto loans	**917,076**	**(170,566)**	**746,510**	**18.60%**
Consumer loans with collateral				
- not overdue	581,772	-	581,772	0.00%
- overdue less than 30 days	23,179	(81)	23,098	0.35%
- overdue 31-60 days	5,291	(298)	4,993	5.63%
- overdue 61-90 days	96	(21)	75	21.88%
- overdue more than 90 days	91,495	(89,100)	2,395	97.38%
Total consumer loans with collateral	**701,833**	**(89,500)**	**612,333**	**12.75%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	285,810	-	285,810	0.00%
- overdue less than 30 days	20,738	(21)	20,717	0.10%
- overdue 31-60 days	535	(5)	530	0.93%
- overdue more than 90 days	35,379	(34,874)	505	98.57%
Total mortgage loans	**342,462**	**(34,900)**	**307,562**	**10.19%**
Entrepreneurs				
- not overdue	121,206	-	121,206	0.00%
- overdue less than 30 days	15,708	(101)	15,607	0.64%
- overdue 31-60 days	3,414	(280)	3,134	8.20%
- overdue 61-90 days	864	(152)	712	17.59%
- overdue more than 90 days	120,523	(115,744)	4,779	96.03%
Total entrepreneurs	**261,715**	**(116,277)**	**145,438**	**44.43%**
Consumer loans without collateral				
- not overdue	195,727	-	195,727	0.00%
- overdue less than 30 days	1,142	(3)	1,139	0.26%
- overdue 31-60 days	726	(70)	656	9.64%
- overdue 61-90 days	1,149	(239)	910	20.80%
- overdue more than 90 days	62,700	(61,224)	1,476	97.65%
Total consumer loans without collateral	**261,444**	**(61,536)**	**199,908**	**23.54%**
Overdrafts				
- not overdue	19,514	-	19,514	0.00%
- overdue less than 30 days	33	-	33	0.00%
- overdue 61-90 days	285	(179)	106	62.81%
- overdue more than 90 days	13,067	(13,067)	0	100.00%
Total overdrafts	**32,899**	**(13,246)**	**19,653**	**40.26%**
Other loans to retail customers				
- not overdue	112,286	-	112,286	0.00%
- overdue less than 30 days	17,875	(506)	17,369	2.83%
- overdue 31-60 days	10	(1)	9	10.00%
- overdue more than 90 days	126,768	(126,766)	2	99.99%
Total other loans to retail customers	**256,939**	**(127,273)**	**129,666**	**49.53%**
Total loans to retail customers	**2,774,368**	**(613,298)**	**2,161,070**	**22.11%**
Total loans to customers	**6,243,001**	**(766,659)**	**5,476,342**	**12.28%**

The following table provides information on the credit quality of the loans to customers portfolio as at 31 December 2009:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment:				
- standard loans	1,726,092	(50,127)	1,675,965	2.90%
- watch list loans	20,951	(556)	20,395	2.65%
Total loans without individual signs of impairment	1,747,043	(50,683)	1,696,360	2.90%
Impaired loans:				
- overdue more than 90 days and less than 1 year	34,365	(12,892)	21,473	37.51%
Total impaired loans	34,365	(12,892)	21,473	37.51%
Total loans to large corporates	**1,781,408**	**(63,575)**	**1,717,833**	**3.57%**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- standard loans	793,510	(23,783)	769,727	3.00%
- watch list loans	1,567,775	(42,023)	1,525,752	2.68%
Total loans without individual signs of impairment	2,361,285	(65,806)	2,295,479	2.79%
Impaired loans:				
- not overdue	333,422	(43,840)	289,582	13.15%
- overdue more than 90 days and less than 1 year	10,562	(10,562)	-	100.00%
- overdue more than 1 year	20,667	(20,363)	304	98.53%
Total impaired loans	364,651	(74,765)	289,886	20.50%
Total loans to small and medium size companies	**2,725,936**	**(140,571)**	**2,585,365**	**5.16%**
Total loans to corporate customers	**4,507,344**	**(204,146)**	**4,303,198**	**4.53%**
Loans to retail customers				
Auto loans				
- not overdue	1,456,022	-	1,456,022	0.00%
- overdue less than 30 days	69,939	(705)	69,234	1.01%
- overdue 31-60 days	45,408	(7,905)	37,503	17.41%
- overdue 61-90 days	11,596	(3,895)	7,701	33.59%
- overdue more than 90 days	399,240	(399,240)	-	100.00%
Total auto loans	**1,982,205**	**(411,745)**	**1,570,460**	**20.77%**
Consumer loans with collateral				
- not overdue	744,998	-	744,998	0.00%
- overdue less than 30 days	20,198	(168)	20,030	0.83%
- overdue 31-60 days	17,923	(3,461)	14,462	19.31%
- overdue 61-90 days	5,917	(2,548)	3,369	43.06%
- overdue more than 90 days	223,630	(223,630)	-	100.00%
Total consumer loans with collateral	**1,012,666**	**(229,807)**	**782,859**	**22.69%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	386,495	-	386,495	0.00%
- overdue less than 30 days	57,351	(1,781)	55,570	3.11%
- overdue 31-60 days	11,806	(2,672)	9,134	22.63%
- overdue 61-90 days	2,813	(2,034)	779	72.31%
- overdue more than 90 days	45,807	(45,807)	-	100.00%
Total mortgage loans	**504,272**	**(52,294)**	**451,978**	**10.37%**
Entepreneurs				
- not overdue	389,807	-	389,807	0.00%
- overdue less than 30 days	9,126	(146)	8,980	1.60%
- overdue 31-60 days	8,009	(2,108)	5,901	26.32%
- overdue 61-90 days	9,049	(7,693)	1,356	85.01%
- overdue more than 90 days	120,041	(120,041)	-	100.00%
Total entrepreneurs	**536,032**	**(129,988)**	**406,044**	**24.25%**
Consumer loans without collateral				
- not overdue	216,394	-	216,394	0.00%
- overdue less than 30 days	10,478	(103)	10,375	0.98%
- overdue 31-60 days	6,303	(1,396)	4,907	22.15%
- overdue 61-90 days	1,622	(575)	1,047	35.45%
- overdue more than 90 days	287,493	(287,493)	-	100.00%
Total consumer loans without collateral	**522,290**	**(289,567)**	**232,723**	**55.44%**
Overdrafts				
- not overdue	12,306	-	12,306	0.00%
- overdue less than 30 days	116	(2)	114	1.72%
- overdue 31-60 days	81	(29)	52	35.80%
- overdue 61-90 days	65	(60)	5	92.31%
- overdue more than 90 days	8,944	(8,944)	-	100.00%
Total overdrafts	**21,512**	**(9,035)**	**12,477**	**42.00%**
Other loans to retail customers				
- not overdue	67,256	-	67,256	0.00%
- overdue less than 30 days	22,320	(328)	21,992	1.47%
- overdue 31-60 days	21,937	(1,206)	20,731	5.50%
- overdue 61-90 days	2	-	2	0.00%
- overdue more than 90 days	57,596	(57,596)	-	100.00%
Total other loans to retail customers	**169,111**	**(59,130)**	**109,981**	**34.97%**
Total loans to retail customers	**4,748,088**	**(1,181,566)**	**3,566,522**	**24.89%**
Total loans to customers	**9,255,432**	**(1,385,712)**	**7,869,720**	**14.97%**

As at 31 December 2010 there are no renegotiated loans to corporate and retail customers that would otherwise be past due or impaired in the loan portfolio. (As at 31 December 2009 included in the loan portfolio are renegotiated loans to retail customers that would otherwise be past due or impaired of RUB 33 334 thousand).

Key assumptions and judgements for estimating the loan impairment allowance

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

Management estimates the impairment allowance for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate, adjusted for current economic environment of 1.72%
- a discount of between 25% - 50% to the originally appraised value if the property pledged is sold
- a delay of 24 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance for loans to corporate customers as at 31 December 2010 would be RUB 33,153 thousand lower/higher (31 December 2009: RUB 43,032 thousand).

Loans to retail customers

The Bank estimates the impairment allowance for loans to retail customers based on the statistical data on overdue loans for the past 24 months adjusted for current market conditions. In determining the impairment allowance for the loan portfolio for which no impairment has been identified, management assumes loss rates derived from historic losses, adjusted for current economic environment.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance for loans to retail customers as at 31 December 2010 would be RUB 64,832 thousand lower/higher (31 December 2009: RUB 106,996 thousand).

Analysis of collateral

Loans to corporate customers

Principal types of collateral used by the Bank are guarantees and warranties, pledge over real estate or equipment and securities. The Bank does not rely on the pledge as the principal source of repayment, therefore, the management does not estimate fair value of the pledge on a regular basis.

As at 31 December 2010 impaired or overdue loans to corporate customers with a gross value of RUB 265,542 thousand (2009: RUB 399,016 thousand) are secured by collateral with a value of RUB 276,128 thousand (2009: RUB 284,427 thousand).

During the year ended 31 December 2010 and 31 December 2009 the Bank did not obtain any assets by taking control of collateral securing loans to corporate customers.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and all other loans to retail customers are not secured.

The Bank estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 95% of the mortgage balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other loans to individuals.

Analysis of movements in the impairment allowance

Loans to corporate customers

Movements in the loan impairment allowance by classes of loans to corporate customers for the year ended 31 December 2010 are as follows:

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(63,575)	(140,571)	(204,146)
Net recovery (charge) during the year	27,852	(52,792)	(24,940)
Loans sold	-	68,235	68,235
Loans written-off during the year as uncollectible	-	7,490	7,490
Balance as at 31 December	**(35,723)**	**(117,638)**	**(153,361)**

Movements in the loan impairment allowance by classes of loans to corporate customers for the year ended 31 December 2009 are as follows:

	Loans to large corporates RUB'000	Loans to small and medium size companies RUB'000	Total RUB'000
Balance as at 1 January	(119,229)	(334,007)	(453,236)
Net recovery during the year	55,654	187,632	243,286
Loans written-off during the year as uncollectible	-	5,804	5,804
Balance as at 31 December	**(63,575)**	**(140,571)**	**(204,146)**

Loans to retail customers

Movements in the loan impairment allowance by classes of loans to retail customers for the year ended 31 December 2010 are as follows.

RUB'000	Auto loans	Consumer loans with collateral	Mortgage loans	Entrepreneurs	Consumer loans without collateral	Overdrafts	Other loans to individuals	Total
Balance as at 1 January	(411,745)	(229,807)	(52,294)	(129,988)	(289,567)	(9,035)	(59,130)	(1,181,566)
Net recovery (charge) during the year	73,949	5,503	17,394	6,174	(4,650)	(4,211)	(68,143)	26,016
Loans sold	167,230	134,804	-	7,537	232,681	-	-	542,252
Balance as at 31 December	**(170,566)**	**(89,500)**	**(34,900)**	**(116,277)**	**(61,536)**	**(13,246)**	**(127,273)**	**(613,298)**

Movements in the loan impairment allowance by classes of loans to retail customers for the year ended 31 December 2009 are as follows.

RUB'000	Auto loans	Consumer loans with collateral	Mortgage loans	Entrepreneurs	Consumer loans without collateral	Overdrafts	Other loans to individuals	Total
Balance as at 1 January	(418,691)	(312,861)	(12,520)	(17,563)	(146,136)	(5,963)	(35,818)	(949,552)
Net charge during the year	(232,672)	(12,891)	(39,774)	(112,425)	(164,174)	(3,072)	(23,312)	(588,320)
Loans sold	239,618	95,945	-	-	20,743	-	-	356,306
Balance as at 31 December	**(411,745)**	**(229,807)**	**(52,294)**	**(129,988)**	**(289,567)**	**(9,035)**	**(59,130)**	**(1,181,566)**

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors (net of impairment allowance).

	2010 RUB'000	2009 RUB'000
Trade	1,288,350	2,187,875
Energy, mining and metallurgy	825,196	946,554
Repair and installation work	797,487	-
Finance and investment companies	134,638	965,603
Manufacturing	97,209	55,974
Food industry	67,499	-
Rent	27,244	52,038
Construction	15,729	-
Other	61,920	95,154
Loans to retail customers	2,161,070	3,566,522
	5,476,342	**7,869,720**

Significant credit exposures

As at 31 December 2010 and 2009 the Bank has no borrowers or groups of related borrowers whose loan balances individually exceeded 10% of total loans to customers.

Loan maturities

The maturities of the Bank's loan portfolio as at the reporting date are presented in note 26, which shows the remaining periods from the reporting date to the contractual maturities of the loans. Due to the short-term nature of the loans to corporate customers issued by the Bank, it is likely that many of the loans will be prolonged. Accordingly, the effective maturities of the loan portfolio may be significantly longer than the contractual maturities.

Sale of loans

In 2010 and 2009 the Bank sold a pool of bad and overdue loans to retail customers to a collection agency for RUB 298,000 thousand and RUB 196,405 thousand respectively. The gross value of the disposed loans, including principal amounts, accrued interest and penalties as at 31 December 2010 and 31 December 2009 equals to RUB 840,252 thousand and RUB 552,711 thousand respectively.

17 Available-for-sale financial assets

	2010 RUB'000	2009 RUB'000
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1,040,200	1,200,157
Regional authorities and municipal bonds	94,955	81,566
Total government and municipal bonds	**1,135,155**	**1,281,723**
- Corporate bonds		
Rated from BBB- to BBB+	94,520	92,096
Rated from B- to B+	119,227	-
Not rated	-	117,115
Total corporate bonds	**213,747**	**209,211**
Equity investments		
- Corporate shares		
CJSC Credit reference bureau "National credit bureau"	4,410	4,410
Impairment allowance	(4,410)	(4,410)
Total corporate shares	**-**	**-**
	1,348,902	**1,490,934**

Ratings are based on Standard & Poor's rating system.

18 Property and equipment, intangible assets and assets held-for-sale

RUB'000	Land and buildings	Vehicles	Computers	Office equipment	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2010	206,795	36,245	43,625	136,264	39,007	91,521	2,993	74,517	630,967
Additions	-	1,583	4,730	2,031	9,160	1,005	7,148	-	25,657
Disposals	-	(3,913)	(2,749)	(6,647)	-	(1,990)	-	-	(15,299)
Transfers	-		-	5,109	-	-	(6,440)	1,331	-
Balance at 31 December 2010	**206,795**	**33,915**	**45,606**	**136,757**	**48,167**	**90,536**	**3,701**	**75,848**	**641,325**
Depreciation									
Balance at 1 January 2010	(21,051)	(23,620)	(36,365)	(61,203)	(10,979)	(86,160)	-	(32,107)	(271,485)
Depreciation for the year	(4,205)	(5,385)	(2,536)	(13,792)	(24,070)	(1,424)	-	(10,290)	(61,702)
Disposals	-	3,913	2,712	4,470	-	1,990	-	-	13,085
Balance at 31 December 2010	**(25,256)**	**(25,092)**	**(36,189)**	**(70,525)**	**(35,049)**	**(85,594)**	**-**	**(42,397)**	**(320,102)**
Carrying amount									
At 31 December 2010	**181,539**	**8,823**	**9,417**	**66,232**	**13,118**	**4,942**	**3,701**	**33,451**	**321,223**

RUB'000	Land and buildings	Motor vehicles	Computers	Fixtures and fittings	Intangible assets	Other equipment	Construction in progress	Leasehold improvements	Total
Cost									
Balance at 1 January 2009	207,397	36,433	98,960	98,446	25,551	78,399	635,587	74,435	1,255,208
Additions	-	1,553	-	5,047	24,426	6,683	49,352	82	87,143
Disposals	(602)	(1,741)	(3,978)	(5,023)	(10,970)	(7,124)	(4,193)	-	(33,631)
Transfers	-	-	(51,357)	37,794	-	13,563	(677,753)	-	(677,753)
At 31 December 2009	**206,795**	**36,245**	**43,625**	**136,264**	**39,007**	**91,521**	**2,993**	**74,517**	**630,967**
Depreciation									
Balance at 1 January 2009	(17,103)	(18,600)	(74,297)	(25,004)	(1,917)	(64,943)	-	(21,909)	(223,773)
Depreciation for the year	(4,146)	(6,727)	(4,591)	(12,063)	(20,032)	(14,971)	-	(10,198)	(72,728)
Disposals	198	1,707	3,965	4,239	10,970	3,937	-	-	25,016
Transfers	-	-	38,558	(28,375)	-	(10,183)	-	-	-
Balance at 31 December 2009	**(21,051)**	**(23,620)**	**(36,365)**	**(61,203)**	**(10,979)**	**(86,160)**	**-**	**(32,107)**	**(271,485)**
Carrying amount									
At 31 December 2009	**185,744**	**12,625**	**7,260**	**75,061**	**28,028**	**5,361**	**2,993**	**42,410**	**359,482**

As at 31 December 2010 and 2009 the Bank has fully depreciated fixed assets which are still in use. The gross values of these balances as at 31 December 2010 and 2009 are RUB 139,647 thousand and RUB 80,203 thousand, respectively.

Assets held-for-sale

During 2010 the Bank completed the purchase and registration of a land plot and recognized it as an asset held-for-sale carried at cost. The Bank also recognized a land plot recognised in 2009 as investment property as an asset held-for-sale. Management intentions are to sell these land plots during 2011. As at 31 December 2010 the cost of these land plots amounted to RUB 1,192,336 thousand (31 December 2009: RUB 677,753 thousand). As at 31 December 2010 management estimates the fair value of the investment property to be RUB 2,122,385 thousand on the basis of comparable sales approach (31 December 2009: RUB 1,359,896 thousand).

19 Other assets

	2010 RUB'000	2009 RUB'000
Settlements on brokerage operations	466,066	421,741
Total other financial assets	**466,066**	**421,741**
Trade debtors and prepayments	29,883	30,921
Materials and supplies	20,883	30,166
Other	19,302	44,528
Total other non-financial assets	**70,068**	**105,615**
Total other assets	**536,134**	**527,356**

20 Deposits and balances from banks

	2010 RUB'000	2009 RUB'000
Vostro accounts	11	11
Term deposits	26,225	22,650
	26,236	**22,661**

Concentration of balances and deposits from banks

As at 31 December 2010 the Bank has one counterparty (31 December 2009: one counterparty), whose balances and deposits exceed 10% of total deposits and balances from banks. The gross value of these balances as at 31 December 2010 is RUB 23,525 thousand (31 December 2009: RUB 22,650 thousand).

21 Current accounts and deposits from customers

	2010 RUB'000	2009 RUB'000
Current accounts and demand deposits		
- Individuals	832,279	969,452
- Legal entities	3,677,797	4,438,792
Term deposits		
- Individuals	9,451,715	5,493,219
- Legal entities	1,640,054	2,291,847
	15,601,845	**13,193,310**

As at 31 December 2010 and 31 December 2009 the Bank has no customers, whose balances individually exceed 10% of total current accounts and deposits from customers.

22 Promissory notes

	2010 RUB'000	2009 RUB'000
Promissory notes	845,302	1,513,080
	845,302	**1,513,080**

23 Other borrowed funds

	2010 RUB'000	2009 RUB'000
Subordinated borrowings	773,066	773,066
	773,066	**773,066**

As at 31 December 2010 and 2009 subordinated borrowings comprise loans received from a third party maturing in 2020 and carry an annual interest rate of 8.9%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

24 Other liabilities

	2010 RUB'000	2009 RUB'000
Prepayments	13,556	7,569
Audit expenses	4,780	8,850
Taxes payable other than income tax	5,592	6,499
Unused vacation	3,457	4,836
Other	2,173	4,603
Total other non-financial liabilities	**29,558**	**32,357**

25 Share capital

Issued share capital

In accordance with the decision of the general meeting of participants of the Bank dated 14 August 2009 the legal structure of the Bank was changed from a Limited Liability Company to an Open Joint Stock Company. The change on the capital structure is presented in these financial statements as if it occurs at the beginning of the earliest period presented. As a result 1,000,000,000 ordinary shares were issued. All shares have a nominal value of RUB 1. The units in the charter capital were exchanged into the equal number of ordinary shares.

On 29 January 2010 the Bank's share capital was increased from RUB 1,000,000 thousand to RUB 1,890,000 thousand by the increase of each share's nominal value from RUB 1 to RUB 1,89. The share capital was increased with the use of retained earnings which amounts to RUB 890,000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as at 31 December 2010, reserves available for distribution amounted to RUB 173,293 thousand (31 december 2009: RUB 284,447 thousand).

In 2010 dividends in the amount of RUB 284,400 thousand were paid to the shareholders.

26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgements in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the President. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk is also performed by monitoring interest rate gap and is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate movements scenarios.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010 Average effective interest rate, %			**2009 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Loans and advances to banks	3.8%	-	-	3.7%	-	-
Financial instruments at fair value through profit or loss	7.8%	4.0%	3.5%	12.8%	-	-
Loans to customers	15.8%	14.2%	17.2%	16.2%	14.4%	15.6%
Available-for-sale financial assets	6.7%	-	-	7.8%	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	19.0%	-	-	10.9%	-	-
Current accounts and deposits from customers						
- Term deposits	10.6%	8.2%	7.2%	11.8%	8.8%	8.9%
Promissory notes	9.5%	-	8.7%	11.3%	6.7%	9.0%
Other borrowed funds	8.9%	-	-	8.9%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows.

	2010		2009	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	3,732	3,732	(738)	(738)
100 bp parallel rise	(3,732)	(3,732)	738	738

An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows.

	2010		2009	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel fall	87,299	70,696	37,712	36,246
100 bp parallel rise	(87,299)	(70,696)	(37,712)	(36,246)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2010.

	RUB RUB'000	**USD RUB'000**	**EUR RUB'000**	**Other currencies RUB'000**	**Total RUB'000**
ASSETS					
Cash and cash equivalents	1,256,401	516,898	891,648	8,754	2,673,701
Due from the Central Bank of the Russian Federation	111,515	-	-	-	111,515
Loans and advances to banks	2,954,567	2,133	404	-	2,957,104
Financial instruments at fair value through profit or loss	5,052,260	60,686	413,690	-	5,526,636
Loans to customers	5,410,593	65,749	-	-	5,476,342
Available-for-sale financial assets	1,348,902	-	-	-	1,348,902
Property, equipment and intangible assets	321,223	-	-	-	321,223
Assets held-for-sale	1,192,336	-	-	-	1,192,336
Current tax assets	83,619	-	-	-	83,619
Deferred tax assets	10,072	-	-	-	10,072
Other assets	535,031	749	354	-	536,134
Total assets	**18,276,519**	**646,215**	**1,306,096**	**8,754**	**20,237,584**

	RUB	USD	EUR	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES					
Deposits and balances from banks	26,236	-	-	-	26,236
Current accounts and deposits from customers	13,276,403	1,267,322	1,042,535	15,585	15,601,845
Promissory notes	555,657	-	289,645	-	845,302
Other borrowed funds	773,066	-	-	-	773,066
Other liabilities	29,441	117	-	-	29,558
Total liabilities	**14,660,803**	**1,267,439**	**1,332,180**	**15,585**	**17,276,007**
Net position	**3,615,716**	**(621,224)**	**(26,084)**	**(6,831)**	**2,961,577**
The effect of derivatives held for risk management	**(607,184)**	**609,538**	**-**	**-**	**2,354**
Net position after derivatives held for risk management purposes	**3,008,532**	**(11,686)**	**(26,084)**	**(6,831)**	**2,963,931**

The following table shows the currency structure of assets and liabilities as at 31 December 2009.

	RUB	USD	EUR	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS					
Cash and cash equivalents	2,766,480	1,396,766	1,815,509	10,567	5,989,322
Due from the Central Bank of the Russian Federation	94,610	-	-	-	94,610
Loans and advances to banks	700,088	2,728	433	-	703,249
Financial instruments at fair value through profit or loss	922,044	-	-	-	922,044
Loans to customers	7,843,717	24,712	1,291	-	7,869,720
Available-for-sale financial assets	1,490,934	-	-	-	1,490,934
Property, equipment and intangible assets	359,482	-	-	-	359,482
Investment property	677,753	-	-	-	677,753
Current tax assets	39,957	-	-	-	39,957
Deferred tax assets	17,213	-	-	-	17,213
Other assets	524,892	1,575	889	-	527,356
Total assets	**15,437,170**	**1,425,781**	**1,818,122**	**10,567**	**18,691,640**
LIABILITIES					
Deposits and balances from banks	22,661	-	-	-	22,661
Current accounts and deposits from customers	11,144,115	1,009,347	1,028,594	11,254	13,193,310
Promissory notes	263,377	440,424	809,279	-	1,513,080
Other borrowed funds	773,066	-	-	-	773,066
Other liabilities	32,041	206	110	-	32,357
Total liabilities	**12,235,260**	**1,449,977**	**1,837,983**	**11,254**	**15,534,474**
Net position	**3,201,910**	**(24,196)**	**(19,861)**	**(687)**	**3,157,166**

A change in exchange rate of the RUB, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
10% appreciation of RUB against USD	935	935	1,936	1,936
10% depreciation of RUB against USD	(935)	(935)	(1,936)	(1,936)
10% appreciation of RUB against EUR	2,087	2,087	1,589	1,589
10% depreciation of RUB against EUR	(2,087)	(2,087)	(1,589)	(1,589)

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committees, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Credit Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal, Tax and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its borrowers. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual borrower analysis, the credit portfolio is assessed by the Loan Department with regard to credit concentration and market risks.

The maximum exposure to credit risk, reflected in the statement of financial position, is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial instruments at the reporting date is as follows:

	2010 RUB'000	2009 RUB'000
ASSETS		
Cash and cash equivalents	1 957 505	5 145 448
Obligatory reserves with the Central Bank of the Russian Federation	111 515	94 610
Loans and advances to banks	2 957 104	703 249
Financial instruments at fair value through profit or loss	5 526 636	922 044
Loans to customers	5 476 342	7 869 720
Available-for-sale financial assets	1 348 902	1 490 934
Other financial assets	466 066	421 741
Total maximum exposure	**17 844 070**	**16 647 746**

The maximum exposure to credit risk from financial instruments, not reflected in the statement of financial position, at the reporting date is presented in note 28.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to note 16 "Loans to customers".

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow

- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Financial Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Financial Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Financial Committee and implemented by the Financial Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 31 December 2009.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity.

The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2010 is as follows.

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	35	23,641	140	2,953	26,769	26,236
Current accounts and deposits from customers	5,541,198	5,167,101	3,611 040	2,828,682	17,148,021	15,601,845
Promissory notes	297,810	310,629	66,598	234,234	909,271	845,302
Other borrowed funds	5,699	28,495	34,194	1,388,540	1,456,928	773,066
Total financial liabilities	**5,844,742**	**5,529,866**	**3,711,972**	**4,454,409**	**19,540,989**	**17,246,44**
Credit related commitments	**612,127**	**1,734,781**	**1,068,808**	**56,994**	**3,472,710**	**3,472,710**

The maturity analysis for financial liabilities as at 31 December 2009 is as follows.

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities						
Deposits and balances from banks	142	3,943	8,343	15,622	28,050	22,661
Current accounts and deposits from customers	6,678,652	2,236,293	2,289,037	2,888,388	14,092,370	13,193,310
Promissory notes	87,889	157,540	124,650	1,331,351	1,701,430	1,513,080
Other borrowed funds	5,995	28,104	34,474	1,459,988	1,528,561	773,066
Total financial liabilities	**6,772,678**	**2,425,880**	**2,456,504**	**5,695,349**	**17,350,411**	**15,502,117**
Credit related commitments	**114,777**	**620,976**	**217,408**	**3,277,813**	**4,230,974**	**4,230,974**

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits as at 31 December 2010, by each time band, is as follows:

- less than 1 month: RUB 594,033 thousand
- from 1 to 3 months: RUB 2,803,661 thousand
- from 3 to 6 months: RUB 1,284,447 thousand
- from 6 to 12 months: RUB 2,958,714 thousand
- more than 1 year: RUB 1,810,860 thousand.

The amount of such deposits as at 31 December 2009, by each time band, is as follows:

- less than 1 month: RUB 426,662 thousand
- from 1 to 3 months: RUB 454,676 thousand
- from 3 to 6 months: RUB 749,856 thousand
- from 6 to 12 months: RUB 1,500,082 thousand
- more than 1 year: RUB 2,361,943 thousand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010.

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	2,673,701	-	-	-	-	2,673,701
Due from the Central Bank of the Russian Federation	-	-	-	-	111,515	111,515
Loans and advances to banks	2,957,104	-	-	-	-	2,957,104
Financial instruments at fair value through profit or loss	5,526,636	-	-	-	-	5,526,636
Loans to customers	159 234	2,033,791	619,418	2,343,759	320,140	5,476,342
Available-for-sale financial assets	-	-	94,520	1,254,382	-	1,348,902
Property, equipment and intangible assets	-	-	-	-	321,223	321,223
Assets held-for-sale	-	-	1,192 336	-	-	1,192,336
Current tax assets	-	83,619	-	-	-	83,619
Deferred tax assets	-	-	-	-	10,072	10,072
Other assets	501,131	17,292	5,371	12,340	-	536,134
Total assets	**11,817,806**	**2,134,702**	**1,911,645**	**3,610,481**	**762,950**	**20,237,584**
LIABILITIES						
Deposits and balances from banks	11	-	23,525	2,700	-	26,236
Current accounts and deposits from customers	5,445 969	4,803 910	3,354,822	1,997,144	-	15,601,845
Promissory notes	291,360	288,945	47,849	217,148	-	845,302
Other borrowed funds	-	-	-	773,066	-	773,066
Other liabilities	15,410	12,219	1,918	11	-	29,558
Total liabilities	**5,752,750**	**5,105,074**	**3,428,114**	**2,990 069**	**-**	**17,276,007**
Net position	**6,065,056**	**(2,970,372)**	**(1,516,469)**	**620,412**	**762,950**	**2,961,577**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009.

RUB'000	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No maturity/ Overdue	Total
ASSETS						
Cash and cash equivalents	5,989,322	-	-	-	-	5,989,322
Due from the Central Bank of the Russian Federation	94,610	-	-	-	-	94,610
Loans and advances to banks	702,639	610	-	-	-	703,249
Financial instruments at fair value through profit or loss	922,044	-	-	-	-	922,044
Loans to customers	590,769	2,532,799	1,527,258	3,178,690	40,204	7,869,720
Available-for-sale financial assets	-	111,938	-	1,378,996	-	1,490,934
Property, equipment and intangible assets	-	-	-	-	359,482	359,482
Investment property	-	-	-	-	677,753	677,753
Current tax assets	-	39,957	-	-	-	39,957
Deferred tax assets	-	-	-	-	17,213	17,213
Other assets	452,424	52,651	3,775	18,506	-	527,356
Total assets	**8,751,808**	**2,737,955**	**1,531,033**	**4,576,192**	**1,094,652**	**18,691,640**
LIABILITIES						
Deposits and balances from banks	11	2,400	7,250	13,000	-	22,661
Current accounts and deposits from customers	6,610,364	1,971,984	2,035,504	2,575,458	-	13,193,310
Promissory notes	77,140	110,426	70,322	1,255,192	-	1,513,080
Other borrowed funds	-	-	-	773,066	-	773,066
Other liabilities	11,374	20,008	854	121	-	32,357
Total liabilities	**6,698,889**	**2,104,818**	**2,113,930**	**4,616,837**	**-**	**15,534,474**
Net position	**2,052,919**	**633,137**	**(582,897)**	**(40,645)**	**1,094,652**	**3,157,166**

Financial instruments at fair value through profit or loss are classified into the category "Demand and less than 1 month", as the mentioned financial instruments are of trade nature and in the management's opinion this approach best reflects the position of the Bank on liquidity.

As at 31 December 2010 the contractual maturities of financial instruments at fair value through profit or loss are: RUB 678,316 thousand in “Demand and less than 1 month”, RUB 1,526,578 thousand in “From 1 to 6 months”; RUB 909,072 thousand in “From 6 to 12 months”; and RUB 2,412,670 thousand in “More than 1 year”.

As at 31 December 2009 the contractual maturities of financial instruments at fair value through profit or loss are: RUB 434,345 thousand in “Demand and less than 1 month”; RUB 487,699 thousand in “From 1 to 6 months”.

As basic liquidity risk management tool, the Bank calculates mandatory liquidity ratios in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the shareholders’ equity and liabilities maturing after 1 year.

As at 31 December 2010 and 2009 these ratios are as follows.

	2010	**2009**
At 31 December		
Instant liquidity ratio (N2) (not less than 15%)	83.7%	110.3%
Current liquidity ratio (N3) (not less than 50%)	155.3%	138.1%
Long-term liquidity ratio (N4) (not more than 120%)	33.9%	33.3%

27 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2010, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009.

The following table shows the capital position calculated in accordance with requirements set by the CBR:

	2010	**2009**
Capital in RUB’000	3,049,026	3,152,388
Capital in %	18.9%	24.1%

28 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides bank guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments and financial guarantees as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010 RUB'000	2009 RUB'000
Contracted amount		
Unused loans and overdrafts	909,521	810,496
Guarantees issued	2,563,189	3,420,478
Total credit related commitments	**3,472,710**	**4,230,974**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

29 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2010 RUB'000	2009 RUB'000
Less than 1 year	91,387	61,748
Between 1 and 5 years	134,543	120,827
More than 5 years	-	28,459
	225,930	**211,034**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

In 2010 the amount of RUB 124,082 thousand is recognized in profit or loss in respect of operating leases (2009: RUB 136,903 thousand).

30 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

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

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

31 Related party transactions

Control relationships

Banking transactions are entered into in the normal course of business with the shareholders of the Bank, members of the Board of Directors and the Management Board, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank's shareholders, members of the Board of Directors and the Management Board of the Bank. These transactions include settlements, loans and deposits taking. The outstanding balances and average effective interest rates as of 31 December 2010 and 2009 as well as income and expenses on operations with the related parties are as follows.

	2010 RUB'000				2009 RUB'000			
	Members of the Board of Directors and the Management Board	**Average effective interest rate**	**Other**	**Average effective interest rate**	**Members of the Board of Directors and the Management Board**	**Average effective interest rate**	**Other**	**Average effective interest rate**
Statement of financial position								
ASSETS								
Loans to customers								
Loans to customers	102	0.0%	85,574	16.0%	-	-	48,194	19.0%
LIABILITIES								
Current accounts and deposits from customers								
Current accounts	12,847	0.0%	113,384	0.0%	30,356	0.0%	956,422	0.0%
Term deposits	1,158,024	11.3%	262,700	5.9%	289,058	9.8%	-	-
Statement of comprehensive income								
Interest income for the year	12	-	75,108	-	7	-	71,533	-
Interest expense for the year	51,214	-	5,357	-	28,521	-	-	-

In 2010 and 2009 the total remuneration of the members of the Board of Directors and the Management Board of the Bank amounted to RUB 176,877 thousand and RUB 368,323 thousand, respectively.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The Bank has performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale financial assets, are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010 and 31 December 2009.

	2010 Fair value RUB'000	2010 Carrying value RUB'000	2009 Fair value RUB'000	2009 Carrying value RUB'000
ASSETS				
Cash and cash equivalents	2,673,701	2,673,701	5,989,322	5,989,322
Obligatory reserves with the Central Bank of the Russian Federation	111,515	111,515	94,610	94,610
Loans and advances to banks	2,957,104	2,957,104	703,249	703,249
Financial instruments at fair value through profit or loss	5,526,636	5,526,636	922,044	922,044
Loans to customers	5,462,397	5,476,342	7,016,041	7,869,720
Available-for-sale financial assets	1,348,902	1,348,902	1,490,934	1,490,934
Other financial assets	466,066	466,066	421,741	421,741
LIABILITIES				
Deposits and balances from banks	26,236	26 236	22 661	22 661
Current accounts and deposits from customers	15,841,836	15,601,845	13,325,768	13,193,310
Certificates of deposit and promissory notes	845,302	845,302	1,513,080	1,513,080
Other borrowed funds	773,066	773,066	773,066	773,066

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	5,526,636	5,526,636
Available-for-sale financial assets	1,348,902	1,348,902
Total financial instruments	**6,875,538**	**6,875,538**

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	922,044	922,044
Available-for-sale financial assets	1,490,934	1,490,034
Total financial instruments	**2,412,978**	**2,412,978**

The financial statements as set out on pages 4 to 56, were approved by the Management Board of the Bank on 30 June 2011.

Kornev Vasiliy Aleksandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

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