Hlynov Commercial Bank
(Open Joint Stock Company)

Consolidated Financial Statements
31 December 2010
and Independent Auditor's Report

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of OJSC CB Hlynov ('the Bank') has prepared and is responsible for the contents of the accompanying financial statements of the Bank and its Subsidiaries ('the Group') and its related notes The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates made by the Management of the Group.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

N.V. Popov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

07 June 2011

AUDITOR'S REPORT

To the Board of Directors of OJSC CB Hlynov and its subsidiaries ('the Group')

Report on the financial statements

We have audited the accompanying consolidated financial statements of OJSC CB Hlynov ("the Bank") and its Subsidiaries (together – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the Group's Management and the Supervisory Board ("Management"), as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Group's Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's management as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for preparation of consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing necessary procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional 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 the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Auditor's opinion

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

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow, 113093
07 June 2011

OJSC CB Hlynov
Consolidated Statement of Financial Position
as at 31 December 2010
(in thousands of Russian Roubles)

	Notes	2010	2009
Assets			
Cash and Cash Equivalents	**5**	908,362	1,088,442
Mandatory Balances with the CBRF	**6**	58,274	44,202
Due from Banks	**7**	1,075,000	730,000
Financial assets at fair value through profit or loss	**8**	1,522,478	217,753
Financial assets held to maturity	**9**	50,488	-
Loans and Advances to Customers	**10**	5,749,913	4,908,771
Net Investment in Financial Lease	**11**	117,151	97,823
Other Assets	**12**	226,898	199,299
Property, Plant and Equipment	**13**	282,645	243,178
Investment properties	**13**	81,328	72,028
Total Assets		**10,072,537**	**7,601,496**
Liabilities			
Due to Banks	**14**	245	25,800
Customer Accounts	**15**	8,737,403	6,294,628
Debt Securities Issued	**16**	5,201	4,013
Taxation	**17**	32,040	35,771
Other Liabilities	**18**	46,653	44,482
Total Liabilities		**8,821,542**	**6,404,694**
Equity			
Share Capital	**19**	618,450	618,450
Retained Earnings		585,676	530,982
Revaluation Reserve		46,869	47,370
Total Equity		**1,250,995**	**1,196,802**
Total Liabilities and Equity		**10,072,537**	**7,601,496**
Credit related commitments	**20**	**702,154**	**366,356**

Signed and authorised for release on behalf of the Executive Board of the Group 07 June 2011

N.V. Popov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant

OJSC CB Hlynov
Consolidated Statement of Comprehensive Income
for the Year ended on 31 December 2010
(in thousands of Russian Roubles)

	Notes	2010	2009
Interest income			
Loans and advances to legal entities		618,537	666,972
Loans and advances to individuals		188,982	175,974
Investment in lease		25,137	32,879
Securities		64,555	18,808
Due from banks		30,119	42,986
		927,330	**937,619**
Interest expense			
Term deposits of individuals		(551,782)	(468,468)
Term deposits of legal entities		(15,308)	(28,562)
Debt securities		-	-
Current/settlement accounts		(12,704)	(19,069)
Due to banks		(951)	(7,195)
		(580,745)	**(523,294)**
Net interest income		**346,585**	**414,325**
Allowance for impairment	**22**	(132,646)	(257,504)
Net interest income less allowance for losses		**213,939**	**156,821**
Net fee and commission income	**24**	205,838	176,055
Gains / (losses) from trading with securities	**23**	17,047	20,743
Gains less losses from transactions with foreign currencies		54,554	31,021
Net losses from revaluation of items in foreign currencies		(38,125)	(7,828)
Gains from disposal of fixed assets		2,020	2,020
Other operating income		24,899	9,715
Operating income		**480,172**	**388,547**
Staff costs	**25**	(172,385)	(145,154)
Administrative and other operating costs	**25**	(114,565)	(118,679)
Depreciation and amortisation	**13**	(14,504)	(17,094)
Operating expenses		**(301,454)**	**(280,927)**
Transfer value on loans issued at less than commercial rates		(34,714)	-
Profit before tax		**144,004**	**107,620**
Income tax charge	**17**	(29,311)	(12,938)
Profit for the period		**114,693**	**94,682**
Other comprehensive income			
(Losses) / gains on property revaluation		**-**	(22,327)
Annual release from revaluation reserve for premises to retained earnings		501	-
Annual release from revaluation reserve for premises		(501)	-
Total comprehensive income for the year		**114,693**	**72,355**

OJSC CB Hlynov
Consolidated Statement of Cash Flows
for the Year Ended on 31 December 2010
(in thousands of Russian Roubles)

	Notes	2010	2009
Cash flows from operating activities			
Interest received from loans		790,725	881,380
Paid interest		(559,286)	(525,046)
Income from securities trading		81,186	18,808
Income from trading in foreign currencies		53,697	31,021
Gain/(losses) from sale of fixed assets		2,020	2,020
Commissions received		229,546	196,529
Commissions paid		(23,314)	(20,474)
Other operating incomes received		10,674	9,715
Other operating expenses paid		(287,515)	(247,211)
Income tax paid		(32,189)	(29,624)
Cash flows from operating activities received before changes in operating assets and liabilities		**265,544**	**317,118**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		(14,072)	(36,805)
Securities at fair value through profit or loss		(1,296,771)	(101,466)
Due from banks		(337,702)	(299,505)
Loans and advances to customers		(1,016,355)	(716,317)
Other assets		72,361	(194,941)
Net increase /(decrease) in operating liabilities			
Due to banks		(25,555)	(70,200)
Customers' accounts		2,443,173	1,023,940
Issued debt securities		1,189	(7,004)
Other liabilities		(9,520)	13,629
Net cash received from operating activities		**82,292**	**(71,551)**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(94,347)	(22,485)
Purchase of financial assets HTM		(50,072)	-
Investment in associate		-	(3)
Net cash paid in investing activities		**(144,419)**	**(22,488)**
Cash flows from financing activities			
Dividends paid		(60,500)	(59,747)
Net investment in financial lease		(19,328)	57,158
Net cash received from financing activities		**(79,828)**	**(2,589)**
Effect of exchange rate on cash and cash equivalents		**(38,125)**	**(7,828)**
Net increase of cash and cash equivalents		**(180,080)**	**(104,456)**
Cash and cash equivalents for the beginning of the year	**5**	**1,088,442**	**1,192,898**
Cash and cash equivalents for the end of the year	**5**	**908,362**	**1,088,442**

(in thousands of Russian Roubles)

	Share capital	Revaluation reserve	Retained earnings	Total for the Group
01 January 2009	**618,450**	**69,697**	**496,800**	**1,184,947**
Dividends declared in the reporting period	-	**-**	(60,500)	**(60,500)**
Total comprehensive income for the year	**-**	(22,327)	94,682	72,355
01 January 2010	**618,450**	**47,370**	**530,982**	**1,196,802**
Dividends declared in the reporting period	-	**-**	(60,500)	**(60,500)**
Total comprehensive income for the year	**-**	(501)	115,194	**114,693**
01 January 2011	**618,450**	**46,869**	**585,676**	**1,250,995**

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Group must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the accounting year. The income may be used for paying dividends or for increase of Group's reserves.

As at 31 December 2010, the retained profit of the Group calculated in accordance with RAS was 347,354 (2009: 280,591).

1. Principal Activities

These financial statements include the data of Hlynov commercial Bank (Open Joint Stock Company) ('the Bank') and its Subsidiaries (together 'Group'). The Bank was registered with the CBRF under the name "Kirovcoopbank" on 06 March 1990. In 1991 the Bank was renamed Commercial Bank Hlynov (Open Joint Stock Company).

The Bank conducts its business under licenses №254 from Bank of Russia issued on 24 February 2000 to conduct banking operations in Russian Roubles and foreign currency and to attract deposits from individuals in Roubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system The Bank also has licenses of professional participants of the Securities Market allowing it to carry out depository functions, act as broker and dealer and provide services in managing securities.

The principal activity of the Group is to provide banking services to the population and legal entities in the Kirov district.

The structure of the Bank comprises a central office, situated at 40 Yritskogo Street, Kirov, 610002, plus 27 supplementary offices and 7 cash in offices. The Bank does not have any branches.

During 2010 the Group had an average of 495 members of staff (2009: 435).

In the opinion of management due to the structure and nature of shareholders per note 19, the Group does not have an ultimate controlling party.

The Bank owns 100% of, and controls 'Leasing Hlynov' OOO which was purchased in 2004. The company is focused on providing financial lease services to corporate clients and has been consolidated.

The Bank owns 100% of, and controls 'Hlynov-Dom' OOO which was purchased in 2010. The company is focused on operations with property and has been consolidated.

2. Operating Environment of the Group

In 2009 global credit crisis related effects began to reduce and to actually reverse, and overall the economic picture improved in Russia. This was a common theme to many countries in the world excluding the US and Europe.

During 2010 further positive news was seen for the Russian economy. GDP grew at approximately 4% and industrial production grew about 8%. The Rouble ('RUB') was relatively stable in the year by historic standards, and began and ended the year at approximately 30 to the USD. The MICEX also rose 22% and was the world's best performing stock market for the second year running. Russian external debt grew 3.3% to USD 483 billion but is at low levels compared to 'western' countries. Broad money increased 18% during the year and inflation was relatively high at 9%.

The effect of all this was quite positive for the banking sector. The Finance Ministry estimated non performing loans ('NPL's) at 7.3% for consumer credit and 5.6% for the corporate sector, little changed from figures of 6.8% and 6.1% respectively from the previous year. Many necessary restructurings have been performed and lending is increasing again now there are suitable borrowers. Overall this has led to improved levels of profitability generally.

Although, at the date of signing these financial statements Management, cannot fully determine the impact of the current economic situation on the Bank with any certainty it is clear that significant uncertainties are still present. The financial information reflects Management's assessment of the impact on the operations and the financial position of the Bank. The future business environment may differ from Management's assessment. They are unable to predict all developments that could have an impact on the banking sector and therefore the financial position of the Bank.

3. Basis of Presentation

a) General

The consolidated financial statements of the Group have been prepared on a going concern basis in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Group maintains its accounting records in accordance with the Russian Accounting Standards ("RAS").

These financial statements are based on the Group's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These financial statements are presented and rounded to thousands of Roubles (RUR) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Group's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies other then RUR are treated as transactions in foreign currencies.

b) Use of estimates

The preparation of financial statements in accordance with IFRS requires the use of estimations and assumptions that affect the reported data. These estimates are based on information available at the date of financial statements' preparation, and although are based on Management's best knowledge and understanding of current events, the actual results might differ from the estimated. The most significant are the estimates of level of allowances for possible losses.

(i) Impairment of Loans

The Group reviews loans to customers on a quarterly basis for evidence of impairment. The reason for impairment could be late payments of loans and interest or negative financial information about the borrower. Loans exceeding the materiality level for financial statements are reviewed individually. Others are reviewed on a portfolio basis by counterparty industry type and geographical location. When impairment is required to be recognised it is done individually for loans, exceeding materiality level based on Managements estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry areas statistics by industry and regions.

Impairment amount is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (less future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Comprehensive Income for the year.

(ii) Impairment of assets

The Group reviews all its assets for impairment on a quarterly basis. In determining whether an impairments loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

(in thousands of Russian Roubles)

Basis of Presentation (continued)

(iii) Fair values

For assets and liabilities estimated at fair value the Group applies the latest market bid prices where possible. In case this is not it uses evaluation techniques or conventions. Further details are given in Note 8.

(iv) Related party transactions

In the normal course of business the Group enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non related parties and effective interest rate analysis.

(v) Depreciation

The Group applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Managements knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

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

c) Standards, interpretations and amendments that are not yet effective

During the reporting year the following standards were new, or were amended:

IFRS 1	First-time Adoption of IFRSs	1 July 2009 1 January 2010
IFRS 2	Share-Based Payment	1 July 2009 1 January 2010
IFRS 3	Business Combinations	1 July 2009
IFRS 5	Non-Current Assets held for Sale and Discontinued Operations	1 July 2009 1 January 2010
IFRS 7	Financial Instruments: Disclosures	1 July 2009
IFRS 8	Operating Segments	1 January 2010
IAS 1	Presentation of Financial Statements	1 July 2009 1 January 2010
IAS 7	Statement of Cash Flows	1 July 2009 1 January 2010
IAS 17	Leases	1 January 2010
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 32	Financial Instruments: Presentation	1 July 2009
IAS 36	Impairment of Assets	1 January 2010
IAS 38	Intangible Assets	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2010 1 July 2009

International Financial Reporting Interpretations Committee (IFRIC) Interpretations

IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009

New IFRIC Interpretations

IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

(in thousands of Russian Roubles)

Basis of Presentation (continued)

At the reporting date, the following Interpretations and amendments to existing standards were in issue but not mandatory for accounting periods starting before the date indicated.

Amendments to existing standards		
IFRS 1	First-time Adoption of IFRSs	1 July 2010 1 January 2011
IFRS 3	Business Combinations	1 July 2010
IFRS 7	Financial Instruments: Disclosures	1 January 2011 1 July 2011
IFRS 9	Financial Instruments	1 January 2013
IAS 1	Presentation of Financial Statements	1 January 2011
IAS 24	Related Party Disclosures	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	1 February 2010
IAS 32	Financial Instruments: Presentation	1 February 2010
IAS 34	Interim Financial Reporting	1 January 2011
Interpretation		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amended Interpretations		
IFRIC 13	Customer Loyalty Programmes	1 January 2011
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011

Management has considered the issue of interpretations and standards which are not yet effective and believe that they will not have a significant impact on the financial statements of the Bank. The Bank will adopt these standards when they become effective.

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, and therefore, the Group ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations for 2008 and 2009 are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

(in thousands of Russian Roubles)

Basis of Presentation (continued)

e) ***Reconciliation of RAS and IFRS equity and net income***

	31 December 2010		31 December 2009	
	Equity	**Net profit**	**Equity**	**Net profit**
RAS	**1,038,967**	**123,192**	**996,014**	**80,707**
Transfer value of loans	(28,105)	(368)	(368)	217
Additional allowance for loans	220,494	189,751	189,751	(5,162)
Reassessment of investments in financial leasing	1,826	(4,919)	6,745	(12,992)
Interest expense/income	16,365	(2,502)	18,867	16,337
Write off low value assets	(650)	(615)	(35)	429
Additional depreciation	(3,558)	(2,189)	(914)	(2,655)
Revaluation of securities	453	-	274	-
Write off fixed assets	12,751	3,585	11,129	2,080
Deferred tax	(32,040)	(3,731)	(35,771)	16,686
Deposit insurance system	(5,805)	(1,361)	(4,444)	(1,255)
Revaluation of fixed assets	10,382	-	7,964	-
Recognition of financial assets HTM at amortised cost	416	416	-	-
Staff expenses	(3,330)	(3,330)	-	-
Commission on guarantees issued	(3,465)	(3,465)	-	-
Other	26,294	(855)	7,590	290
IFRS	**1,250,995**	**114,693**	**1,196,802**	**94,682**

f) ***Fair value of financial instruments***

Unless otherwise stated, the financial instruments of the Group have been stated in these financial statements at their measured fair values in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement".* The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arm's length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in Note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

4. Significant Accounting Policies

a) Consolidation

Subsidiaries and associates are represented by companies the financial and operational policy of which the Bank controls directly or indirectly. Subsidiaries are included in the consolidated financial statements from the date of transfer of control of their operations to the Group and are excluded from consolidated financial statements effective from the date of loss of control. Subsidiaries are included in the consolidated financial statements using the acquisition method. The cost of the acquisition is estimated at fair value of net assets for the date of the acquisition taking into consideration the cost of expenses for the company acquisition. The excess of acquisition cost over fair value of net assets acquired by the subsidiary is reflected as Goodwill. The transactions between companies of the Group, balances on corresponding accounts including the retained earnings and inter-company balances of the Group are excluded.

The accounting policies of the subsidiaries were changed wherever necessary in accordance with the policies of the Group.

b) Recognition of Financial Instruments

The Group recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is 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.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with CBRF

Mandatory balances represent mandatory reserve assets which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement

Significant Accounting Policies (continued)

e) Due from Banks

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

f) Financial Assets at Fair Value through Profit or Loss ("FVPL")

Securities at FVPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the reporting date.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Comprehensive Income as interest income on securities.

All purchases and sales of securities at FVPL that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

g) Financial Assets Held to Maturity ("HTM")

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has both the intent and the ability to hold to maturity.

After initial recognition such securities are re-measured to amortised cost as at the date of the financial statements. At each reporting date the Bank also evaluates whether there are any objective signs of impairment of securities carried at amortised cost with the purpose of determining whether an impairment loss calculation is necessary.

Impairment losses are calculated as being equal to the difference between the statement of financial position value and anticipated future cash flows discounted at the effective interest rate that was applicable on initial recognition. Impairment loss is recognised in the statement of comprehensive income for the period.

Significant Accounting Policies (continued)

h) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

i) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

j) Loans and Advances to Customers

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred 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 loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against Statement of Comprehensive income.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the Statement of Comprehensive Income. Any subsequent upward revaluation passes through the Statement of Comprehensive Income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

Mortgage loans for sale continue to be recognised as loans to customers because they contain the features of loans rather than securities.

Significant Accounting Policies (continued)

k) Impairment of Financial Assets

(i) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that will be generated by the asset or group of assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experience by the borrower (for example, equity ratio, net income, percentage of sales, etc.);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrowers' competitive position;
- Deterioration in the value of collateral; and
- Downgrading in the CBR credit rating below II category.

The estimated period between losses occurring and their identification is determined by management for each identified portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Significant Accounting Policies (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Comprehensive Income in impairment charge for credit losses.

(ii) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Comprehensive Income – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

l) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The potential liability is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 4l. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

Significant Accounting Policies (continued)

m) Property, Plant and Equipment

Premises are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 – 80
Computer Equipment	3 – 4
Office Equipment	3 – 10
Furniture	3 – 5
Motor Vehicles	3 – 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Comprehensive Income.

n) Investment Property

Investment property comprises freehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income. Rental income from investment property is recognised on a straight-line basis over the term of the lease.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

Significant Accounting Policies (continued)

o) Operating Leases

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

p) Financial Leasing

In case the Group acts as a lessor, the discounted cost of leasing payments ('net investments in leasing') correspond to claims on receiving lease payments and are represented in the article "Net investments in financial leasing". The discrepancy between gross amount of claims on receiving lease payments and their discounted cost is disclosed as unearned finance income.

Leasing income is distributed over the course of the leasing period using the method of net investments, which reflects a constant rate of profitability. Leasing income is reflected in consolidated Statement of Comprehensive Income under "Interest income from leasing Investments". Net investments to financial leasing are reflected in the Statement of Financial Position less allowance for their impairment.

q) Due to Banks and Customers Accounts

Amounts due to credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of Comprehensive Income over the period of borrowings using the effective interest method.

r) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

s) Provisions

Provisions for legal claims or other purposes are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Significant Accounting Policies (continued)

t) *Retirement and Other Benefit Obligations*

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

u) Share Capital

Share capital is recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

v) Dividends

Dividends are recognised as a reduction in equity in the period in which they are paid. Dividends declared after the reporting dates are disclosed in the subsequent events note. The RAS financial statements of the Group are the basis for profit distribution and other appropriations.

w) Taxation

The income tax charge in the Statement of Comprehensive Income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

x) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within ‘interest income’ and ‘interest expense’ in the Statement of Comprehensive Income using the effective interest method.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(in thousands of Russian Roubles)

Significant Accounting Policies (continued)

y) Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

z) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The official CBRF exchange rates at 31 December 2010 and 31 December 2009 were RUR 30.4769 and 30.2442 RUR to 1 USD, respectively, and RUR 40.3331 and 43.3883 RUR to 1 EUR, respectively.

5. Cash and Cash Equivalents

	2010	**2009**
Cash on hand	456,258	485,065
Cash balances with the CBRF (other than mandatory reserve deposits)	201,264	52,677
Correspondent accounts with other banks		
Russian Federation	26,044	16,252
Other countries	194,174	524,268
	220,218	540,520
Other market placements	30,622	10,180
	908,362	**1,088,442**

As at 31 December 2010 the aggregate amount of NOSTRO accounts with the biggest counterparty (VTB Deutschland AG) amounted to 194,174 or 88.17% of total NOSTRO accounts (2009: 524,268 or 96.99%).

Information about the credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	2010	**2009**
Rated BBB+	4,529	1
Rated BBB	15,666	531,949
Rated BBB-	194,174	2,994
Rated B+	35	-
Rated B	-	340
Rated B-	-	183
Other (including banks that do not have a credit rating)	5,814	5,053
	220,218	**540,520**

(in thousands of Russian Roubles)

Cash and Cash Equivalents (continued)

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 26.

6. Mandatory balances with the CBRF

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Group's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Group’s ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from Banks

	2010	2009
Interbank loans	1,075,000	733,649
	1,075,000	**733,649**
Less: Allowance for impairment	-	(3,649)
	1,075,000	**730,000**

As at 31 December 2010 97.7% of due from banks balances are represented by deposits in CBRF (2009: 85.2%).

Geographical, currency, interest rate and maturity analyses of the balances due from banks are detailed in Note 26.

8. Financial Assets at Fair Value through Profit or Loss

	2010	2009
Credit organisation bonds	538,704	51,906
Corporate bonds	494,876	45,264
Promissory notes	279,721	43,403
Government and municipal bonds	166,574	41,864
Eurobonds	37,551	32,644
Corporate equity securities	3,643	1,695
Shares in credit organisations	1,409	974
	1,522,478	**217,750**

As at 31 December 2010 credit organizations bonds FVPL comprised MICEX quoted bonds issued by credit institutions ranked in Top-20 among Russian banks by net assets value as at 31 December 2010 with a coupon rates from 7% to 10%.

As at 31 December 2010 corporate bonds FVPL comprised MICEX quoted bonds of Russian top 50 companies with a coupon rates from 7% to 11%. As at 31 December 2010 the issuers have a Fitch rating from BBB (rus) (Stable under the National Scale Russia) to AAA (rus) (Stable under the National Scale Russia).

Financial Assets at Fair Value through Profit or Loss (continued)

As at 31 December 2010 promissory notes FVPL comprised promissory notes of leading Russian banks denominated in RUR with the interest rates varying from 5.5% to 10.5% and maturity periods from 1 January 2011 to 6 December 2011. As at 31 December 2010 promissory notes FVPL comprise promissory notes of Sberbank (1st among Russian banks by net assets value at 31 December 2010) for the total amount of 195,436 or 70% from the total promissory notes FVPL with the interest rates varying from 5.5% to 10.5% and maturity periods from 1 January 2011 to 24 October 2011. Other leading Russian banks include OJSC "Alfa-Bank, OJSC “Moskovsky Kreditny Bank” and OJSC “VTB Severo-Zapad”.

As at 31 December 2010 government and municipal bonds FVPL comprised MICEX quoted bonds issued by Regional governments of Russian Federation with a coupon rates from7.75% to 9.3%. As at 31 December 2010 the issuers have a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2010 Eurobonds FVPL comprised actively quoted bonds issued by Gaz Capital SA and NOMOS Capital PLC with a coupon rates varies from 6.6% to 8.75%. NOMOS Capital PLC is an SPE of OJSC NOMOS-Bank, which is ranked in the top 20 Russian banks by net assets value as at 31 December 2010. Gaz Capital SAR is a SPE of a leading Russian top 50 company.

As at 31 December 2009 credit organization bonds comprised MICEX quoted bonds issued by OJSC MDM Bank and OJSC VTB Bank with coupon rates of 10% and 13% respectively. These credit institutions were ranked respectively 12th and 2nd among Russian banks by net assets value at 31 December 2009.

As at 31 December 2009 corporate bonds comprised MICEX quoted bonds issued by OJS Oil Company Lukoil and OJSC Russian Railway with a coupon rates of 9% and 7% respectively. As at 31 December 2009 the issuers had a Fitch rating of BBB (rus) (Stable under the National Scale Russia) and AAA (rus) (Stable under the National Scale Russia) respectively.

As at 31 December 2009 promissory notes comprise promissory notes of OAO “Kirovsky Myasokombinat” for a total amount of 37,441 or 86% denominated in RUR with the interest rate 15% and maturity period 12 January 2010 and 15 February 2010, and promissory notes of Sberbank (1st Russian bank by net assets value) for a total amount of 5,962 or 14% denominated in RUR with interest rates from 11% to 12% and maturity period from 16 January 2010 to 29 January 2010.

As at 31 December 2009 government and municipal bonds comprised MICEX quoted bonds issued by Moscow Region government, Samara Region government and Kazan City with coupon rates of 8%, 9% and 12% respectively. As at 31 December 2009 the issuers had a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2009 Eurobonds comprised quoted Irish Stock Exchange bonds issued by VTB Capital SA and URSA Finance Public Limited Company with coupon rates from 7% to 8.3% and maturity dates varying from 21 May 2010 to 16 November 2011. VTB Capital SA and URSA Finance Public Limited Company are Special Purpose Entities of leading Russian banks OJSC VTB Bank and OJSC MDM Bank, which were ranked respectively 2nd and 12th among Russian banks by net assets value at 31 December 2009.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group’s market assumptions. The hierarchy is as follows:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

(in thousands of Russian Roubles)

Financial Assets at Fair Value through Profit or Loss (continued)

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2010 based on data obtained from the sources of information about their fair values:

	Level 1	Level 3	Total
Credit organisations bonds	538,704	-	538,704
Corporate Bonds	494,876	-	494,876
Promissory notes	-	279,721	279,721
Government and municipal bonds	166,574	-	166,574
Eurobonds	37,551	-	37,551
Corporate equity securities	3,643	-	3,643
Shares of credit organisations	1,409	-	1,409
	1,242,757	**279,721**	**1,522,478**

The following table provides information on the classification of financial assets carried at fair value as at 31 December 2009 based on data obtained from the sources of information about their fair values:

	Level 1	Level 2	Total
Credit organisations bonds	51,906	-	51,906
Corporate Bonds	45,264	-	45,264
Promissory notes	-	43,403	43,403
Government and municipal bonds	41,864	-	41,864
Eurobonds	32,644	-	32,644
Corporate equity securities	1,695	-	1,695
Shares of credit organisations	974	-	974
	174,347	**43,403**	**217,750**

(in thousands of Russian Roubles)

Financial Assets at Fair Value through Profit or Loss (continued)

Reconciliation of Level 3 items in 2010 is presented below:

	Promissory notes of banks	Total
At 1 January 2010	**-**	**-**
Total gains / (losses)		
Profit or loss (accrued income)	9,937	9,937
Purchases	962,808	962,808
Settlements	(683,087)	(683,087)
At 31 December 2010	**279,721**	**279,721**

Geographical, currency, maturity and interest rate analyses of the financial assets at fair value through profit or loss are disclosed in Note 26.

9. Financial Assets Held to Maturity

	2010	2009
Government and municipal bonds	39,796	-
Credit organisations bonds	10,692	-
	50,488	**-**

As at 31 December 2010 government and municipal bonds HTM comprised bonds issued by Yaroslavsky Region government of Russian Federation. These bonds mature in May 2013 and have a coupon rate of 8.6%. As at 31 December 2010 the issuer has a Fitch rating of AA- (rus) (Stable under the National Scale Russia).

As at 31 December 2010 credit organisations bonds HTM comprise bonds issued by OJSC “Moskovsky Kreditny Bank”. These bonds mature in April 2015 and have a coupon rate of 9.5%. As at 31 December 2010 the issuer is ranked 24th among Russian banks by net assets value.

Geographical, currency, maturity and interest rate analyses of the financial assets held to maturity are disclosed in Note 26.

10. Loans and Advances to Customers

	2010	2009
Loans and advances to customers	6,059,167	5,143,645
Mortgage loans for sale	255,224	246,703
Factoring	7,586	7,355
	6,321,977	**5,397,703**
Less: Allowance for impairment	(572,064)	(488,932)
	5,749,913	**4,908,771**

The aggregate value of collateral received by the Bank in respect of its lending operations amounts to 7,594,147 (2009: 5,765,908).

(in thousands of Russian Roubles)

Loans and Advances to Customers (continued)

In the normal course of business the Group sells mortgage loans to LLC “Regional Investment Agency” (37.4% of total sales in 2010), JSC “Mortgage Agency of Tatarstan Republic” (31.5% of total sales in 2010) and JSC “Kirov Regional Mortgage Corporation (31.1% of total sales in 2010). These loans are therefore held on the SOFP for a relatively short period of time and have been described as mortgage loans for sale in these notes.

The loan portfolio has been assigned to finance the following economic sectors:

	2010		2009	
	Amount	**Allowance**	**Amount**	**Allowance**
Trade	2,499,237	145,244	2,902,572	269,545
Construction	960,277	18,146	330,253	16,898
Individuals	767,051	132,376	648,904	78,360
Municipal operation organs	520,376	3,356	592,149	13,136
Operations with immovable property, lease	289,097	122,024	102,049	45,250
Transport and communication	276,238	22,569	61,688	5,665
Manufacturing industry	274,744	23,755	167,222	16,130
Agriculture	181,246	19,610	98,483	5,093
Timber	146,953	59,131	129,638	23,753
Hotels	38,877	1,369	15,020	211
Gas and water	30,830	617	-	-
Car manufacturing	19,100	750	-	-
Light industry	18,054	1,706	51,626	1,639
Social and personal services, culture	17,667	9,726	16,882	7,969
Publishing	8,112	1,733	10,273	324
Fishing	5,000	150	2,750	83
Maintenance of residential properties	4,964	666	8,097	243
Medicine and tourism	1,578	47	5,734	172
Mining	932	932	932	932
Energy	909	18	1,050	53
Education	904	27	373	11
Chemical	700	14	-	-
Sport	550	138	367	92
Financial	-	-	338	-
Insurance	15	2	300	-
Other	3,342	100	4,300	129
	6,066,753	**564,206**	**5,151,000**	**485,688**
Mortgage loans for sale	255,224	7,858	246,703	3,244
	6,321,977	**572,064**	**5,397,703**	**488,932**

In the statement of comprehensive income for the year ended 31 December 2010 the Group reflected the value transfer on loans granted at less than commercial rates in the amount of 34,714 (2009: nil).

As at 31 December 2010 the Group took possession of collateral for the total amount of 179,228 (2009: 140,413). This is shown in other assets (Note 12) and investment property (Note 13). The Group’s policy for disposing of such collateral is usually to sell it to a third party for maximum possible consideration.

Loans classified as current that had been subject to re-negotiation and would otherwise had been categorised as overdue comprise 28 loans for a total amount of 28,371 (2009: 115 loans for a total amount of 151,212).

Movements in the allowance for impairment on loans to customer are disclosed in Note 22.

(in thousands of Russian Roubles)

Loans and Advances to Customers (continued)

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. Loans granted to related parties are disclosed in Note 27.

11. Net Investment in Financial Lease

	2010	2009
Minimum lease payments to be received	153,277	125,593
Less: future interest	(36,126)	(27,770)
	117,151	**97,823**

The future minimum lease payments at 31 December 2010 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	80,829	57,167
Between 1 and 5 years	72,448	59,984
	153,277	**117,151**

The future minimum lease payments at 31 December 2009 are distributed as follows:

	Minimum lease payments	Net present value of minimum lease payments
No later than 1 year	83,104	62,180
Between 1 and 5 years	42,489	35,643
	125,593	**97,823**

The average interest rate implicit in the lease was 34.80% (2009: 40.20%).

12. Other Assets

	2010	2009
Repossessed collateral	99,378	82,061
Accrued interest income	60,673	56,166
Debtors and prepayments	57,991	56,377
Settlements with the budget	8,144	4,199
Other	712	496
	226,898	**199,299**

Debtors and prepayments include accounts receivable on credit card transactions.

Other assets include buildings and land plots repossessed by the Group in respect of making recoveries for its lending operations for a total of 96,290 (2009: 68,385). As at the reporting date no decision has been made by Management as to how these assets will be utilised and accordingly they have not been shown in Property and Equipment or Investment Property.

Geographical, currency and maturity analyses of other assets are disclosed in Note 26.

(in thousands of Russian Roubles)

13. Property, Plant and Equipment

	Land	Buildings	Motor vehicles	Computer and other	Office equipment and furniture	Construction in progress	Total
Cost or Valuation							
31 December 2008	**3,652**	**211,737**	**5,460**	**27,711**	**35,661**	**15,245**	**299,466**
Additions	38	10,196	2,505	2,370	4,471	3,077	**22,657**
Transfer	-	15,673	-	-	-	(15,673)	**-**
Disposals	-	-	-	(291)	(1,754)	-	**(2,045)**
Revaluation	-	26,291	-	-	-	-	**26,291**
31 December 2009	**3,690**	**211,315**	**7,965**	**29,790**	**38,378**	**2,649**	**293,787**
Additions	18	17,000	1,801	27,512	2,173	17,494	65,998
Transfer	-	-	-	-	-	-	-
Disposals	-	(10,024)	(5,788)	(649)	(96)	-	(16,557)
Revaluation	-	-	-	-	-	-	-
31 December 2010	**3,708**	**218,291**	**3,978**	**56,653**	**40,455**	**20,143**	**343,228**
Depreciation							
31 December 2008	**-**	**-**	**(2,494)**	**(15,254)**	**(20,110)**	**-**	**(37,858)**
Charge for the year	-	(3,964)	(1,357)	(6,432)	(5,341)	-	**(17,094)**
Depreciation of revalued part	-	3,964	-	-	-	-	**3,964**
Disposals	-	-	-	198	181	-	**379**
31 December 2009	**-**	**-**	**(3,851)**	**(21,488)**	**(25,270)**	**-**	**(50,609)**
Charge for the year	-	(4,263)	(1,265)	(4,321)	(4,655)	-	(14,504)
Depreciation of revalued part	-	-	-	-	-	-	-
Disposals	-	613	3,218	603	96	-	4,530
31 December 2010	-	**(3,650)**	**(1,898)**	**(25,206)**	**(29,829)**	**-**	**(60,583)**
Net Book Values							
31 December 2010	**3,708**	**214,641**	**2,080**	**31,447**	**10,626**	**20,143**	**282,645**
31 December 2009	**3,690**	**211,315**	**4,114**	**8,302**	**13,108**	**2,649**	**243,178**
31 December 2008	**3,652**	**211,737**	**2,966**	**12,457**	**15,551**	**15,245**	**261,608**

As at 31 December 2010 property, plant and equipment was insured to a value of 1,220 (2009: 900).

On 31 December 2009 the Group revalued buildings held by and used by the Bank. The valuation was performed by independent appraisers “Viatskoe Property Agency” on the basis of open market value. As at 31 December 2010 Management of the Group have assessed the market value of its premises and concluded that the market value is not materially different from their carrying value.

If buildings had been carried at cost the carrying value would be 151,974 (2009: 138,623).

(in thousands of Russian Roubles)

Property, Plant and Equipment (continued)

	Investment properties
Cost of Valuation	
31 December 2008	**-**
Additions	72,028
Transfer	-
Disposals	-
Revaluation	-
31 December 2009	**72,028**
Additions	9,300
Transfer	-
Disposals	-
Revaluation	-
31 December 2010	**81,328**
Depreciation	
31 December 2008	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
31 December 2009	-
Charge for the year	-
Depreciation of revalued part	-
Disposals	-
31 December 2010	-
Net Book Values	
31 December 2010	**81,328**
31 December 2009	**72,028**
31 December 2008	**-**

The Group revalued investment property on 31 December 2010. The valuation was performed by independent appraisers “Viatskoe Property Agency” on the basis of open market value.

As at 31 December 2010 investment property includes four buildings (2009: two buildings) repossessed by the Group in respect of making recoveries for its lending operations. As at the reporting date these buildings are leased to third parties.

Rental income from investment properties was 2,085 (2009: 1,629). Direct operating expenses of investment properties were 31 (2009: 15).

(in thousands of Russian Roubles)

14. Due to Banks

	2010	2009
VOSTRO accounts	245	-
Short-term loans and deposits from other banks	-	25,800
	245	**25,800**

As at 31 December 2009 all interbank loans are represented by loans received from the JSC "Rossisskiy Bank Razvitiya" at interest rates of 11.5% and 12.5%.

As at 31 December 2009 the aggregate value of collateral given by the Bank to JSC "Rossisskiy Bank Razvitiya" in respect of its interbank lending operations amounts to 5,614.

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 26.

15. Customer accounts

	2010	2009
Individuals		
Current accounts	643,836	614,598
Term deposits	5,383,030	4,052,633
	6,026,866	4,667,231
Other legal entities		
Current accounts	2,337,485	1,328,195
Term deposits	255,190	214,504
	2,592,675	1,542,699
State and budgetary organisations		
Current accounts	57,611	80,510
Term deposits	60,251	4,188
	117,862	84,698
	8,737,403	**6,294,628**

(in thousands of Russian Roubles)

Customer accounts (continued)

The breakdown of customer accounts per sector is presented in the following table:

	2010		2009	
	Amount	**%**	**Amount**	**%**
Individuals	6,017,856	68.9	4,658,230	74.0
Trade	1,355,463	15.5	1,006,019	16.0
Services	656,251	7.5	135,638	2.2
Construction	349,468	4.0	245,940	3.9
Industry	128,195	1.4	81,158	1.3
Financial	57,474	0.7	10,136	0.1
Transport and telecommunication	52,006	0.6	41,278	0.7
Other	32,466	0.4	25,541	0.4
Education	25,298	0.3	26,169	0.4
Agriculture	20,311	0.2	14,202	0.2
Health facilities	19,180	0.2	23,691	0.4
Fuel and energy	18,007	0.2	14,392	0.2
Insurance	5,428	0.1	12,234	0.2
Total customer accounts	**8,737,403**	**100.0**	**6,294,628**	**100.0**

Geographical, currency, maturity and interest rate analyses of customer accounts are detailed in Note 26.

Balances of term deposits and current accounts of related parties are disclosed in Note 27.

16. Debt securities issued

	2010	2009
Promissory notes	5,201	4,013
	5,201	**4,013**

As at 31 December 2010, promissory notes issued by the Group were held by eight investors, the maximum share of one investor in total amount of issued promissory notes is 38.45% (2009: 53.0% of issued promissory notes were purchased by 1 investor).

Geographical, currency, maturity and interest rate analyses of debt securities issued are detailed in Note 25.

17. Taxation

The corporate income tax expense comprises:

	2010	2009
Current tax charge	33,042	29,624
Deferred tax relating to the origination and reversal of temporary differences	(3,731)	(16,686)
	29,311	**12,938**

The corporation tax rate applicable to the majority of the Group's income was 20% for 2010 (2009: 20%).

(in thousands of Russian Roubles)

Taxation (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on comparison of statutory rate with actual is as follows:

	2010	2009
Profit before tax	**144,004**	**107,620**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	28,801	21,524
Tax on state securities income taxable at different rates	(1,441)	(489)
Non taxable items	5,682	8,589
	33,042	**29,624**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes.

The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2009: 20%).

Deferred tax assets and (liabilities) comprise as at 31 December 2010:

Tax effect of deductible temporary differences	31 Dec 10	Taken to equity	Movement in SOCI	31 Dec 09
Allowance for impairment on loans and promissory notes	(37,903)	-	(718)	(37,185)
Debtors and prepayments	1,595	-	(1,750)	3,345
Premises and equipment	32,118	-	13,995	18,123
Investments in financing leasing	(30,262)	-	(10,727)	(19,565)
Other assets	2,442	-	2,931	(489)
	(32,040)	**-**	**3,731**	**(35,771)**

Deferred tax assets and (liabilities) comprise as at 31 December 2009:

Tax effect of deductible temporary differences	31 Dec 09	Taken to equity	Movement in SOCI	31 Dec 08
Allowance for impairment on loans and promissory notes	(37,185)	-	2,402	(39,587)
Debtors and prepayments	3,345	-	3,023	322
Premises and equipment	18,123	-	10,840	7,283
Investments in financing leasing	(19,565)	-	(4,145)	(15,420)
Other assets	(489)	-	4,566	(5,055)
	(35,771)	**-**	**16,686**	**(52,457)**

No deferred tax is recognised on the revaluation of buildings as the revaluation is also recognised in RAS tax books therefore there are no material differences arising.

(in thousands of Russian Roubles)

18. Other Liabilities

	2010	2009
Accounts payable	26,976	37,803
Future periods income	12,936	-
Operating taxes payable	3,775	5,133
Dividends payable	42	66
Accrued interest	-	7
Other	2,924	1,473
	46,653	**44,482**

Geographical, currency and maturity analyses of other liabilities are detailed in Note 26.

19. Share capital

Statutory share capital authorised, issued and fully paid comprises:

	2010			2009		
	Number of shares ('000)	**Par value**	**Value**	**Number of shares ('000)**	**Par value**	**Value**
Common shares	12,100	0.05	605,000	12,100	0.05	605,000
Repurchased shares	175	0.05	(8,748)	175	0.05	(8,748)
IAS 29 adjustments			22,198			22,198
Total share capital			**618,450**			**618,450**

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. In 2010 dividends of RUR 5 (not thousands) per common share of 60,500 were declared (2009: RUR 5 (not thousands) per common share of 60,500).

In 2010 and 2009 the Group did not increase share capital.

	2010	2009
Dividends payable at 1 January	66	109
Dividends declared during the year	60,500	60,500
Dividends paid during the year	(60,515)	(60,543)
Dividends payable at 31 December	**51**	**66**

All dividends are paid and declared in Russian Roubles.

(in thousands of Russian Roubles)

Share Capital (continued)

Shareholders of the Bank were as follows:

Shareholder	**2010 %**	**2009 %**
Rekha Holdings Limited	20.0	20.0
OOO «Monolit»	11.1	11.1
OOO «Norma»	10.0	10.0
Quest Advisory Restructing Ltd.	9.3	9.3
OOO «Konkurent»	8.8	8.8
OOO «Strike»	8.4	8.4
OOO «Standart»	7.8	6.0
OOO «Avangard»	7.3	7.3
Individuals with less than 5% each (150)	10.8	10.8
Legal entities with less than 5% each (19)	6.5	8.3
	100.0	**100.0**

20. Commitments and Contingencies

Legal actions

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

Operating lease commitments

The following are the minimal amounts payable under non cancellable operating leases over the relevant time periods where the Group acts as a tenant:

	2010	**2009**
Not later than 1 year	2,234	2,632
Later than 1 year and not later than 5 years	31,901	45,074
Later than 5 years	5,451	-
	39,586	**47,706**

Capital commitments

As at 31 December 2010 and 31 December 2009 the Group had not entered into any capital commitments which would require disclosure or recognition in the financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since funding of most commitments are contingent upon certain conditions set out in the loan agreements.

(in thousands of Russian Roubles)

Commitments and Contingencies (continued)

Credit related commitments comprise:

	2010	2009
Undrawn loan commitments	400,985	63,502
Unused limits of overdrafts	71,343	36,605
Guarantees	229,826	266,249
	702,154	**366,356**

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 31 December 2010 the Group had four financial instruments, foreign currency forward contracts (2009: four financial instruments, foreign currency forward contracts).

	Notional amount		CBRF rate	
	31 Dec 10	31 Dec 09	31 Dec 10	31 Dec 09
Buy RUR sell USD				
Less than one month	30,477	148,197	30.4769	30.2442
Buy RUR sell EUR				
Less than one month	161,332	295,040	40.3331	43.3883

The corresponding fair value loss and liability of 480 has been recorded in statement of comprehensive income and the relevant liabilities in other liabilities.

21. Investment in subsidiary

As at 31 December 2009 the Bank had two consolidated subsidiaries, "Leasing-Hlynov" OOO, a Russian domiciled company specialising in the provision of leasing services, and "Hlynov-Dom" OOO, a Russian domiciled company specialising in the operations with property. As at 31 December 2010 the Bank's shareholding in both subsidiaries was 100%. As at 31 December 2009 the Bank's shareholding in "Leasing-Hlynov" OOO was 100%. "Hlynov-Dom" OOO was established in 2010.

(in thousands of Russian Roubles)

22. Allowance for Impairment

The movements in allowances for impairment of assets were as follows:

	Correspondent accounts	Loans and advances to customers	Total
At 31 December 2008	**4,144**	**230,933**	**235,077**
Charge / (reversal)	(495)	257,999	257,504
At 31 December 2009	**3,649**	**488,932**	**492,581**
Charge	-	132,646	132,646
Written-off	(3,649)	(49,514)	(53,163)
At 31 December 2010	**-**	**572,064**	**572,064**

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Meeting and, in certain cases, with the respective Court decision.

23. Gains less Losses from Trading with Securities

	2010	2009
Fair value adjustments	9,873	19,806
Gains less losses from sales and redemptions	7,074	924
Other gain from trading with securities	100	13
	17,047	**20,743**

24. Commission Income and Expenses

	2010	2009
Commission income		
Cash operations	123,242	104,776
Settlements and foreign currency exchange transactions	96,457	71,843
Commission on guarantees	3,824	6,372
Commission from transaction with plastic cards	2,021	2,016
Commission from loans to customers	1,885	9,281
Commission from insurance companies	1,030	-
Commission on other operations	1,070	2,241
	229,529	**196,529**
Commission expense		
Settlements and foreign currency exchange transactions	(12,359)	(9,634)
Commission from transaction with plastic cards	(5,379)	(5,168)
Commission on collection	(3,813)	(3,492)
Commission on mortgages sale	(1,430)	-
Cash operations	(377)	(1,198)
Other commissions	(333)	(982)
	(23,691)	**(20,474)**
	205,838	**176,055**

(in thousands of Russian Roubles)

25. Staff, Administration and Other Operating Costs

	2010	2009
Salaries	101,014	74,185
Bonuses	39,636	44,975
Social security costs	31,735	25,994
	172,385	**145,154**
Deposit insurance system payment	21,248	16,070
Rent	14,287	12,670
Taxes other than income tax	13,721	14,727
Advertising and marketing	8,396	7,282
Security	8,304	8,251
Maintenance of building	7,831	5,774
Software expenses	6,531	9,237
Insurance of property	5,608	13,493
Postage	4,750	4,615
Stationery	4,148	4,127
State duty paid	3,822	1,581
Printing expenses, document processing	3,480	2,687
Repair of fixed assets	2,114	4,254
Related to computers, vehicles and information service	1,905	1,618
Personnel training, travel and representative expenses	1,365	1,115
Personnel insurance	165	546
Fee paid to rating agency	-	98
Other	6,890	10,534
	114,565	**118,679**

26. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk for the Group's business and, therefore, management manages carefully its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

Financial Risk Management (continued)

a) Credit Risk Measurement

(i) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects three components:

- The "probability of default" by the client or the counterparty on its contractual obligations;
- The current exposures to the counterparty and its likely future development, from which the Group derive the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default")

These credit risk measurements, which reflect expected losses (the "expected loss model"), are applied following the normative and instructions issued by the CBRF and are embedded in the Group's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the "incurred loss model") rather than expected losses.

(ii) Debt securities

For debt securities and other equity instruments, external ratings or equivalents are used by the Group for managing of the credit risk exposures. The investments in those securities and equity instruments are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

b) Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups and industries.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as premises, equipment and inventory;
- Financial instruments such as debt securities and shares.

Finance and lending to corporate entities are generally secured; individual consumer credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

(ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Impairment policies

Impairment allowances are recognised for financial reporting purposes under IFRS only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in these financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and statutory and tax regulation purposes.

The impairment allowance shown in the Statement of Financial Position under IFRS at year-end is derived from each of the five statutory risk categories.

The table below shows the percentage of the Group's on-and off-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

	2010			**2009**		
Risk category	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**	**Loans and advances (%)**	**Allowance for impairment (%)**	**Overall allowance rate (%)**
I	20.04	-	-	5.87	-	-
II	61.33	7.23	1.35	72.37	7.67	1.27
III	10.38	27.10	29.99	10.37	15.07	17.42
IV	0.94	4.08	50.05	4.78	23.58	59.16
V	7.31	61.58	96.81	6.61	53.68	97.26
	100.00	**100.00**	**11.49**	**100.00**	**100.00**	**11.99**

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral, and
- Downgrading below II category

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The Group's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

The Group's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the balance sheet. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Group uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

Loans and advances to customers include the following portfolios:

	2010	2009
Individuals (retail customers)		
Overdrafts	1,071	1,157
Term loan	765,981	647,808
Mortgage loan	255,224	246,642
	1,022,276	895,607
Legal entities		
Large corporate customers	1,228,871	444,227
SMEs	3,435,616	3,458,440
Federal and governmental organisations; local authorities	520,376	592,074
Factoring	7,585	7,355
Other	107,253	-
	5,299,701	4,502,096
	6,321,977	**5,397,703**
Less: Allowance for impairment	(572,064)	(488,932)
	5,749,913	**4,908,771**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The loan portfolio of the Group is summarised as follows:

	2010		2009	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	5,838,904	1,075,000	4,936,799	730,000
Past due but not impaired	410,297	-	410,447	-
Impaired	72,776	-	50,457	3,649
	6,321,977	**1,075,000**	**5,397,703**	**733,649**
Less: Allowance for impairment	(572,064)	-	(488,932)	(3,649)
	5,749,913	**1,075,000**	**4,908,771**	**730,000**

a) Loans and advances neither past due nor impaired

As at December 2010 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	369	4,235	**4,604**
II	1,071	602,071	229,029	**832,171**
III	-	13,784		**13,784**
IV	-	12,383	5,006	**17,389**
V	-	6,337	1,204	**7,541**
	1,071	**634,944**	**239,474**	**875,489**

As at December 2010 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Major corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
I	563,380	327,693	370,000	1,381	-	**1,262,454**
II	625,563	2,259,345	140,376	4,351	-	**3,029,635**
III	-	509,242	10,000	403	87,869	**607,514**
IV	-	26,998	-	-	-	**26,998**
V	-	18,827	-	-	17,987	**36,814**
	1,188,943	**3,142,105**	**520,376**	**6,135**	**105,856**	**4,963,415**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In summary:

Risk category	Individuals	Legal entities	Total
I	4,604	1,262,454	**1,267,058**
II	832,171	3,029,635	**3,861,806**
III	13,784	607,514	**621,298**
IV	17,389	26,998	**44,387**
V	7,541	36,814	**44,355**
	875,489	**4,963,415**	**5,838,904**

As at December 2009 loans and advances neither past due nor impaired to individuals were composed of:

Risk category	Overdrafts	Term loans	Mortgage loans	Total
I	-	6,038	15,578	**21,616**
II	1,157	456,088	211,053	**668,298**
III	-	36,731	874	**37,605**
IV	-	7,654	4,270	**11,924**
V	-	3,176	-	**3,176**
	1,157	**509,687**	**231,775**	**742,619**

As at December 2009 loans and advances neither past due nor impaired to legal entities were composed of:

Risk category	Major corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Total
I	147,290	143,766	-	1,814	**292,870**
II	265,540	2,335,790	592,074	3,746	**3,197,150**
III	-	508,117	-	345	**508,462**
IV	-	179,939	-	-	**179,939**
V	-	15,759	-	-	**15,759**
	412,830	**3,183,371**	**592,074**	**5,905**	**4,194,180**

In summary:

Risk category	Individuals	Legal entities	Total
I	21,616	292,870	**314,486**
II	668,298	3,197,150	**3,865,448**
III	37,605	508,462	**546,067**
IV	11,924	179,939	**191,863**
V	3,176	15,759	**18,935**
	742,619	**4,194,180**	**4,936,799**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

b) Loans and Advances Past due, but Not Impaired:

As at 31 December 2010 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	15,580	6,068	166	94,893	**116,707**	14,055
Mortgage loans	4,781	-	-	10,969	**15,750**	7,947
Legal entities						
Large enterprises	-	-	-	30,000	**30,000**	3,000
Small and medium enterprises	12,048	11,087	7	224,698	**247,840**	224,173
	32,409	**17,155**	**173**	**360,560**	**410,297**	**249,175**

As at 31 December 2009 past due but not impaired loans to individuals and legal entities were composed of:

	Past due up to 30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Individuals (retail customers)						
Term loans	17,180	15,538	10,964	78,767	**122,449**	61,755
Mortgage loans	10,629	2,766	-	1,472	**14,867**	8,210
Legal entities						
Large enterprises	-	-	-	31,397	**31,397**	30,556
Small and medium enterprises	7,648	6,883	3,518	223,685	**241,734**	175,484
	35,457	**25,187**	**14,482**	**335,321**	**410,447**	**276,005**

c) Loans and Advances Individually Impaired

The breakdown of gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	2010		2009	
	Balance (gross)	Fair value of collateral	Balance (gross)	Fair value of collateral
Individuals (retail customers)				
Term loans	14,330	-	15,672	3,508
Legal entities				
Large corporate clients	9,928	-	-	-
SMEs	45,671	1,036	33,335	2,920
Factoring	1,450	-	1,450	-
Other	1,397	-	-	-
	72,776	**1,036**	**50,457**	**6,428**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In 2010 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2010	93	78,267	3,244	**81,604**
Charge for the period	14	55,995	4,613	**60,622**
Loans written-off	-	(1,993)	-	**(1,993)**
Amounts recovered	-	-	-	**-**
As at 31 December 2010	**107**	**132,269**	**7,857**	**140,233**

In 2010 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Other	Total
As at 1 January 2010	15,641	377,011	13,137	1,539	-	-
Charge for the period	30,537	-	-	-	47,999	-
Loans written-off	-	(47,521)	-	-		
Amounts recovered	-	-	(9,781)	(5)	-	**46,178**
						-
As at 31 December 2010	**46,178**	**332,764**	**3,356**	**1,534**	**47,999**	-

In summary:

	Individuals	Legal entities	Total
As at 1 January 2010	81,604	407,328	**488,932**
Charge for the period	60,622	81,810	**142,432**
Loans written-off	(1,993)	(47,521)	**(49,514)**
Amounts recovered	-	(9,786)	**(9,786)**
As at 31 December 2010	**140,233**	**431,831**	**572,064**

In 2009 the movement of the allowance for impairment of loans and advances to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Total
As at 1 January 2009	36	28,987	2,273	**31,296**
Charge for the period	57	49,280	971	**50,308**
Amounts recovered	-	-	-	**-**
As at 31 December 2009	**93**	**78,267**	**3,244**	**81,604**

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In 2009 the movement of the allowance for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organisations	Factoring	Total
As at 1 January 2009	18,281	179,023	744	1,589	**199,637**
Charge for the period	(2,640)	197,988	12,393	(50)	**207,691**
Amounts recovered	-	-	-	-	**-**
As at 31 December 2009	**15,641**	**377,011**	**13,137**	**1,539**	**407,328**

In summary:

	Individuals	Legal entities	Total
As at 1 January 2009	31,296	199,637	**230,933**
Charge for the period	50,308	207,691	**257,999**
Amounts recovered	**-**	**-**	**-**
As at 31 December 2009	**81,604**	**407,328**	**488,932**

Fair value of collateral

Collateral taken depends on the type of exposure; for legal entities usually is represented by a charge over buildings or other assets or inventories, for mortgage loans by a charge over the property purchased and for other type of credit operations different types of collateral including cash and guarantees from third parties.

The table discloses the estimated fair value of collateral received by the Group for its loan portfolio by type of collateral and its estimated fair value:

	2010	2009
Real estate	4,574,283	2,807,109
Goods in turnover	1,087,941	986,336
Vehicles	999,081	892,750
Fixed assets and equipment	596,047	659,463
Securities	336,795	419,250
Total amount of collateral	**7,594,147**	**5,764,908**

Geographical risk

Geographical risk is the risk that the Group may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets. The Group operates in Russia predominantly for Russian customers, and therefore, as analysed in the table below it has a significant concentration of Russia exposure. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk associated with the Russian tax are set out in Note 16. The Group has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible

(in thousands of Russian Roubles)

Financial Risk Management (continued)

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

	Russia	OECD	Non - OECD	Total
Assets				
Cash and cash equivalents	714,188	194,174	-	**908,362**
Mandatory balances with the CBRF	58,274	-	-	**58,274**
Due from banks	1,075,000	-	-	**1,075,000**
Financial assets at FVPL	1,484,927	37,551	-	**1,522,478**
Financial assets HTM	50,488	-	-	**50,488**
Loans and advances to customers	5,749,913	-	-	**5,749,913**
Net investment in finance lease	117,151			**117,151**
Accrued interest and other assets	226,898	-	-	**226,898**
Property, plant and Equipment	282,645	-	-	**282,645**
Investment property	81,328	-	-	**81,328**
	9,840,812	**231,725**	**-**	**10,072,537**
Liabilities				
Due to banks	245	-	-	**245**
Customer accounts	8,736,608	1	794	**8,737,403**
Debt securities issued	5,201	-	-	**5,201**
Taxation	32,040	-	-	**32,040**
Other liabilities	46,653	-	-	**46,653**
	8,820,747	**1**	**794**	**8,821,542**
Net balance sheet position	**1,020,065**	**231,724**	**(794)**	**1,250,995**

As at 31 December 2009, the Group had the following positions in geographical concentration:

	Russia	OECD	Non - OECD	Total
Net on-balance sheet position	**639,890**	**556,912**	**-**	**1,196,802**

Market Risk

The Group takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net profit before tax and equity to changes in quoted debt securities prices based on positions existing as at 31 December 2010 and as at 31 December 2009 and a simplified scenario of a 10% change in quoted debt securities prices is as follows:

(in thousands of Russian Roubles)

Financial Risk Management (continued)

	31 December 2010		31 December 2009	
	Profit before tax	**Equity**	**Profit before tax**	**Equity**
10% increase in quoted securities prices	152,248	121,798	21,775	17,420
10% decrease in quoted securities prices	(152,248)	(121,798)	(21,775)	(17,420)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The Group's policy on foreign currency exposure is primarily to comply with the rules of the CBRF which sets a limit of 10% of the Group's equity. However, its real target is more conservative, and that is to reach only 1%, or 2% for overnight exposure. Compliance is assessed and monitored via the daily foreign currency exposure report which is produced and reviewed by Head of Treasury. Any issues noted are escalated to senior management immediately. A review of the currency exposure is also conducted by the Asset and Liability Committee which meets regularly.

This committee has representatives from senior management, treasury, finance and other key departments. The Group takes practical steps to keep exposure low, for example to keep open currency positions at or below an approved level the bank places forex transactions on the interbank market which currently comprises related parties.

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the CBRF.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

As at 31 December 2010, the Group had the following positions in currencies:

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	656,777	48,015	203,570	**908,362**
Mandatory balances with the CBRF	58,274	-	-	**58,274**
Due from banks	1,075,000	-	-	**1,075,000**
Financial assets at FVPL	1,484,927	23,962	13,589	**1,522,478**
Financial assets HTM	50,488	-	-	**50,488**
Loans and advances to customers	5,745,333	4,580	-	**5,749,913**
Net investment in financial lease	117,151	-	-	**117,151**
Other assets	224,951	1,947	-	**226,898**
Property, Plant and Equipment	282,645	-	-	**282,645**
Investment property	81,328	-	-	**81,328**
	9,776,874	**78,504**	**217,159**	**10,072,537**
Liabilities				
Due to banks	-	244	1	**245**
Customer accounts	8,629,009	48,609	59,785	**8,737,403**
Debt securities issued	5,201	-	-	**5,201**
Taxation	32,040	-	-	**32,040**
Other liabilities	46,006	635	12	**46,653**
	8,712,256	**49,488**	**59,798**	**8,821,542**
Net on-balance sheet position	**1,064,618**	**29,016**	**157,361**	**1,250,995**

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

	RUR	USD	EUR	Total
Net on-balance sheet position	**757,668**	**143,409**	**295,725**	**1,196,802**

The table below analysis the risk of foreign currency rate as to Russian Federation Rouble:

	As at 31 December 2010		As at 31 December 2009	
	Effect on profit after tax	Effect on equity	Effect on profit after tax	Effect on equity
Strengthening of USD for 30%	6,964	6,964	34,418	34,418
Weakening of USD for 30%	(6,964)	(6,964)	(34,418)	(34,418)
Strengthening of Euro for 30%	37,767	37,767	70,974	70,974
Weakening of Euro for 30%	(37,767)	(37,767)	(70,974)	(70,974)

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Group actively monitors liquidity risk.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Part of the portfolio of securities is classified as on demand and less than one month as the securities in question are of dealing nature and management believes this is a fairer portrayal of their liquidity position. The remaining securities represent strategic investments of the Group or securities retained for short term capital appreciation and thus do not have a stated maturity date.

Management believes that in spite of a substantial portion of customer accounts being on demand and less than one month, diversification of these deposits by number and type of clients and the past experience of the Group would indicate that deposits provide a relatively long-term and stable source of funding for the Group, although under crisis conditions this could change.

The Group calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBRF. 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 one year to capital and liabilities maturing after one year

The Group was in compliance with the above ratios during the year ended 31 December 2010 and year ended 31 December 2009. The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2010 and 31 December 2009:

	Requirement	**31 December 2010**	**31 December 2009**
Instant liquidity ratio (N2)	Minimum 15%	27.4%	50.9%
Current liquidity ratio (N3)	Minimum 50%	76.8%	77.4%
Long-term liquidity ratio (N4)	Maximum 120%	93.6%	33.4%

The Group's liquidity position is calculated on a daily basis for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Group performs daily operations with its financial assets in order to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2010. Amounts shown are contractual undiscounted cashflows, including future interest, as required by IFRS 7 revised, although in practice the Bank manages liquidity on a different basis, as described above. Some of the assets may be of a longer term nature than presented in the table. For example, loans are frequently renewed and accordingly short term loans can have longer term durations.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	245	-	-	-	-	**245**
Customer accounts	4,144,727	1,247,534	2,892,648	757,030	-	**9,041,939**
Debt securities issued	4,701	500	-	-	-	**5,201**
Other liabilities	20,465	19,245	2,239	3,112	1,592	**46,653**
Taxation	-	-	-	-	32,040	**32,040**
Total liabilities	**4,170,138**	**1,267,279**	**2,894,887**	**760,142**	**33,632**	**9,126,078**
Assets held for managing liquidity risk	**3,819,001**	**1,990,921**	**2,461,792**	**2,440,096**	**728,801**	**11,440,611**
Credit Related Commitments	**13,992**	**199,087**	**296,140**	**192,935**	**-**	**702,154**

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2009.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	248	3,962	18,806	6,079	-	**29,095**
Customer accounts	2,699,943	1,220,950	1,486,795	1,345,122	1,946	**6,754,756**
Debt securities issued	4,013	-	-	-	-	**4,013**
Other liabilities	19,267	14,244	-	10,971	-	**44,482**
Taxation	-	-	-	-	35,771	**35,771**
Total liabilities	**2,723,471**	**1,239,156**	**1,505,601**	**1,362,172**	**37,717**	**6,838,117**
Assets held for managing liquidity risk	**2,221,824**	**1,973,596**	**2,318,676**	**1,461,754**	**550,398**	**8,526,248**
Credit Related Commitments	**100,311**	**168,892**	**97,153**	**-**	**-**	**366,356**

The data in the tables above does not reconcile to the discounted cash flows which form the basis of the statement of financial position at 31 December 2010 and at 31 December 2009, and IFRS 7 revised does not require such reconciliation. The Bank considers that loans should be included in assets held for managing liquidity risk.

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Interest Rate Risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Group's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Group's assets and liabilities are priced on a fixed rate basis.

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2010 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	2.97	-	-	-	-
Financial assets at a fair value through profit or loss	7.93	-	-	-	-
Financial assets held to maturity	-	-	9.50	8.62	-
Loans and advances to customers	16.14	12.25	11.94	14.16	17.42
Net investment in financial lease	39.30	36.30	34.74	33.52	-
Liabilities					
Due to banks	-	-	-	-	-
Customer accounts	3.41	9.81	10.72	7.03	-
Debt securities issued	-	-	-	-	-

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2009 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	4.96	-	-	-	-
Securities at a fair value through profit or loss	10.44	-	-	-	-
Loans and advances to customers	19.03	17.87	16.39	16.95	17.74
Net investment in financial lease	42.50	41.70	41.10	37.50	-
Liabilities					
Due to banks	-	11.50	11.50	12.50	-
Customer accounts	5.12	12.34	12.11	12.63	-
Debt securities issued	-	-	-	-	-

Assuming the financial assets and liabilities as at 31 December 2010 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 3% in market interest rates across all maturities and currencies would increase profit for the current year by approximately 11,495 (2009: 3% or 21,751) as a result of higher interest income from interest bearing assets.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

In the table below given is the analysis of the interest rate fluctuation risk to which the Group is exposed as at 31 December 2010. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	1,075,000	-	-	-	-	**1,075,000**
Financial assets at a fair value through profit or loss	1,517,425	-	-	-	-	**1,517,425**
Financial assets held to maturity	-	-	10,692	39,796	-	**50,488**
Loans and advances to customers	104,104	1,312,935	1,879,014	2,485,921	100,943	**5,882,917**
Net investment in financial lease	7,344	25,678	24,145	59,984	-	**117,151**
	2,703,873	**1,320,059**	**1,896,599**	**2,477,889**	**100,943**	**8,499,363**
Liabilities						
Due to banks	-	-	-	-	-	**-**
Customer accounts	3,432,741	1,106,214	2,753,127	738,357	-	**8,030,439**
Debt securities issued	4,701	500	-	-	-	**5,201**
	3,437,442	**1,106,714**	**2,753,127**	**738,357**	**-**	**8,035,640**
Net liquidity	**(733,569)**	**213,345**	**(856,528)**	**1,739,532**	**100,943**	**463,723**
Accumulated gap as at 31 December 2010	**(733,569)**	**(520,224)**	**(1,376,752)**	**362,780**	**463,723**	
Accumulated gap as at 31 December 2009	**(1,037,580)**	**(837,168)**	**(78,491)**	**121,898**	**185,491**	

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2010			2009		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Interest bearing assets						
Due from banks	2.97	-	-	4.96	-	-
Financial assets at a fair value through profit or loss	8.12	8.75	6.61	9.81	-	7.73
Financial assets held to maturity	8.81	-	-			
Loans and advances to customers	12.25	15.77	-	16.81	10.15	12.00
Net investment in financial lease	34.80	-	-	40.20	-	-
Interest bearing liabilities						
Due to banks	-	-	-	11.69	-	-
Customer accounts	7.19	2.36	2.31	9.90	4.22	4.80
Debt securities issued	-	-	-	-	-	-

27. Related Party Transactions

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

During the reporting period the Group entered into a number of banking transactions in the normal course of business with various related parties.

Related Party Transactions (continued)

At 31 December 2010 entities considered related parties of the Group included the following:

Related parties per category	Activity
Shareholders	
REKHA HOLDINGS LIMITED	Finance
Quest Advisory Restructuring Ltd.	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
OOO «Grand-Tandem»	Trade and intermediary
OOO «Stromit»	Production
OOO «Rokset-S»	Trade and intermediary
Other, including Management of the Bank	
Oleg Yuryevich Berezin	
Nikolay Vasilyevich Popov	
Sergey Petrovich Nazarov	
Mikhail Vladimirovich Zhuravlev	
Alexey Viktorovich Filipchenko	
Vladimir Anatolyevich Repnyakov	
Alexander Yuryevich Vtyurin	
Irina Anatolyevna Skobeleva	
Alexey Olegovich Musihin	
Vera Alexandrovna Pinaeva	
Ilia Pavlovich Prozorov	
Oleg Vladimirovich Pestov	
Ylia Valentinovna Shilnikova	

Related Party Transactions (continued)

At 31 December 2009 entities considered related parties of the Group included the following:

Related parties per category	Activity
Shareholders	
REKHA HOLDINGS LIMITED	Finance
Quest Advisory Restructuring Ltd.	Finance
OOO «Strike»	Trade and intermediary
OOO «Konkurent»	Trade and intermediary
OOO «Monolit»	Trade and intermediary
OOO «Norma»	Trade and intermediary
OOO «Avangard»	Trade and intermediary
OOO «Standart»	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO Firm «Globus»	Trade and intermediary
OOO «NTI»	Trade and intermediary
OOO «Poseydon»	Trade and intermediary
OOO «Vyatskiy privoz»	Trade and intermediary
OOO «Grand-Tandem»	Trade and intermediary
OOO «Stromit»	Production
OOO «Rokset-S»	Trade and intermediary
OOO «Bio Gran»	Production
Other, including Management of the Group	
Oleg Yuryevich Berezin	
Nikolay Vasilyevich Popov	
Sergey Petrovich Nazarov	
Mikhail Vladimirovich Zhuravlev	
Alexey Viktorovich Filipchenko	
Vladimir Anatolyevich Repnyakov	
Alexander Yuryevich Vtyurin	
Irina Anatolyevna Skobeleva	
Galina Nikolayevna Anisimova	
Lyubov Nikolayevna Prosvirnina	
Oleg Vladimirovich Pestov	

(in thousands of Russian Roubles)

Related Party Transactions (continued)

The total outstanding balances as at 31 December 2010 and the related income and expense transactions during 2010 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of the year	-	420,550	3,243	**423,793**	**5,397,703**
Granted during the year	-	544,000	719	**544,719**	**n/a**
Repaid during the year	-	(803,550)	(2,178)	**805,728**	**n/a**
At the end of the year	**-**	**161,000**	**1,784**	**162,784**	**6,321,977**
Allowance for losses	**-**	**(1,610)**	**(95)**	**(1,705)**	**(572,064)**
Other assets (accrued interest income)	**-**	**1,731**	**-**	**1,731**	**226,898**
Current accounts					
At beginning of the year	127	444	1,714	**2,285**	**2,023,303**
Opened during the year	357,187	4,833,865	19,355	**5,210,407**	**n/a**
Repaid during the year	(356,844)	(4,832,595)	(19,381)	**(5,208,820)**	**n/a**
At the end of the year	**470**	**1,714**	**1,688**	**3,872**	**3,038,932**
Term deposits					
At beginning of the year	-	-	2,929	**2,929**	**4,271,325**
Opened during the year	-	-	12,413	**12,413**	**n/a**
Repaid during the year	-	-	(11,341)	**(11,341)**	**n/a**
At the end of the year	-	**-**	**4,001**	**4,001**	**5,698,471**
Statement of Comprehensive Income					
Interest Income on loans	-	40,383	245	**40,628**	**807,519**
Commission income					
From guarantees issued	-	610	-	**610**	**3,824**
From settlement operations	93	986	-	**1,079**	**96,457**
Interest expense					
Term deposits	-	-	421	**421**	**567,090**
On current accounts	-	3	55	**58**	**12,704**
Salary and bonuses	**-**	**-**	15,901	**15,901**	**172,385**
Off-balance Sheet					
Guarantees issued	-	62,701	-	**62,701**	**229,826**

(in thousands of Russian Roubles)

Related Party Transactions (continued)

The total outstanding balances as at 31 December 2009 and the related income and expense transactions during 2009 with related parties were as follows:

	Shareholders	Under common control by virtue of having the same shareholders	Other including management	Total Related party balance/result	Total per category in the financial statement
Statement of Financial Position					
Loans and advances to customers					
At beginning of the year	-	**272,000**	2,675	**274,675**	**4,681,427**
Granted during the year	-	1,069,000	2,276	**1,071,276**	**n/a**
Repaid during the year	-	(920,450)	(1,937)	**(922,387)**	**n/a**
At the end of the year	**-**	**420,550**	**3,014**	**423,564**	**5,397,703**
Allowance for losses		**(7,606)**	**(237)**	**(7,842)**	**(488,932)**
Other assets (accrued interest income)		**3,913**	**24**	**3,937**	**56,166**
Current accounts					
At beginning of the year	887	697	1,548	**3,132**	**1,754,219**
Opened during the year	303,711	5,640,269	14,660	**5,958,640**	**n/a**
Repaid during the year	(304,471)	(5,640,497)	(14,238)	**(5,959,206)**	**n/a**
At the end of the year	**127**	**470**	**1,970**	**2,567**	**2,023,303**
Term deposits					
At beginning of the year	175,000	-	5,045	**180,045**	**3,511,152**
Opened during the year	-	-	18,001	**18,001**	**n/a**
Repaid during the year	(175,000)	-	(18,021)	**(193,021)**	**n/a**
At the end of the year	**-**	**-**	**5,024**	**5,024**	**4,271,325**
Statement of Comprehensive Income					
Interest Income on loans	-	43,069	326	**43,395**	**842,946**
Commission income					
From guarantees issued	-	80	-	**80**	**6,372**
From settlement operations	30	1,257	-	**1,287**	**71,843**
Interest expense					
Term deposits	11,309	-	617	**11,926**	**497,030**
On current accounts	-	3	74	**77**	**19,069**
Salary and bonuses	**-**	**-**	19,260	**19,260**	**140,650**
Off-balance Sheet					
Guarantees issued	-	4,000	-	**4,000**	**266,249**

(in thousands of Russian Roubles)

Related Party Transactions (continued)

In 2010 salaries and other short term payment to the 13 members of Council and members of the Executive Board including management of consolidated company amounted to 18,602 (2009: 15,901), including 5,051 (2009: 6,414) salaries, other short term payments 13,551 (2009: 9,487). Other short term payments to the members of the Executive Board, who are not employed with the Bank, amounted to 658 (2009: 597).

28. Capital Management

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets capital requirements to the Group and monitors compliance with these requirements. Currently, under requirements of the Central Bank of the Russian Federation, the Group has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2010, this minimum level was 10% (2009: 10%).

The regulatory capital on the basis of the Group's reports prepared under Russian legislation as at 31 December 2010 and 31 December 2009 is presented in the following table:

	As at 31 December 2010	**As at 31 December 2009**
Capital		
Share capital	590,227	590,227
Funds	90,750	90,750
Previous years profit	212,762	195,355
Current year profit	92,981	73,106
Additional capital		
Additional capital formed by capitalisation of property revaluation	14,773	14,773
Property surplus due to revaluation	33,499	33,499
Investments in subsidiary	(110)	(100)
Intangible assets	(1)	(3)
Total regulatory capital	**1,034,881**	**997,607**
Capital adequacy ratio	**13.70%**	**18.28%**

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these financial statements is an additional allowance performed for the purposes of IFRS for loans and other assets and amortisation for property, plant and equipment.

During 2010 and 2009 the Group's capital adequacy ratio was line with regulations.

The Group can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Group's long-term management plans and prospects are taking into calculation. The Group's capital management and its distribution is regularly analyzed by the Directors of the Bank during the review and approval of annual budget.