Bank Petrocommerce Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

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Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Petrocommerce

1. We have audited the accompanying consolidated financial statements of Bank Petrocommerce and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

3. 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.

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

11 May 2011
Moscow, Russian Federation

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Bank Petrocommerce Group
Consolidated Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	26 923 394	48 284 458
Mandatory cash balances with central banks		1 188 747	1 147 194
Trading securities	8	12 140 665	5 033 023
Other financial assets at fair value through profit or loss		4 000 000	-
Due from other banks	9	530 618	593 056
Loans and advances to customers	10	105 653 162	99 618 623
Investment securities available for sale	11	24 671 451	11 741 092
Current income tax prepayment		190 249	304 947
Deferred tax asset	25	1 072 732	318 941
Premises and equipment	12	3 736 761	3 779 537
Other assets	13	1 015 239	1 075 138
TOTAL ASSETS		**181 123 018**	**171 896 009**
LIABILITIES			
Due to other banks	14	18 440 445	8 333 218
Customer accounts	15	118 085 686	112 127 779
Debt securities in issue	16	10 801 126	17 766 599
Other borrowed funds	17	129 263	376 265
Current income tax liability		33 178	121 974
Deferred income tax liability	25	15 428	30 669
Other liabilities	18	1 527 505	1 369 080
Subordinated debt	19	4 304 048	4 229 972
TOTAL LIABILITIES		**153 336 679**	**144 355 556**
EQUITY			
Share capital	20	8 454 312	8 454 312
Share premium		5 298 246	5 298 246
Fair value reserve for investment securities available for sale		(6 651)	(21 315)
Cumulative translation reserve		(167 684)	(181 495)
Retained earnings	21	14 162 987	13 938 757
Net assets attributable to the Bank's owners		**27 741 210**	**27 488 505**
Non-controlling interest		**45 129**	**51 948**
TOTAL EQUITY		**27 786 339**	**27 540 453**
TOTAL LIABILITIES AND EQUITY		**181 123 018**	**171 896 009**

Approved for issue and signed on behalf of the Executive Board on 11 May 2011.

Nikitenko V.N.
President

Funtova E.V.
Chief Accountant

In thousands of Russian Roubles	**Note**	**2010**	**2009**
Interest income	22	13 876 941	19 878 319
Interest expense	22	(8 177 052)	(10 492 125)
Net interest income		**5 699 889**	**9 386 194**
Provisions for loan impairment		(3 399 732)	(12 010 899)
Net interest income/(expense) after provision for loan impairment		**2 300 157**	**(2 624 705)**
Fee and commission income	23	2 311 792	2 527 278
Fee and commission expense	23	(562 635)	(589 233)
Gains less losses from trading securities		4 135	596 300
Gains less losses from trading in foreign currencies		854 325	991 539
(Losses net of gains)/gains less losses from financial derivatives		(265 295)	347 815
Foreign exchange translation gains less losses		498 636	265 327
Gains less losses from disposals of investment securities available for sale	11	309 985	82 340
Impairment of investment securities available for sale recorded directly in the income statement	11	(254)	(97 360)
Impairment of investment securities available for sale recycled from the statement of comprehensive income	11	(1 365)	(43 120)
Impairment of other non-financial assets	13	(172 563)	-
Gains less losses from disposals of loans		335 784	4 152 268
Losses less gains from early retirement of debt		(44 169)	(16 925)
Dividend income received		37 050	39 601
Provision for other assets impairment		(44 395)	(76 629)
Provision for credit related commitments	18	(133 828)	(7 149)
Other operating income		210 012	114 778
Administrative and other operating expenses	24	(5 366 130)	(5 170 377)
Profit before tax		**271 242**	**491 748**
Income tax expense	25	(55 382)	(479 996)
Profit for the year		**215 860**	**11 752**
Profit/(loss) attributable to:			
Owners of the Bank		224 107	2 615
Non-controlling interest		(8 247)	9 137
Profit for the year		**215 860**	**11 752**

In thousands of Russian Roubles	Note	2010	2009
Profit for the year		**215 860**	**11 752**
Other comprehensive income:			
Investment securities available for sale:	11	25 346	698 600
- Fair value gains less losses		333 966	737 820
- Disposal of investment securities available for sale	11	(309 985)	(82 340)
- Recycling revaluation of impaired investment securities available for sale	11	1 365	43 120
Gains less losses / (losses net of gains) from foreign exchange translation to presentation currency of financial statements		12 891	(94 112)
Income tax relating to other comprehensive income components	25	(7 610)	(137 276)
Other comprehensive income net of tax		**30 627**	**467 212**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**246 487**	**478 964**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Bank		252 582	469 230
Non-controlling interest		(6 095)	9 734

In thousands of Russian Roubles	Note	Attributable to owners of the Bank: Share capital	Share premium	Fair value reserve for investment securities available for sale	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009		**7 752 558**	**2 000 000**	**(581 945)**	**(87 480)**	**13 936 142**	**23 019 275**	**42 214**	**23 061 489**
Changes in equity									
- Issue of shares	20	701 754	3 298 246	-	-	-	4 000 000	-	4 000 000
- Total comprehensive income /(loss) for the year		-	-	560 630	(94 015)	2 615	469 230	9 734	478 964
Balance at 31 December 2009		**8 454 312**	**5 298 246**	**(21 315)**	**(181 495)**	**13 938 757**	**27 488 505**	**51 948**	**27 540 453**
Changes in equity									
- Acquisition of non-controlling interest in subsidiaries	34	-	-	-	-	123	123	(724)	(601)
- Total comprehensive income/(loss) for the year		-	-	14 664	13 811	224 107	252 582	(6 095)	246 487
Balance at 31 December 2010		**8 454 312**	**5 298 246**	**(6 651)**	**(167 684)**	**14 162 987**	**27 741 210**	**45 129**	**27 786 339**

In thousands of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		10 414 297	16 131 043
Interest paid		(9 324 981)	(10 820 068)
Expenses paid on operations with trading securities		(83 216)	(418 208)
Income received from trading in foreign currencies		854 325	991 539
(Expenses paid)/income received from financial derivatives		(285 126)	538 525
Fees and commissions received		2 298 554	2 536 792
Fees and commissions paid		(565 294)	(609 425)
Other operating income received		213 775	106 892
Administrative and other operating expenses paid		(4 661 855)	(4 671 632)
Income tax paid		(806 121)	(409 707)
Cash flows (used in)/from operating activities before changes		**(1 945 642)**	**3 375 751**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(42 800)	(769 888)
Net increase in trading securities		(6 805 475)	(1 616 328)
Net increase in other financial assets at fair value through profit or		(4 000 000)	-
Net decrease in due from other banks		53 153	1 100 435
Net (increase)/decrease in loans and advances to customers		(5 642 733)	20 588 756
Net decrease in repurchase receivables		-	3 526 993
Net decrease in other assets		24 304	844 903
Net increase/(decrease) in due to other banks		10 200 671	(17 420 460)
Net increase in customer accounts		6 614 775	8 129 755
Net (decrease)/increase in debt securities in issue		(6 102 000)	5 554 176
Net (decrease)/increase in other liabilities		(112 296)	246 099
Net cash (used in)/from operating activities		**(7 758 043)**	**23 560 192**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(60 437 099)	(18 518 308)
Proceeds from disposal of investment securities available for sale	11	48 060 678	12 097 011
Acquisition of premises and equipment	12	(480 760)	(331 743)
Proceeds from disposal of premises and equipment		9 562	3 245
Dividends received		37 953	82 688
Net cash used in investing activities		**(12 809 666)**	**(6 667 107)**
Cash flows from financing activities			
Repayment of other borrowed funds		(258 805)	(23 445 602)
Proceeds from subordinated debt		-	1 000 000
Repayment of subordinated debt		-	(1 000 000)
Proceeds from issue of shares		-	4 000 000
Acquisition of non-controlling interest in subsidiaries		(601)	-
Net cash used in financing activities		**(259 406)**	**(19 445 602)**
Effect of exchange rate changes on cash and cash equivalents		(532 765)	800 983
Accrued interest income on cash and cash equivalents		(1 184)	791
Net decrease in cash and cash equivalents		**(21 361 064)**	**(1 750 743)**
Cash and cash equivalents at the beginning of the year	7	48 284 458	50 035 201
Cash and cash equivalents at the end of the year	**7**	**26 923 394**	**48 284 458**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for OAO Bank Petrocommerce (the "Bank") and its subsidiaries (together referred to as the "Group" or "Bank Petrocommerce Group").

The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBRF"), legislation of the Russian Federation and that of countries in which the Group subsidiaries are registered.

OAO Bank Petrocommerce is an open joint-stock commercial bank. The Bank was established in the Russian Federation as a limited liability partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a limited liability partnership to an open joint stock company. The principal activities of the Bank include deposit taking and commercial lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank's operations are conducted in both Russian and international markets. The Bank's activities are regulated by the Central Bank of the Russian Federation ("the CBRF").

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177 - FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank's office is registered at the following address: Petrovka 24, bldg.1, Moscow, 127051, Russia. At 31 December 2010 the Bank had 16 branches (2009: 16 branches) in the Russian Federation. The average number of the Bank's employees during the reporting period was 2 851 (2009: 2 815).

The main shareholder of the Bank is Reserve Invest Holding (Cyprus) Limited which is part of IFD Kapital and which owns 79.39% of voting shares (532 054 303 ordinary shares) (2009: 79.39%, 532 054 303 ordinary shares). IFD Capital is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services and administration of pension funds. Also refer to Note 20.

The main subsidiaries of Bank Petrocommerce Group are the following subsidiaries: OAO Komi Regional Bank Ukhtabank, PAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and OOO PK-Invest. Also refer to Note 34.

Below is the description of the main activities of the principal subsidiaries.

Open Joined-Stock Company Komi Regional Bank Ukhtabank ("Ukhtabank") is an open joint-stock commercial bank. The Bank's principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a general banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Oktyabrskaya str. 14, Komi Republic, Ukhta, 169300, Russia. As at 31 December 2010 Ukhtabank had five branches within the Russian Federation (2009: six branches). The average number of the Bank's employees during the reporting period was 470 (2009: 541). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.

PAO Bank Petrocommerce-Ukraine ("Petrocommerce-Ukraine") was registered on 26 September 1996 by the National Bank of Ukraine as a joint-stock company under the name Joint-Stock Bank Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Bank Petrocommerce-Ukraine. On 13 August 2009 ZAO Bank Petrocommerce-Ukraine was renamed as Public Joint-Stock Company Bank Petrocommerce-Ukraine (PAO Bank Petrocommerce-Ukraine) in accordance with the decision of the General Shareholders' Meeting on changing the type of the joint-stock company. The current banking licence #108-1 was received by PAO Bank Petrocommerce-Ukraine on 9 April 2002. PAO Bank Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. PAO Bank Petrocommerce-Ukraine's head office is located in Kiev. As at 31 December 2010 PAO Bank Petrocommerce-Ukraine had no branches in the Ukraine (2009: no branches). The average number of the PAO Bank Petrocommerce-Ukraine's employees during the reporting period was 365 (2009: 376).

1 Introduction (Continued)

Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie, an open joint-stock company (hereinafter, “Stavropolpromstroybank”), was created in December 1991 as a result of restructuring of commercial bank “Stavropolye” previously founded on 26 December 1990. In March 1996, the Bank changed its legal status to an open joint stock company. In May 2002, Stavropolpromstroybank was acquired by the Group. Stavropolpromstroybank has banking licence #1288. Stavropolpromstroybank’s main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroybank head office is located in Stavropol. As at 31 December 2010 Stavropolpromstroybank had five branches within the Russian Federation (2009: six branches). The average number of Stavropolpromstroybank’s employees during the reporting period was 604 (2009: 646).

Commercial Bank Unibank S.A. (hereinafter, “Unibank”) was created in the Republic of Moldova in August 1992. In December 2002, it was purchased by the Group. Unibank has a “B” type licence for all types of banking activities excluding trust activities. Unibank’s main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. As at 31 December 2010 Unibank had five branches in the Republic of Moldova (2009: five branches). The average number of Unibank’s employees during the reporting period was 261 (2009: 261).

OOO PK-Invest The Company was founded in February 2010. The country of incorporation is Russia. The principal activity of this company is operations with securities and other financial assets in the Russian market.

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, loans, deposit taking, guarantees, trade finance, securities and foreign currency transactions. At 31 December 2010, a substantial portion of the Group’s liabilities (23% of total liabilities) (2009: 27% of total liabilities) are due to related parties. (Refer to Note 33).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands").

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 29). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation.

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

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

2 Operating Environment of the Group (Continued)

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes, it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

***Basis of preparation*.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading securities, investment securities available-for-sale, other financial assets at fair value through profit or loss and financial derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies' banking and accounting law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the particular entities of the Group and adjusted as necessary in order to be in accordance with IFRS. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquire is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

3 Summary of Significant Accounting Policies (Continued)

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different net profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid and received between parties to the contract that are an integral part of the effective interest rate.

3 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities, other financial assets at fair value through profit or loss and derivative financial instruments are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the financial instrument.

Derecognition of financial assets. The Group derecognises financial assets when

(a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or

(b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while

  (i) also transferring substantially all the risks and rewards of ownership of the assets or

  ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with central banks. Mandatory cash balances with the CBRF and other central banks are carried at amortised cost and represent non-interest bearing mandatory reserve deposits in central banks 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 consolidated cash flow statement.

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. normally within twelve months.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers, including loans provided under factoring agreements, are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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.

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 and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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.

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 through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in other non-financial assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised directly in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the reporting period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. 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 profit or loss, the impairment loss is reversed through current reporting period's profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount at the moment of transferring. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of value in use and fair value less costs to sell. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the reporting period. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2% per annum; and
Office and computer equipment	20% - 33% per annum.

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

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Summary of Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other financial instruments are advanced to the Group by counterparty banks. Due to other banks are carried at amortised cost.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds, promissory notes, deposit and saving certificates issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Other borrowed funds. Other borrowed funds include medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group purchases its own other borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Subordinated debt. Subordinated debt is a non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation of the Group.

Derivative financial instruments. Derivative financial instruments are carried at fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as either gains/losses arising from operations with derivatives. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are not recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Profit distribution is made on the basis of the current year net profit in the statutory reports prepared under applicable legislation.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest rate method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded evenly over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting date;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (2009: USD 1 = RR 30.2442).

Fiduciary assets and trust activities. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from such activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

3 Summary of Significant Accounting Policies (Continued)

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revaluated and liabilities incurred or assumed prior to that date. For balances of these assets or liabilities (premises and equipment and share capital), the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, 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 a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If 30% of watch-list loans transfer to impaired past due loans and 50% of impaired not past due transfer to impaired past due loans and assumption of extrapolation of other current and not impaired loans’ defaults growth trend the increase of provision for loan impairment will be RR 5 150 153 thousand (2009: RR 3 549 859 thousand), the increase of provision rate of loans and advances to customers will be 2.7% points (2009: 2.4% points).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 Financial Instruments: Recognition and Measurement requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The functions of CODM are performed by the Board of Directors. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Subsidiaries. The Group does not have direct ownership in Unibank, but exercises control as the Supervisory Council consists of Vice-presidents of the Bank.

Special Purpose Entities (SPEs). Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated. Refer to Note 34.

Deferred tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium- and long-term forecast of taxable profits of the Group prepared by management. Key assumptions used in the five year forecast are: realistic scenario of the Group's future operations based on the assumptions of loan portfolio growth, formation of interest, fee and commission income allows the Group's management to believe that the deferred tax asset recognised in the statement of financial position will be offset against the Group's taxable profit in future.

5 Adoption of New or Revised Standards and Interpretations

Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2010	2009
Cash on hand	7 700 864	7 584 642
Cash balances with central banks (other than mandatory reserve deposits)	5 835 658	7 495 909
Correspondent accounts and overnight placements with other banks		
- Russian Federation	507 847	680 913
- other countries	2 769 757	10 989 041
Placements with other banks with original maturities of less than three months	4 019 624	18 369 009
- including placements with the Central Bank of the Russian Federation with original maturities of less than three months	-	8 333 015
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	5 272 863	834 231
Settlement accounts with trading systems	816 781	2 330 713
Total cash and cash equivalents	**26 923 394**	**48 284 458**

At 31 December 2010, cash equivalents of RR 5 272 863 thousand (2009: RR 834 231 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 5 928 755 thousand (2009: RR 923 052 thousand), of which the Group has a right to sell or repledge securities with a fair value of RR 5 928 755 thousand (2009: RR 923 052 thousand).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

The information stated below shows transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement:

In thousands of Russian roubles	2010	2009
Non-cash operating activities		
Acquisition of trading securities in exchange for loans and advances to customers	-	(400 885)
Proceeds from sale of trading securities	-	253 922
Other assets acquired by the Group in settlement of overdue loans	(312 194)	(489 104)
Proceeds from disposal of other assets	2 611	2 511
Total non-cash activities	**(309 583)**	**(633 556)**

8 Trading Securities

In thousands of Russian roubles	2010	2009
Promissory notes	5 368 879	811 387
Corporate bonds	3 334 577	1 046 124
Federal loan bonds (OFZ bonds)	1 404 762	220 156
Russian Federation Eurobonds	762 981	-
Corporate Eurobonds	437 178	145 663
Municipal bonds and bonds of the Russian Federation's regions	20 350	1 872 542
Total debt securities	**11 328 727**	**4 095 872**
Quoted corporate shares	811 938	930 006
Global depositary receipts	-	7 145
Total equity securities	**811 938**	**937 151**
Total trading securities	**12 140 665**	**5 033 023**

Promissory notes represent promissory notes issued by large Russian banks.

Corporate bonds are debt securities denominated in Russian roubles, issued by large Russian companies in financial, banking, energy, transport and other sectors.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian Federation Eurobonds are US dollar denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate Eurobonds are interest bearing securities denominated in US dollars, issued by large Russian companies and are freely tradable internationally on the over-the-counter market.

Municipal bonds and bonds of Russian Federation's regions represent debt securities denominated in Russian roubles.

Corporate shares mainly include shares of major Russian oil and gas companies and banks. These shares are freely tradable in Russia.

8 Trading Securities (Continued)

Analysis by issuers' credit quality of debt trading securities at 31 December 2010 and 31 December 2009 is as follows:

In thousands of Russian roubles	2010	2009
Promissory notes		
- BB- to BBB+ rated	5 167 390	654 296
- B+ and below rated	-	157 091
- Unrated	201 489	-
Corporate bonds		
- BB- to BBB+ rated	2 686 472	815 768
- B+ and below rated	156 930	-
- Unrated	491 175	230 356
Federal loan bonds (OFZ bonds)		
- BB- to BBB+ rated	1 404 762	220 156
Russian Federation Eurobonds		
- BB- to BBB+ rated	762 981	-
Corporate Eurobonds		
- BB- to BBB+ rated	437 178	-
- Unrated	-	145 663
Municipal bonds and bonds of the Russian Federation's regions		
- BB- to BBB+ rated	20 350	1 792 084
- B+ and below rated	-	80 458
Total debt trading securities	**11 328 727**	**4 095 872**

The analysis of the Group's trading debt securities at 31 December 2010 is set out below:

In % p.a.	Maturity date		Annual coupon rate		Annual yield to maturity	
	from	to	from	to	from	to
Municipal bonds and bonds of the Russian Federation's regions	November 2013	December 2015	7.5	8.0	7.8	8.1
Corporate bonds	October 2011	October 2015	6.6	15.0	6.7	14.2
Promissory notes	January 2011	January 2012	0.0	0.0	4.5	14.8
Federal loan bonds (OFZ bonds)	January 2012	August 2016	6.9	12.0	5.6	7.5
Corporate Eurobonds	July 2020	October 2020	6.6	6.9	6.2	6.8
Russian Federation Eurobonds	April 2015	March 2030	3.6	7.5	3.6	4.9

8 Trading Securities (Continued)

The analysis of the Group's trading debt securities at 31 December 2009 is set out below:

In % p.a.	Maturity date		Annual coupon rate		Annual yield to maturity	
	from	**to**	**from**	**to**	**from**	**to**
Municipal bonds and bonds of the Russian Federation's regions	March 2010	December 2015	6.5	10.5	3.4	12.0
Corporate bonds	July 2010	May 2013	8.5	25.0	8.2	416.0
Promissory notes	January 2010	June 2010	0.0	0.0	7.9	15.0
Federal loan bonds (OFZ bonds)	January 2012	January 2012	11.9	11.9	7.6	7.6

Trading securities are carried at fair value which also reflects credit risk. As at 31 December 2010 and 31 December 2009, the Group did not have any past due or impaired trading securities. Issuer's credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 28.

The Bank and main members of the Group have licenses of the Federal Commission on Securities Markets of Russian Federation for trading in securities.

At 31 December 2009, trading securities with a fair value of RR 81 259 thousand were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2009, the Group did not utilise this credit facility with the CBRF. Refer to Note 29.

In 2008, the Group reclassified certain financial assets held for trading into 'available for sale' and 'loans and advances to clients' categories due to implementation of the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets.

The table below provides information on the reclassification amounts, estimated value of cash flows the Group plans to receive as at the date of the reclassification and the effective interest rates on financial assets:

In thousands of Russian roubles	Reclassification amount	Cash flows expected to be recovered (at the date of reclassification)	Effective interest rate
Reclassified into loans, including those classified as repurchase receivable as at the date of reclassification			
Corporate bonds	755 775	838 854	13.8
Reclassified into investment securities available for sale, including those classified as repurchase receivable as at the date of reclassification			
Federal loan bonds (OFZ bonds)	5 968 575	5 968 575	6.7
Corporate bonds	1 431 642	1 431 642	8.8
Municipal bonds and bonds of the Russian Federation's regions	518 818	518 818	8.5
Corporate Eurobonds	151 962	151 962	7.6
Total	**8 826 772**	**8 909 851**	**-**

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represented a rare event as they were significantly out of line with historical volatilities observed in financial markets.

8 Trading Securities (Continued)

At 31 December 2010 and 31 December 2009, the carrying amounts and fair values of debt securities that have been reclassified and which were not yet sold or otherwise derecognised, were as follows:

In thousands of Russian roubles	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Reclassified into investment securities available for sale, including those classified as repurchase receivable				
Federal loan bonds (OFZ bonds)	529 527	529 527	2 225 595	2 225 595
Municipal bonds and bonds of the Russian Federation's regions	72 591	72 591	103 430	103 430
Total	**602 118**	**602 118**	**2 329 025**	**2 329 025**

The fair value gain or loss on these debt securities up to the date of reclassification, income or loss recognised after reclassification, and fair valuation gain or loss as at 31 December 2010 and 31 December 2009 that would have been recognised if the assets had not been reclassified, were as follows:

In thousands of Russian roubles	The fair value gain/(loss) recognised up to the date of reclassification (in 2008)	Income recognised in Income statement after reclassification* 2010	2009	2008	Gain/(loss) that would have been recognised if the assets had not been reclassified 2010	2009	2008
Reclassified into loans, including those classified as repurchase receivable							
Corporate bonds	240	-	37 898	35 251	-	-	(75 727)
Reclassified into investment securities available for sale, including those classified as repurchase receivable							
Federal loan bonds (OFZ bonds)	(7 302)	75 370	211 397	239 440	(17 146)	(94 580)	(315 954)
Municipal bonds and bonds of the Russian Federation's regions	(3 581)	8 591	21 118	27 852	646	(4 441)	(39 042)
Corporate bonds	(29 497)	-	22 633	62 831	-	-	(192 300)
Corporate Eurobonds	3 079	-	9 533	6 663	-	-	(64 975)
Total	**(37 061)**	**83 961**	**302 579**	**372 037**	**(16 500)**	**(99 021)**	**(687 998)**

* Income or loss recognised after reclassification comprises interest income, foreign exchange gains less losses.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 28. Information on trading securities issued by related parties is disclosed in Note 33.

9 Due from Other Banks

In thousands of Russian roubles	**2010**	**2009**
Term placements with other banks with original maturities of more than three months	531 128	593 543
Overdue term placements with other banks	-	9 709
Less: Provision for impairment of due from other banks	(510)	(10 196)
Total due from other banks	**530 618**	**593 056**

Movements in the provision for impairment of due from other banks are as follows:

	2010		**2009**	
In thousands of Russian roubles	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**
Provision for impairment of due from other banks at 1 January	**487**	**9 709**	**446**	**9 952**
Provision for impairment of due from other banks during the year	12	-	55	-
Due from other banks written off during the period as uncollectible	-	(9 881)	-	-
Effect of translation to presentation currency	11	172	(14)	(243)
Provision for impairment of due from other banks at 31 December	**510**	**-**	**487**	**9 709**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 and 31 December 2009 is as follows:

	2010		**2009**	
In thousands of Russian roubles	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**	**Term placements with other banks with original maturities of more than three months**	**Overdue term placements with other banks**
Due from other banks (before provision for impairment)				
- Russian Federation banks	-	-	101 082	-
- OECD countries banks	-	-	26 887	-
- Non-OECD countries banks	531 128	-	465 574	9 709
Total due from other banks (before provision for impairment)	**531 128**	**-**	**593 543**	**9 709**
Less: Provision for impairment	(510)	-	(487)	(9 709)
Total due from other banks	**530 618**	**-**	**593 056**	**-**

As at 31 December 2009 overdue placements with other banks represented placements with other banks past due for more than one year.

The Group presents the above analysis by the location of counterparties as entities in OECD countries are generally considered to have higher credit quality.

9 Due from Other Banks (Continued)

As at 31 December 2009, term placements with other banks with original maturities of more than three months include a balance of RR 100 000 thousand that represents placement to a Russian bank collateralised by real estate with a fair value of RR 3 665 597 thousand.

At 31 December 2010, term placements with other banks (non-OECD countries) of RR 401 442 thousand (2009: RR 276 156 thousand) were pledged to third parties as collateral with respect to term placements of other banks and simultaneously secured by term placements of other banks of RR 400 195 thousand (2009: RR 276 930 thousand). Refer to Notes 14 and 29.

The fair value of each category of due from other banks is provided in Note 31. Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 28.

10 Loans and Advances to Customers

In thousands of Russian roubles	2010	2009
Corporate entities		
Commercial loans	98 830 322	82 985 218
Factoring	7 549 075	5 365 136
Reverse repurchase agreements	7 446 088	15 103 600
Individuals		
Loans to individuals	9 302 810	10 755 140
Reverse repurchase agreements	207 831	137 649
Less: Provision for loan impairment	(17 682 964)	(14 728 120)
Total loans and advances to customers	**105 653 162**	**99 618 623**

At 31 December 2010, loans and advances to customers of RR 7 653 918 thousand (2009: RR 15 241 249 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 8 892 579 thousand (2009: RR 17 270 085 thousand), of which the Group has a right to sell or repledge securities with a fair value of RR 8 892 579 thousand (2009: RR 17 270 085 thousand).

Movements in provisions for loan impairment are as follows:

	Corporate entities		Individuals	Total
In thousands of Russian roubles	Commercial loans	Factoring	Loans to individuals	
Provision for loan impairment at 1 January 2010	**13 043 889**	**516 261**	**1 167 970**	**14 728 120**
Provision for loan impairment during the year	2 901 098	33 463	465 159	3 399 720
Provision in respect of sold loans	(407 655)	-	-	(407 655)
Loans and advances to customers written off during the year as uncollectible	(46 007)	-	(3 880)	(49 887)
Effect of translation to presentation currency	10 290	711	1 665	12 666
Provision for loan impairment at 31 December 2010	**15 501 615**	**550 435**	**1 630 914**	**17 682 964**

10 Loans and Advances to Customers (Continued)

	Corporate entities			Individuals	Total
In thousands of Russian roubles	Commercial loans	Corporate bonds	Factoring	Loans to individuals	
Provision for loan impairment at 1 January 2009	**7 009 359**	**20 410**	**115 502**	**759 932**	**7 905 203**
Provision/(recovery) for loan impairment during the year	11 216 722	(20 410)	401 937	412 595	12 010 844
Provision in respect of sold loans	(5 141 507)	-	-	-	(5 141 507)
Loans and advances to customers written off during the year as uncollectible	(28 332)	-	-	(3 431)	(31 763)
Effect of translation to presentation currency	(12 353)	-	(1 178)	(1 126)	(14 657)
Provision for loan impairment at 31 December 2009	**13 043 889**	**-**	**516 261**	**1 167 970**	**14 728 120**

The analysis of the Group's loan portfolio by credit quality at 31 December 2010 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian roubles	Commercial loans	Reverse repurchase agreements	Factoring	Loans to individuals	Reverse repurchase agreements	
Current and not impaired loans						
- Standard loans:	52 229 716	7 446 088	6 481 033	6 818 685	207 831	73 183 353
- customers with credit history over one year	*32 423 076*	*2 897 630*	*3 930 796*	*4 545 643*	*-*	*43 797 145*
- customers with credit history less than one year	*19 806 640*	*4 548 458*	*2 550 237*	*2 273 042*	*207 831*	*29 386 208*
- watch list	11 501 028	-	136 389	196 361	-	11 833 778
Total current and not impaired loans	**63 730 744**	**7 446 088**	**6 617 422**	**7 015 046**	**207 831**	**85 017 131**
Past due but not impaired loans						
- less than 1 month overdue	28 581	-	-	127 919	-	156 500
Total past due but not impaired loans	**28 581**	**-**	**-**	**127 919**	**-**	**156 500**
Individually impaired loans (gross)						
- current	20 841 177	-	-	60 850	-	20 902 027
- less than 1 month overdue	22 995	-	-	78 004	-	100 999
- 1 to 3 months overdue	383 206	-	-	63 617	-	446 823
- 3 to 6 months overdue	340 864	-	-	211 061	-	551 925
- 6 to 12 months overdue	5 326 262	-	-	114 972	-	5 441 234
- over 1 year overdue	8 156 493	-	931 653	1 631 341	-	10 719 487
Total individually impaired loans	**35 070 997**	**-**	**931 653**	**2 159 845**	**-**	**38 162 495**
Total loans and advances to customers (before provision for impairment)	**98 830 322**	**7 446 088**	**7 549 075**	**9 302 810**	**207 831**	**123 336 126**
Less: Provision for loan impairment	**(15 501 615)**	**-**	**(550 435)**	**(1 630 914)**	**-**	**(17 682 964)**
Total loans and advances to customers	**83 328 707**	**7 446 088**	**6 998 640**	**7 671 896**	**207 831**	**105 653 162**

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio by credit quality at 31 December 2009 is set out below:

	Corporate entities			Individuals		Total
In thousands of Russian roubles	**Commercial loans**	**Reverse repurchase agreements**	**Factoring**	**Loans to individuals**	**Reverse repurchase agreements**	
Current and not impaired loans						
- standard loans	38 192 996	15 103 600	3 693 042	8 060 540	137 649	65 187 827
- customers with credit history over one year	*27 094 494*	-	*2 802 371*	*7 585 822*	-	*37 482 687*
- customers with credit history less than one year	*11 098 502*	*15 103 600*	*890 671*	*474 718*	*137 649*	*27 705 140*
- watch list	14 263 049	-	-	201 044	-	14 464 093
Total current and not impaired loans	**52 456 045**	**15 103 600**	**3 693 042**	**8 261 584**	**137 649**	**79 651 920**
Past due but not impaired loans						
- less than 1 month overdue	127 715	-	896 649	148 027	-	1 172 391
Total past due but not impaired loans	**127 715**	**-**	**896 649**	**148 027**	**-**	**1 172 391**
Individually impaired loans (gross)						
- not past due	14 619 258	-	-	398 704	-	15 017 962
- less than 1 month overdue	1 410 997	-	-	73 439	-	1 484 436
- 1 to 3 months overdue	3 389 522	-	-	89 229	-	3 478 751
- 3 to 6 months overdue	1 332 160	-	19 109	165 313	-	1 516 582
- 6 to 12 months overdue	5 187 354	-	144 690	479 445	-	5 811 489
- over 1 year overdue	4 462 167	-	611 646	1 139 399	-	6 213 212
Total individually impaired loans	**30 401 458**	**-**	**775 445**	**2 345 529**	**-**	**33 522 432**
Total loans and advances to customers (before provision for impairment)	**82 985 218**	**15 103 600**	**5 365 136**	**10 755 140**	**137 649**	**114 346 743**
Less: Provision for loan impairment	**(13 043 889)**	**-**	**(516 261)**	**(1 167 970)**	**-**	**(14 728 120)**
Total loans and advances to customers	**69 941 329**	**15 103 600**	**4 848 875**	**9 587 170**	**137 649**	**99 618 623**

10 Loans and Advances to Customers (Continued)

Current and not impaired loans represent the carrying amount of: a) standard loans whose terms have not been renegotiated; b) the watch-list loans represent loans with credit risk higher than remote and/or that would otherwise be past due or impaired if their terms have not been renegotiated. Overdue, but not impaired loans mainly include loans whose delay is assessed by the Bank as technical. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The watch list loans represent loans with credit risk higher than remote. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, individual signs of impairment, such as changes in the payment schedule, deterioration in the financial health and other and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Individually impaired and not past due loans are mostly represented by restructured loans.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 and 31 December 2009 was as follows:

In thousands of Russian roubles	**Commercial loans**	**Loans to individuals**	**Total**
31 December 2010			
Fair value of collateral - loans past due but not impaired			
- financial claims to the Group and cash	134	-	134
- real estate	10 788	132 139	142 927
- equipment and motor vehicles	12 881	5 032	17 913
- other assets	11 326	26 915	38 241
Fair value of collateral - loans individually determined to be impaired			
- financial claims to the Group and cash	77 197	11 137	88 334
- tradable securities	183 724	22 174	205 898
- real estate	29 293 337	1 582 527	30 875 864
- equipment and motor vehicles	7 493 954	133 126	7 627 080
- other assets	8 014 416	42 907	8 057 323
Total	**45 097 757**	**1 955 957**	**47 053 714**

In thousands of Russian roubles	**Commercial loans**	**Loans to individuals**	**Total**
31 December 2009			
Fair value of collateral - loans past due but not impaired			
- real estate	118 886	239 918	358 804
- equipment and motor vehicles	130 794	102 782	233 576
- other assets	11 052	2 131	13 183
Fair value of collateral - loans individually determined to be impaired			
- financial claims to the Group and cash	100 108	998	101 106
- tradable securities	577 704	22 246	599 950
- real estate	30 726 211	2 477 015	33 203 226
- equipment and motor vehicles	4 674 464	159 121	4 833 585
- other assets	6 272 664	122 845	6 395 509
Total	**42 611 883**	**3 127 056**	**45 738 939**

10 Loans and Advances to Customers (Continued)

In this classification, the financial claims to the Group and cash represent the most reliable security.

Fair value of collateral on loans individually determined to be impaired exceeds the amount of carrying value of these loans at 31 December 2010 and 31 December 2009, as in the event of default the collateral is likely to be sold with a discount to its fair value upon completion of all legally required procedures and in case of bankruptcy of the borrower the Group has no preferences in respect of other creditors. Due to the crisis phenomena in the economy, in case of urgent realisation of the collateral, there are risks that the Group will have to give an additional discount to the fair value of collateral for the buyer. Refer also to Note 28 for risk management policies applied by the Group in relation to fair value of collateral calculation.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2010		**2009**	
In thousands of Russian roubles	**Amount**	**%**	**Amount**	**%**
Production	27 582 254	22	20 069 907	18
Construction	18 321 379	15	18 473 820	16
Trade	17 185 906	14	15 649 456	13
Finance	14 636 725	12	21 135 477	18
Individuals	9 510 641	8	10 892 789	10
Agriculture	7 744 849	6	6 961 766	6
Oil and energy	7 504 101	6	3 261 055	3
Transport	6 514 344	5	7 803 659	7
Food	5 627 583	5	3 591 348	3
Other	8 708 344	7	6 507 466	6
Total loans and advances to customers (before provision for impairment)	**123 336 126**	**100**	**114 346 743**	**100**

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2010 is set out below:

	Corporate entities			**Individuals**		**Total**
In thousands of Russian roubles	**Commercial loans**	**Reverse repurchase agreements**	**Factoring**	**Loans to individuals**	**Reverse repurchase agreements**	
Unsecured loans	21 779 605	-	-	1 840 339	-	23 619 944
Loans collateralised by:						
- financial claims to the Group and cash	1 568 574	-	-	301 953	-	1 870 527
- tradable securities	3 218 174	7 446 088	-	29 658	207 831	10 901 751
- real estate	37 975 170	-	-	3 656 562	-	41 631 732
-equipment and motor vehicles	8 514 172	-	-	139 592	-	8 653 764
- warranties and banking guarantees	19 065 623	-	15 839	3 256 750	-	22 338 212
- recourse claims under factoring agreements	-	-	7 533 236	-	-	7 533 236
- other assets	6 709 004	-	-	77 956	-	6 786 960
Total loans and advances to customers	**98 830 322**	**7 446 088**	**7 549 075**	**9 302 810**	**207 831**	**123 336 126**

10 Loans and Advances to Customers (Continued)

The analysis of the Group's loan portfolio (gross) by types of collateral at 31 December 2009 is set out below:

In thousands of Russian roubles	Corporate entities – Commercial loans	Corporate entities – Reverse repurchase agreements	Corporate entities – Factoring	Individuals – Loans to individuals	Individuals – Reverse repurchase agreements	Total
Unsecured loans	10 874 824	-	-	1 167 900	-	12 042 724
Loans collateralised by:						
- financial claims to the Group and cash	646 174	-	-	368 385	-	1 014 559
- tradable securities	2 782 685	15 103 600	-	65 000	137 649	18 088 934
- real estate	37 405 319	-	-	4 633 350	-	42 038 669
-equipment and motor vehicles	7 867 481	-	-	240 374	-	8 107 855
- warranties and banking guarantees	19 594 687	-	-	4 143 196	-	23 737 883
- recourse claims under factoring agreements	-	-	5 365 136	-	-	5 365 136
- other assets	3 814 048	-	-	136 935	-	3 950 983
Total loans and advances to customers	**82 985 218**	**15 103 600**	**5 365 136**	**10 755 140**	**137 649**	**114 346 743**

Other assets mainly include equipment and receivables.

On loans issued within factoring agreements the Group has the possibility of claims recourse from the debtor to the seller. Refer to Note 28. If there are several types of collateral, with the aggregate collateral value exceeding the amount of the respective loan, the amount of outstanding loans was presented in the following way: it was allocated to different types of collateral in the order of decreasing reliability level and liquidity of collateral.

In 2010, the Group sold the portfolio of impaired loans to its main shareholder. The sales value of these loans was RR 365 304 thousand (2009: RR 11 412 263 thousand). The excess of the sales value over the carrying value of the sold loans was RR 62 100 thousand (2009: RR 4 165 405 thousand) and is recognised in profit or loss. The objective of this transaction was to provide financial support to the Group by the main shareholder and to compensate the losses incurred by the Group in connection with presence of impaired loans. The Group has transferred to its main shareholder all rights to the cash flows from the financial assets and risks and rewards of ownership of these loans and has neither intention nor rights or obligations on repurchase of these loans.

The fair value of each category of loans and advances to customers is provided in Note 31. Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

11 Investment Securities Available for Sale

In thousands of Russian roubles	2010	2009
Federal loan bonds (OFZ bonds)	10 778 948	7 444 626
Corporate bonds	7 073 754	2 556 521
Municipal bonds and bonds of the Russian Federation's regions	1 416 135	414 764
CBRF bonds	446 670	785 146
Corporate Eurobonds	425 065	-
Debt securities of central banks of non-OECD countries	225 446	16 974
State debt securities of non-OECD countries	77 667	93 117
Total debt securities	**20 443 685**	**11 311 148**
Investments in mutual funds	2 278 798	-
Quoted corporate shares	1 465 206	4 316
Private equity fund investments	483 762	423 357
Unquoted corporate shares	-	2 271
Total equity securities	**4 227 766**	**429 944**
Total investment securities available for sale	**24 671 451**	**11 741 092**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Corporate bonds are primarily debt securities denominated in Russian roubles, issued by large Russian companies in banking, telecommunications, transport, energy and other sectors. Corporate bonds are interest bearing securities. Corporate bonds are freely tradable in Russia.

Municipal bonds and bonds of Russian Federation's regions represent interest bearing securities denominated in Russian Roubles. These bonds are tradable on the Moscow Interbank Currency Exchange (MICEX) and other Russian stock exchanges.

CBRF bonds are Russian Rouble denominated zero-coupon securities issued at discount.

Corporate Eurobonds are interest bearing securities denominated in Euros, issued by large Russian companies and are freely tradable internationally on the over-the-counter market.

Debt securities of central banks of non-OECD countries represent zero-coupon bonds issued by the Bank of Moldova at a discount.

State debt securities of non-OECD countries represent interest-bearing and zero-coupon bonds issued by the Ministry of Finance of Moldova and the Ministry of Finance of the Ukraine.

Investments in mutual funds mainly represent investments in a fund engaged in operations with securities of major Russia issuers, whose shares and bonds are freely tradable in the Russian market, and companies engaged in construction and maintenance of fitness centres, sports and recreation facilities and sports and technical constructions.

Private equity fund investments represent investments in a private equity fund which invests mainly in unlisted equity securities of companies from a wide range of industries in the Russian Federation. Private equity fund investments are carried at their fair value. Private equity fund investments were valued as at 31 December 2010 by the Group using discounted cash flow model.

11 Investment Securities Available for Sale (Continued)

Analysis by issuers' credit quality of debt securities at 31 December 2010 and 31 December 2009 is as follows:

In thousands of Russian roubles	2010	2009
Federal loan bonds (OFZ bonds)		
- BB- to BBB+ rated	10 778 948	7 444 626
Corporate bonds		
- BB- to BBB+ rated	7 073 754	2 524 440
- B+ and below rated	-	8 322
- Unrated	-	23 759
Municipal bonds and bonds of the Russian Federation's regions		
- BB- to BBB+ rated	1 337 358	377 648
- B+ and below rated	41 831	6 177
- Unrated	36 946	30 939
CBRF bonds		
- BB- to BBB+ rated	446 670	785 146
Corporate Eurobonds		
- BB- to BBB+ rated	425 065	-
Debt securities of central banks of non-OECD countries		
- B+ and below rated	225 446	-
- Unrated	-	16 974
State debt securities of non-OECD countries		
- B+ and below rated	77 667	13 472
- Unrated	-	79 645
Total debt investment securities available for sale	**20 443 685**	**11 311 148**

The analysis of the Group's debt investment securities available for sale at 31 December 2010 is set out below:

	Maturity date		Annual coupon rate		Annual yield to maturity	
In % p.a.	from	to	from	to	from	to
Federal loan bonds (OFZ bonds)	January 2011	August 2018	4.6	12.0	2.0	7.4
Corporate bonds	October 2011	November 2019	6.5	16.8	5.3	14.2
CBRF bonds	March 2011	March 2011	-	-	3.5	3.5
Municipal bonds and bonds of the Russian Federation's regions	May 2011	September 2014	7.7	10.3	4.9	7.9
Corporate Eurobonds	June 2011	February 2016	4.3	8.3	2.4	2.8
Debt securities of central banks of non-OECD countries	January 2011	January 2011	0.0	0.0	7.2	7.2
State debt securities of non-OECD countries	January 2011	March 2012	0.0	13.0	7.2	8.6

11 Investment Securities Available for Sale (Continued)

The analysis of the Group's debt investment securities available for sale at 31 December 2009 is set out below:

	Maturity date		**Annual coupon rate**		**Annual yield to maturity**	
In % p.a.	**from**	**to**	**from**	**to**	**from**	**to**
Federal loan bonds (OFZ bonds)	January 2010	November 2021	5.8	12.0	3.6	8.7
Corporate bonds	June 2010	November 2019	7.3	19.0	7.2	17.3
CBRF bonds	June 2010	June 2010	-	-	6.6	6.6
Municipal bonds and bonds of the Russian Federation's regions	March 2010	April 2014	7.8	10.3	6.9	13.3
Debt securities of central banks of non-OECD countries	January 2010	January 2010	0.0	0.0	5.1	5.1
State debt securities of non-OECD countries	January 2010	August 2010	10.0	13.0	2.1	21.8

The movements in investment securities available for sale are as follows:

In thousands of Russian roubles	**Note**	**2010**	**2009**
Carrying amount at 1 January		**11 741 092**	**4 586 613**
Fair value gains less losses		25 346	698 600
Acquisition of own securities sold into direct repo agreements as at 1 January		-	2 630 567
Interest income accrual	22	1 614 237	631 349
Interest received		(1 392 903)	(522 866)
Purchases		60 437 099	15 887 741
Proceeds from disposal of investment securities available for sale		(48 060 678)	(12 097 011)
Gains less losses from disposals of investment securities available for sale		309 985	82 340
Impairment of investment securities available for sale recorded directly in the income statement		(254)	(97 360)
Impairment of investment securities available for sale transferred from the statement of comprehensive income		(1 365)	(43 120)
Exchange differences relating to debt securities		(4 612)	12 676
Effect of translation to presentation currency		3 504	(28 437)
Carrying amount at 31 December		**24 671 451**	**11 741 092**

At 31 December 2010 investment securities available for sale with a fair value of RR 5 040 387 thousand (2009: RR 2 546 420) were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2010, the Group did not utilise this credit facility (2009: did not utilise this credit facility). Refer to Note 29.

At 31 December 2010 restricted securities with a fair value of RR 209 465 thousand were included in investment securities available for sale. Refer to Note 29.

Had all the declines in fair value below cost of available-for-sale equity investments been considered significant or prolonged based on Group's judgement that accounts the volatility in share price, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows, the Group would suffer an additional loss of RR 53 089 thousand (2009: RR 7 196 thousand), being a reclassification from other comprehensive income to profit or loss for the year.

Credit quality analysis is carried out by the Group at the stage of setting limits and is described in Note 28. Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 28. The information on related party investment securities available for sale is disclosed in Note 33.

12 Premises and Equipment

In thousands of Russian roubles	Land and premises	Office and computer equipment	Construction in progress	Total
Carrying amount at 1 January 2009	**2 476 078**	**1 177 171**	**337 783**	**3 991 032**
Book amount at cost				
Balance at the beginning of the year	2 701 035	2 664 905	337 783	5 703 723
Additions	6 493	292 082	33 168	331 743
Transfers	96 612	142 705	(239 317)	-
Disposals	(3 209)	(50 310)	(11 348)	(64 867)
Effect of translation to presentation currency	(10 934)	(14 491)	(238)	(25 663)
Balance at the end of the year	**2 789 997**	**3 034 891**	**120 048**	**5 944 936**
Accumulated depreciation				
Balance at the beginning of the year	224 957	1 487 734	-	1 712 691
Depreciation charge (Note 24)	57 446	450 242	-	507 688
Disposals	(596)	(42 128)	-	(42 724)
Effect of translation to presentation currency	(2 249)	(10 007)	-	(12 256)
Balance at the end of the year	**279 558**	**1 885 841**	**-**	**2 165 399**
Carrying amount at 31 December 2009	**2 510 439**	**1 149 050**	**120 048**	**3 779 537**
Book amount at cost				
Balance at the beginning of the year	2 789 997	3 034 891	120 048	5 944 936
Additions	40 109	292 318	148 333	480 760
Transfers	25	72 024	(72 049)	-
Disposals	(368)	(69 759)	(19)	(70 146)
Effect of translation to presentation currency	4 103	4 424	53	8 580
Balance at the end of the year	**2 833 866**	**3 333 898**	**196 366**	**6 364 130**
Accumulated depreciation				
Balance at the beginning of the year	279 558	1 885 841	-	2 165 399
Depreciation charge (Note 24)	60 690	458 883	-	519 573
Disposals	(186)	(61 490)	-	(61 676)
Effect of translation to presentation currency	721	3 352	-	4 073
Balance at the end of the year	**340 783**	**2 286 586**	**-**	**2 627 369**
Carrying amount at 31 December 2010	**2 493 083**	**1 047 312**	**196 366**	**3 736 761**

As at 31 December 2010, premises and equipment whose carrying amount totalled RR 113 552 thousand (2009: RR 137 561 thousand) were pledged as collateral on a term deposit of a corporate entity. Refer to Notes 15 and 29.

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, the assets are transferred to the appropriate category of premises and equipment.

13 Other Assets

In thousands of Russian roubles	Note	2010	2009
Other financial assets			
Receivables on commissions		183 777	296 181
Receivables on plastic card operations		67 866	93 237
Derivative financial instruments	30,31	20 943	13 127
Cash transfers		12 235	9 346
Dividends receivable		4 757	5 668
Other financial assets		5 691	11 725
Provision for impairment of other financial assets		(92 702)	(100 214)
Total other financial assets		**202 567**	**329 070**
Other non-financial assets			
Repossessed collateral		606 908	470 522
Settlements on non-banking operations		85 835	112 583
Receivables and other advance payments		80 215	101 578
Settlements on other operations		65 920	42 915
Prepaid other taxes		20 975	14 731
Precious metals		4 841	3 739
Provision for impairment of other non-financial assets		(52 022)	-
Total other non-financial assets		**812 672**	**746 068**
Total other assets		**1 015 239**	**1 075 138**

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

			2010			**2009**
In Russian roubles	**Receivables on commis-sions**	**Other financial assets**	**Total**	**Receivables on commis-sions**	**Other financial assets**	**Total**
Provision for impairment at 1 January	**96 736**	**3 478**	**100 214**	**32 400**	**5 509**	**37 909**
(Recovery of)/provision for impairment during the year	(7 645)	18	(7 627)	78 660	(2 031)	76 629
Amounts written off during the year as uncollectible	-	-	-	(12 846)	-	(12 846)
Effect of translation to presentation currency	115	-	115	(1 478)	-	(1 478)
Provision for impairment at 31 December	**89 206**	**3 496**	**92 702**	**96 736**	**3 478**	**100 214**

13 Other Assets (Continued)

Movements in the provision for impairment of other non-financial assets during 2010 are as follows:

In Russian roubles	**Settlements on non-banking operations**	**Receivables and other advance payments**	**Settlements on other operations**	**Total**
Provision for impairment at 1 January 2010	-	-	-	**-**
Provision for impairment during the year	10 405	3 031	38 586	**52 022**
Provision for impairment at 31 December 2010	10 405	3 031	38 586	**52 022**

Geographical, currency and maturity analyses of other assets are disclosed in Note 28.

Repossessed collaterals represents property received by the Group in settling loan receivables which consists mainly of real estate. The Group expects to dispose of the assets in the foreseeable future or to lease the assets under operating lease. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, *Inventories*. Property was initially recognised at fair value on acquisition, which is RR 779 471 (2009: RR 470 522 thousand). At 31 December 2010, the impairment of these assets of RR 172 563 thousand (2009: nil) was recognised in the consolidated income statement.

14 Due to Other Banks

In thousands of Russian roubles	**2010**	**2009**
Correspondent accounts and overnight placements of other banks	271 069	455 357
Term placements of other banks	16 169 014	6 877 142
Term deposits of the CBRF	-	1 000 719
Sale and repurchase agreements with other banks	2 000 362	-
Total due to other banks	**18 440 445**	**8 333 218**

At 31 December 2010, the fair value of securities transferred to other banks under sale and repurchase agreements in the amount of RR 2 000 362 thousand (2009: nil) comprised RR 2 110 647 thousand (2009: nil). The Group purchased these securities under reverse sale and repurchase agreements ("reverse repo"). Refer to Note 29.

As at 31 December 2010, term deposits of other banks of RR 400 195 thousand (2009: RR 276 930 thousand) were collateralised by term placements with other banks of RR 401 442 thousand (2009: RR 276 156 thousand). Refer to Notes 9 and 29.

Refer to Note 31 for the disclosure of the fair value of each class of amounts due to other banks. Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

15 Customer Accounts

In thousands of Russian roubles	2010	2009
State and public organisations		
- Current/settlement accounts	86	3 288
- Term deposits	-	149
Corporate entities		
- Current/settlement accounts	23 853 580	19 691 336
- Term deposits	26 597 803	33 921 495
Individuals		
- Current/demand accounts	13 663 506	11 125 549
- Term deposits	53 970 711	47 385 962
Total customer accounts	**118 085 686**	**112 127 779**

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
In thousands of Russian roubles	**Amount**	**%**	**Amount**	**%**
Individuals	67 634 217	57	58 511 511	52
Finance	10 807 041	9	10 462 120	9
Services	9 428 159	9	7 616 110	7
Trade	8 487 227	7	8 308 719	8
Oil production and refining	7 853 689	7	13 530 560	12
Construction	3 403 141	3	4 291 572	4
Production	2 935 691	2	2 490 561	2
Energy	197 223	-	178 537	-
State and public organisations	86	-	3 437	-
Other	7 339 212	6	6 734 652	6
Total customer accounts	**118 085 686**	**100**	**112 127 779**	**100**

At 31 December 2010, included in customer accounts are deposits of RR 823 603 thousand (2009: RR 1 291 400 thousand) held as collateral for irrevocable commitments under import letters of credit for settlements in the Russian Federation. Refer to Note 29.

As at 31 December 2010, term deposits of corporate entities of RR 132 726 thousand (2009: RR 164 794 thousand) were collateralised by premises and equipment with the carrying amount of RR 113 552 thousand (2009: RR 137 561 thousand). Refer to Notes 12 and 29.

Refer to Note 31 for the disclosure of the fair value of each class of customer accounts. Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

16 Debt Securities in Issue

In thousands of Russian roubles	2010	2009
Bonds	7 576 482	11 846 962
Promissory notes	3 033 637	5 427 262
Savings certificates	191 007	492 375
Total debt securities in issue	**10 801 126**	**17 766 599**

In July 2008, the Group placed the fourth issue of bonds with the nominal value of RR 3 000 000 thousand. The bonds mature in July 2011, have a fixed coupon rate of 5% p.a. (2009: 15.5% p.a.) and yield to maturity of 12.8% p.a. (2009: 13.9% p.a.). In July 2010 the Group fulfilled its obligation to buy back bonds for the total amount of RR 2 787 028 thousand.

In August 2009, the Group placed the sixth and seventh issue of bonds with the nominal value of RR 3 000 000 thousand each. The bonds mature in August 2012. These bonds have a coupon rate of 7.8% p.a. and 14.9% p.a. (2009: 14.4% p.a. and 14.9% p.a.) and yield to maturity of 11.5% p.a. and 11.7% p.a. (2009: 15.0% p.a. and 15.6% p.a.) respectively. In August 2010 the Group fulfilled its obligation to buy back sixth issue bonds for the total amount of RR 1 270 512 thousand.

In December 2009, the Group placed the fifth issue of bonds with the nominal value of RR 5 000 000 thousand. The bonds mature in December 2014, have a fixed coupon rate of 12.8% p.a. (2009: 12.8% p.a.) and yield to maturity of 13.2% p.a. (2009: 13.2% p.a.).

Issued promissory notes represent debt securities denominated in Russian roubles and US dollars with maturities from 'on demand' to December 2028 (2009: from 'on demand' to December 2028). The effective interest rates on these promissory notes range from 0.0% p.a. to 12.8% p.a. (2009: from 0.0% p.a. to 16.3% p.a.).

Savings certificates are debt securities denominated in Russian roubles with maturities from March 2011 to November 2011 (2009: from January 2010 to December 2010). The effective interest rates on these saving certificates range from 5.7% p.a. to 11.3% p.a. (2009: from 10.6% p.a. to 16.0% p.a.).

Refer to Note 31 for the disclosure of the fair value of each class of debt securities in issue. Geographical, currency, interest rate and maturity analyses of debt securities in issue are disclosed in Note 28. The information on debt securities in issue purchased by related parties is disclosed in Note 33.

17 Other Borrowed Funds

In thousands of Russian roubles	2010	2009
Syndicated loans	129 263	376 265
Total other borrowed funds	**129 263**	**376 265**

A syndicated loan of USD 14 338 thousand was received by the Group in June 2006 from the two Croatian banks. This loan matures in June 2011 and has an interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2010, amortised cost amounted to RR 42 947 thousand (2009: RR 125 298 thousand), the effective interest rate was 6.1% p.a. (2009: 6.1% p.a.).

A syndicated loan of USD 14 398 thousand was received by the Group in October 2006 from the two Croatian banks. This loan matures in October 2011 and has an interest rate of 6 month LIBOR plus 1.25% p.a. As at 31 December 2010, amortised cost amounted to RR 86 316 thousand (2009: RR 168 509 thousand), the effective interest rate on this loan was 5.6% p.a. (2009: 5.6% p.a.).

In October 2010, the Group on time repaid the syndicated loan of USD 14 000 thousand obtained in October 2005 from two Croatian banks. This loan has an interest rate of 6 month LIBOR plus 1.25% p.a. At 31 December 2009, amortised cost amounted to RR 82 458 thousand, the effective interest rate on this loan was 8.3% p.a.

Refer to Note 31 for disclosure of the fair value of each class of other borrowed funds. Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 28.

18 Other Liabilities

In thousands of Russian roubles	Note	2010	2009
Other financial liabilities			
Settlements on factoring operations		293 500	450 805
Derivative financial instruments	30,31	170 033	182 048
Provision for credit related commitments	29	143 986	10 143
Payables on plastic card operations		131 192	104 366
Accrued liabilities		23 354	33 498
Cash transfers		2 327	5 629
Other financial liabilities		10 401	13 684
Total other financial liabilities		**774 793**	**800 173**
Other non-financial liabilities			
Accrued staff costs		269 065	160 155
Other taxes payable		115 995	114 617
Settlements on bank operations		24 736	54 202
Other non-financial liabilities		342 916	239 933
Total other non-financial liabilities		**752 712**	**568 907**
Total other liabilities		**1 527 505**	**1 369 080**

Movements in provisions for credit related commitments are as follows:

In thousands of Russian roubles	2010	2009
Provision for credit related commitments at 1 January	**10 143**	**3 192**
Provision for credit related commitments during the year	133 828	7 149
Effect of translation to presentation currency	15	(198)
Provision for credit related commitments at 31 December	**143 986**	**10 143**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

19 Subordinated Debt

In November 2006, the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% and maturity in May 2012. Under the contract, the loan ranks after all other creditors in case of liquidation of the Bank. As at 31 December 2010, the effective interest rate on this subordinated loan was 5.6% p.a. (2009: 5.6% p.a.).

In October 2007, the Group renegotiated the maturity terms of the subordinated debt till November 2016.

In August 2009, the Group attracted a subordinated loan of RR 1 000 000 thousand with a fixed interest rate of 12.1% p.a. and maturity in August 2019. In December 2009, the Group repaid the subordinated loan due to the acquisition by a company that provided the loan to the Group of shares of additional issue. Refer to Note 20.

Refer to Note 31 for the disclosure of the fair value of subordinated debt. Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 28. The information on related party balances is disclosed in Note 33.

20 Share Capital

In thousands of Russian roubles	2010 Number of shares in thousand units	2010 Nominal value	2010 Inflation adjusted amount	2009 Number of shares in thousand units	2009 Nominal value	2009 Inflation adjusted amount
Ordinary shares	670 175	6 701 754	8 454 312	670 175	6 701 754	8 454 312
Total share capital	**670 175**	**6 701 754**	**8 454 312**	**670 175**	**6 701 754**	**8 454 312**

All ordinary shares have a nominal value of RR 10 per share, rank equally and each share carries one vote. The amount of dividend is determined and approved at the Bank's annual general meeting of shareholders.

In October 2009, the CBRF registered additional issue of 70 175 439 ordinary shares with a nominal value of RR 10 per share and the purchase price of RR 57 per share. The CBRF documents supporting the increase in capital were received by the Bank in 2010. For the purposes of these consolidated financial statements the increase in the share capital was recognised as an event related to 2009.

All issued ordinary shares are fully paid.

21 Retained Earnings

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2010 are RR 12 423 115 thousand (2009: RR 13 671 866 thousand).

22 Interest Income and Expense

In thousands of Russian roubles	2010	2009
Interest income		
Loans and advances to customers	10 247 816	16 906 345
Debt investment securities available for sale	1 614 237	631 349
Correspondent accounts and due from other banks	875 368	1 396 078
Reverse sale and repurchase agreements ("reverse repo agreements")	572 306	476 403
Debt trading securities	567 214	468 144
Total interest income	**13 876 941**	**19 878 319**
Interest expense		
Deposits of individuals	4 292 153	3 896 734
Term deposits of legal entities	2 034 323	2 247 744
Debt securities in issue	1 341 345	1 312 420
Subordinated debt	239 280	198 075
Due to other banks	210 309	1 675 784
Current accounts of legal entities	41 027	25 769
Other borrowed funds	16 536	1 096 221
Reverse sale and repurchase agreements ("repo agreements")	1 758	37 878
Other	321	1 500
Total interest expense	**8 177 052**	**10 492 125**
Net interest income	**5 699 889**	**9 386 194**

23 Fee and Commission Income and Expense

In thousands of Russian roubles	2010	2009
Fee and commission income		
Commission on settlement transactions	1 268 403	1 431 746
Commission on cash transactions	648 749	664 000
Commission on cash collection	96 387	87 307
Commission for currency exchange regulations	76 699	85 690
Commission on guarantees issued	60 658	68 606
Commission for trust management	25 818	88 741
Fiduciary commission	886	1 334
Other	134 192	99 854
Total fee and commission income	**2 311 792**	**2 527 278**
Fee and commission expense		
Commission on settlement transactions	392 285	361 246
Commission on cash collection	92 509	81 155
Commission on cash transactions	12 968	13 346
Other	64 873	133 486
Total fee and commission expense	**562 635**	**589 233**
Net fee and commission income	**1 749 157**	**1 938 045**

24 Administrative and Other Operating Expenses

In thousands of Russian roubles	Note	2010	2009
Staff costs		2 941 687	2 636 967
Office maintenance		560 864	508 033
Depreciation of premises and equipment	12	519 573	507 688
Rent		351 976	334 421
State deposit insurance system membership fee		241 358	205 503
Other expenses related to premises and equipment		138 365	313 354
Taxes other than on income		117 467	115 156
Advertising and marketing		68 582	72 902
Other		426 258	476 353
Total administrative and other operating expenses		**5 366 130**	**5 170 377**

Included in staff costs are statutory taxes and payroll fund contributions of RR 397 001 thousand (2009: RR 355 403 thousand).

25 Income Taxes

Income tax expense comprises the following:

In thousands of Russian roubles	2010	2009
Current tax	832 024	883 011
Deferred tax	(776 642)	(403 015)
Income tax expense for the year	**55 382**	**479 996**

The income tax rate applicable to the majority of the Group's income is 20% (2009: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 0% to 25% (2009: from 0% to 25%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian roubles	2010	2009
IFRS profit before tax	**271 242**	**491 748**
Theoretical tax charge at statutory rate (2010: 20%; 2009: 20 %)	54 248	98 350
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	34 992	168 589
- Income on government securities taxed at different rates	(48 939)	(29 503)
- Unrecognised tax losses	5 553	44 362
- Losses less gains of prior period recognized in current year	-	123 804
- Other non-temporary differences	9 528	74 394
Income tax expense for the year	**55 382**	**479 996**

25 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Russia and national regulations of subsidiary banks non-residents being members of the Group give rise to temporary differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 20% for major part of the Group (2009: major part of the Group 20%), except for income on state securities of the Russian Federation that is taxed at 15% (2009:15%).

In thousands of Russian roubles	**1 January 2010**	**Charged to profit or loss**	**Credited directly to other comprehensive income**	**31 December 2010**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(135 367)	40 662	-	(94 705)
Provision for loan impairment	(14 823)	309 041	-	294 218
Fair valuation of investment securities available for sale	26 273	27 754	(7 610)	46 417
Debt securities in issue	31 247	(75 252)	-	(44 005)
Fair valuation of trading securities	61 712	(8 124)	-	53 588
Accruals	308 763	431 525	-	740 288
Other	10 467	51 036	-	61 503
Net deferred tax asset/(liability)	**288 272**	**776 642**	**(7 610)**	**1 057 304**
Recognised deferred tax asset	318 941	753 791	-	1 072 732
Recognised deferred income tax liability	(30 669)	22 851	(7 610)	(15 428)
Net deferred tax asset/(liability)	**288 272**	**776 642**	**(7 610)**	**1 057 304**

In thousands of Russian roubles	**1 January 2009**	**Charged to profit or loss**	**Credited directly to other comprehensive income**	**31 December 2009**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(178 118)	42 751	-	(135 367)
Provision for loan impairment	(60 134)	45 311	-	(14 823)
Fair valuation of investment securities available for sale	102 888	60 661	(137 276)	26 273
Debt securities in issue	25 799	5 448	-	31 247
Fair valuation of trading securities	2 987	58 725	-	61 712
Accruals	157 323	151 440	-	308 763
Other	(28 212)	38 679	-	10 467
Net deferred tax asset/(liability)	**22 533**	**403 015**	**(137 276)**	**288 272**
Recognised deferred tax asset	109 217	209 724	-	318 941
Recognised deferred income tax liability	(86 684)	193 291	(137 276)	(30 669)
Net deferred tax asset/(liability)	**22 533**	**403 015**	**(137 276)**	**288 272**

25 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

A deferred tax asset in the amount of RR 1 072 732 thousand (2009: RR 318 941 thousand) and a deferred income tax liability in the amount of RR 15 428 thousand (2009: RR 30 669 thousand) have been recorded in the consolidated statement of financial position after offsetting of the gross amounts presented above.

26 Dividends

In thousands of Russian roubles	2010	2009
Dividends payable at 1 January	**692**	**692**
Dividends paid during the period	-	-
Dividends payable at 31 December	**692**	**692**

In May 2010, the Annual general shareholders' meeting resolved not to pay dividends based on the results for the 2009 financial year.

In May 2009, the Annual general shareholders' meeting resolved not to pay dividends based on the results for the 2008 financial year.

27 Segment Analysis

Chief Operating Decision Maker (the Board of Directors) assesses performance and allocates resources based on the Group's internal reporting. Operating segments are determined based on the risk concentration in the Group's organisational structure in compliance with the lines of business.

The Group is organised on a basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, trust management, custody, plastic cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, factoring and foreign currency products.
- Financial market transactions – representing stock and money market transactions, brokerage and depositary services, securities, foreign exchange trading and trading in derivative financial instruments, sale and repurchase (repo) agreements, attraction of long-term funds on international financial markets.
- Other transactions – representing other transactions not included in the above segments.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM includes carrying amounts and results of the Group's subsidiaries. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Group's subsidiaries on a quarterly basis.

27 Segment Analysis (Continued)

Management applied the core principle of IFRS 8, Operating Segments, in determining which of the financial information sets should form the basis of operating segments.

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews IFRS financial information for the Group semiannually.

The Board of Directors assesses performance of operating segments of the Group based on profit before tax. Other information provided to the Board of Directors is determined in compliance with this financial information.

Segment information for the main reportable business segments of the Group for 2010 and 2009 is set out below:

In thousands of Russian Roubles	**Retail banking**	**Corporate banking**	**Financial markets transactions**	**Other transacti-ons**	**Elimina-tions**	**Total**
2010						
External revenues	2 498 746	10 080 088	3 753 416	103 545		16 435 795
Intersegment revenues	5 457 104	4 711 961	5 827 618	121 936	(16 118 619)	-
Total revenues	**7 955 850**	**14 792 049**	**9 581 034**	**225 481**	**(16 118 619)**	**16 435 795**
Total revenues from external counterparties comprise:						
Interest income	1 361 864	8 905 279	3 609 798	-	-	13 876 941
Fee and commission income	1 123 090	1 077 589	106 231	4 882	-	2 311 792
Dividends received	-	-	37 050	-		37 050
Other operating income	13 792	97 220	337	98 663	-	210 012
Total revenues from external counterparties	**2 498 746**	**10 080 088**	**3 753 416**	**103 545**	**-**	**16 435 795**
Segment result	**(326 738)**	**(516 656)**	**3 464 226**	**(2 349 590)**	**-**	**271 242**
Profit before tax						**271 242**
Income tax expense						(55 382)
Profit for the year						**215 860**
Other segment items						
Capital expenditure	189 149	194 270	8 589	88 752	-	480 760
Depreciation and amortisation	(256 475)	(170 701)	(7 786)	(84 611)	-	(519 573)
Provision for loan impairment	(465 159)	(2 929 464)	(5 109)	-	-	(3 399 732)
Segment assets	**14 171 834**	**101 792 978**	**62 400 066**	**-**	**-**	**178 364 878**
Deferred tax asset						1 072 732
Other unallocated assets						1 685 408
Total assets						**181 123 018**
Segment liabilities	**68 369 030**	**51 014 368**	**29 312 786**	**-**	**-**	**148 696 184**
Deferred income tax liabilities						15 428
Subordinated debt						4 304 048
Other unallocated liabilities						321 019
Total liabilities						**153 336 679**

27 Segment Analysis (Continued)

In thousands of Russian Roubles	Retail banking	Commercial banking	Financial markets transactions	Other transactions	Eliminations	Total
2009						
External revenues	3 026 335	16 484 193	2 989 385	60 063	-	22 559 976
Intersegment revenues	5 471 367	5 868 758	6 884 942	677 589	(18 902 656)	-
Total revenues	**8 497 702**	**22 352 951**	**9 874 327**	**737 652**	**(18 902 656)**	**22 559 976**
Total revenues from external counterparties comprise:						
Interest income	1 784 251	15 205 395	2 888 673	-	-	19 878 319
Fee and commission income	1 221 823	1 257 279	42 609	5 567	-	2 527 278
Dividends received	-	-	39 601	-		39 601
Other operating income	20 261	21 519	18 502	54 496	-	114 778
Total revenues from external counterparties	**3 026 335**	**16 484 193**	**2 989 385**	**60 063**	**-**	**22 559 976**
Segment result	**419 143**	**(1 232 203)**	**2 878 192**	**(1 573 384)**	**-**	**491 748**
Profit before tax						**491 748**
Income tax expense						(479 996)
Profit for the year						**11 752**
Other segment items						
Capital expenditure	125 557	140 313	10 191	55 682	-	331 743
Depreciation and amortisation	(260 139)	(163 751)	(12 279)	(71 519)	-	(507 688)
Provision for loan impairment	(412 595)	(11 561 692)	(36 612)	-	-	(12 010 899)
Segment assets	**15 885 547**	**87 864 114**	**66 063 606**	**-**	**-**	**169 813 267**
Deferred tax asset						318 941
Other unallocated assets						1 763 801
Total assets						**171 896 009**
Segment liabilities	**59 347 044**	**54 174 871**	**26 159 623**	**-**	**-**	**139 681 538**
Deferred income tax liabilities						30 669
Subordinated debt						4 229 972
Other unallocated liabilities						413 377
Total liabilities						**144 355 556**

Intersegment revenues in the amount of RR 16 118 619 thousand (2009: RR 18 902 656 thousand) represent interest income.

27 Segment Analysis (Continued)

Geographical information. The majority of the Group's revenues, non-current assets other than financial instruments and deferred tax assets from external customers are attributed to customers domiciled in the Russian Federation. Revenues, non-current assets other than financial instruments and deferred tax assets from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements. The Group does not have post-employment benefit assets and rights arising under insurance contracts.

28 Financial Risk Management

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 Group's risk management policy is intended to ensure an optimal balance between the acceptable level of risk undertaken by the Group and the return from banking activities to restrict potential adverse effects on the Group's financial performance, to ensure sustainability of the business of the Group and as well as to protect the rights and interests of the Group's stakeholders - shareholders, clients, counterparties and others. 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. The risk management objectives, policies and procedures are similar for the Bank and its subsidiaries.

Risk management structure. The risk management governance system of the Group includes setting, implementing and controlling risk management policies and procedures and subsequent updating of policies and procedures based on current economic, business and regulatory environment.

The Board of Directors is responsible for the overall supervision of the risk management system.

The Executive Board has overall responsibility over asset and liability management including approval of key risk management policies and procedures and large risk exposures, assessment of risk management system bodies and approval of contingency plans.

The Risk Control Department (RCD) is directly responsible for the development of policies on assessment of the current level of risks, risk management procedures, identification and analysis of the current risk level and monitoring of compliance with the procedures and set limits limiting the risk level. The RCD is an independent unit, its representatives have the right to vote in the Bank's Committee for Finance and Economy (CFE) and credit committees. The RCD reports to the Group's management on a regular basis. The review of major risks is communicated to the Board of Directors on a semi-annual basis in the report on risk management, which includes credit, market, liquidity, operating and reputation risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by falling to discharge of obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. Credit risk is the most important risk for the Group's business; management therefore carefully manages 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 into the Group's asset portfolio. There is also credit risk in off-balance sheet items, such as guarantees and loan commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Notes 10.

28 Financial Risk Management (Continued)

During 2010, the following committees were responsible for approval of corporate and retail transactions which might create credit risk exposure:

- The Bank's Credit Committee performs the functions of the supreme committee in charge of implementing the Bank's credit policies with regard to the target profitability of the Bank's loan portfolio while preserving its optimal structure, and also establishes basic conditions and parameters for credit transactions, decisions on which do not fall under the authority of the Project Finance Committee, the Small Credit Committee, the Retail Credit Committee;

- The CFE establishes credit risk management procedures for repo transactions, the procedure for use of credit risk limits by counterparty on repo transactions and settlements, and also determines credit risk limits for banks, including for transactions with securities issued by banks, for transactions with government securities and by security type (for investments and reverse repo transactions);

- The Project Finance Committee is in charge of development of the Bank's strategy with regard to investment projects, non-performing loans and assets not related to the Bank's core activities, including realisation of property and property rights received by the Bank as a result of work with non-performing loans;

- The Small Credit Committee approves decisions on credit risk management for transactions within the established limit of RR 100 million as at the end of 2010 (2009: RR 30 million);

- The Retail Credit Committee carries out functions associated with implementing the Bank's credit policies within the established limits, including determining basic conditions and parameters for lending transactions with individuals performed by the Bank's Head Office and branches.

The Branches Credit Committees review lending applications from customers and takes lending decisions based on the established credit limits.

The credit risk management system implies setting of limits which includes individual counterparty limits, industry limits, as well as limits restricting credit product type, currency, period, type of collateral and other.

The Group has developed a methodology that enables evaluation of creditworthiness and credit quality of all types of counterparties: corporate clients, small and medium businesses, security issuers, banks, individuals, counterparties within the scope of financing on terms of claim assignment (factoring), insurance companies, etc.

The Group's credit risk management system includes a model, which allows to assess expected losses on the credit portfolio (the 'expected loss model') by using (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default'; and (iii) the likely economic loss ratio on the defaulted obligations (the 'loss given default'). By calculating these measurements the Group determines a risk premium for covering expected losses on the credit portfolio. This model takes into consideration such parameters as financial position of a counterparty, credit risk exposure, lending period, offered collateral and other factors that adjust the final risk premium. The Group continuously improves its credit risk measurement model. However, these measurements can be contrasted with impairment allowances recorded by the Group in these consolidated financial statements as 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. Refer to Note 3.

The Group actively continues to develop its risk management system for lending to individuals. The scoring models that are used in lending to individuals enable the Group to reduce its risks at credit issue, however, the Group continues to enhance the efficiency of its systems.

28 Financial Risk Management (Continued)

Fair value of collateral is determined by the Group's experts in respect of the group of related borrowers. Fair value normally exceeds the amount of established limit by 30%-80%, depending on the borrower's financial position, the type of collateral, the borrower's credit history and information on the borrower. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The major part of factoring finance provided by the Group implies the possibility of claim recourse from the debtor to the seller. The Group treats this as a security to mitigate its risks.

The Group's transactions may lead to settlement risk exposure at the moment of settlement. Settlement risk is the risk of losses resulting from the counterparty's inability to meet its obligations to provide cash, securities or other assets stipulated by the contract.

For certain types of transactions the Group reduces this risk by making settlements in form of "delivery versus payment" or by clearing agents in order to be sure that final settlements will be completed only after both parties fulfil their contractual obligations in full. Undertaking an exposure to the settlement risk on unconditional settlement transactions requires availability of credit risk limits and (or) special limits of settlement risk by counterparty. Such limits constitute part of the above process of approval/monitoring of limits per counterparty.

A system of limits on types of collateral, limits on counterparties, the level of minimal discounts as well as a mandatory requirement to a counterparty to sign a general agreement based on the Bank's form with the description of procedures for settling disputes are in place to limit risks related to repo transactions.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Management of market risks includes limitation of possible losses on own positions that may be incurred by the Group over a specified time horizon with given level of confidence as a result of movements in exchange rates, market prices and interest rates by establishing limits for each type of transactions, and control over compliance with the set limits.

The CFE is responsible for setting limits to restrict possible losses arising from market risks. The Risk Control Department is responsible for developing recommendations on setting and revising limits and risk minimisation procedures.

Market risks are managed on the basis of the following methods:

- diversification of the active portfolio in the money and stock market, using, inter alia, a multilevel system of limits;
- daily revaluations of positions based on market prices;
- setting of and monitoring compliance over aggregate and private limits on all money/stock market instruments;
- setting of and monitoring compliance with stop-out limits to restrict the Group's losses on instruments;
- limits on investments in securities are revised subject to their liquidity (possibility of immediate disposal of portfolio without significant effect on the market price).

28 Financial Risk Management (Continued)

Before opening of the limits for debt securities, including repurchase receivables and investment securities available for sale, the Group assesses both the credit quality of the issuer and the liquidity of the securities. The credit quality requirements applied to the issuers are higher than the criteria applied to the borrowers. These criteria additionally include higher requirements to some financial performance indicators (i.e. gearing, financial efficiency etc.), the total assets and net assets of the issuer should not be less than total assets and net assets of the largest borrowers of the Group, the terms of issue stipulate the ability for early redemption in case of the change of the owner, the quality of the issuer assessed in accordance with internal rating methodology should not be worse than the quality of the borrower entitled to receive the unsecured loan for the term similar to the term to maturity of the security, and the holding companies are also obliged to present audited consolidated financial statements.

Additional criteria taken into account in the course of liquidity analysis are the volume of transactions on the organised exchange markets, spread between sale and purchase prices and spread between the security prices and risk-free assets of the same currency and maturity.

The limits for trading securities are opened only in case if the investment plan stipulates the sale of this security within 12 months and the liquidity of the security allows to sell it within 1-3 months without decrease in value.

The Group uses the VaR (value-at-risk) methodology for the majority of the trading positions and stress tests for non-liquid financial instruments. The VaR method is a method of evaluating potential losses that may occur on risk positions as a result of a change in market rates and prices within a certain period of time based on the assumed confidence interval. The VaR model used by the Group is based on a 99% confidence level and stipulates a 1 to 10 day holding period depending on the item category. The VaR model represents forecasting based on historical data. The model builds probability future development scenarios based on historical data of market quotations with consideration of interdependence between different markets and instruments. Potential changes in market prices are calculated with reference to market data for the last twelve months.

Although the VaR methodology is an important instrument for evaluation of the probable market risk value, it has several constraints, especially in respect of low liquid markets:

- Using historical data as the basis for determining future events may not reflect all possible scenarios;
- Using a 1 to 10 day holding period stipulates that the Group considers to sell or hedge the positions within 1 to 10 days. In practice, this is always the case. However, in case of exceptionally low market liquidity even a 10 day period may not be sufficient;
- A confidence interval of 99% does not consider losses that may occur beyond this level. Probability distribution of losses that may occur beyond the 99% level is not evaluated;
- Since the VaR amount is calculated based on the closing trading sessions data, it does not always reflect intraday fluctuations.

The Group does not confine market risk evaluation to VaR calculation only, as this method is associated with certain constraints described above. Constraints inherent in the VaR method are corrected by revising limits on open positions set with consideration of instruments' liquidity, limits on volumes of transactions in respect of each trading portfolio. In addition, the Group also uses stress tests for modelling possible financial effect of certain exceptional market scenarios for certain types of the Group's capital position.

28 Financial Risk Management (Continued)

Information on the level of VaR associated with the Group's currency risk and securities price risk at 31 December 2010 and 31 December 2009 is provided below:

- value at risk of changes in the securities' value

	2010			2009		
In thousands of Russian roubles	**Value of position**	**Risk**	**Percentage of risk to value of position**	**Value of position**	**Risk**	**Percentage of risk to value of position**
Fixed income securities price risk	26 403 533	400 663	1.5%	14 595 627	488 202	3.3%
Equity securities price risk	5 039 704	651 914	12.9%	968 424	557 566	57.6%

- value at risk of changes in currency risks

	2010			2009		
In thousands of Russian roubles	**Value of position**	**Risk**	**Percentage of risk to value of position**	**Value of position**	**Risk**	**Percentage of risk to value of position**
Currency rate risk exposure	(3 061 998)	51 401	1.7%	(5 330 702)	137 639	2.6%

28 Financial Risk Management (Continued)

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

In thousands of Russian roubles	**Russia**	**OECD**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	22 944 286	2 742 307	1 236 801	26 923 394
Mandatory cash balances with central banks	1 109 859	-	78 888	1 188 747
Trading securities	12 140 665	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	4 000 000
Due from other banks	-	-	530 618	530 618
Loans and advances to customers	98 963 814	898	6 688 450	105 653 162
Investment securities available for sale	24 227 534	-	443 917	24 671 451
Other financial assets	123 732	76 453	2 382	202 567
Total financial assets	**163 509 890**	**2 819 658**	**8 981 056**	**175 310 604**
Non-financial assets				
Current income tax prepayment	183 075	-	7 174	190 249
Deferred tax asset	949 182	-	123 550	1 072 732
Premises and equipment	3 630 920	-	105 841	3 736 761
Other non-financial assets	747 170	5 235	60 267	812 672
Total assets	**169 020 237**	**2 824 893**	**9 277 888**	**181 123 018**
Financial liabilities				
Due to other banks	16 541 427	1 459 718	439 300	18 440 445
Customer accounts	112 581 563	1 788 543	3 715 580	118 085 686
Debt securities in issue	10 801 126	-	-	10 801 126
Other borrowed funds	-	-	129 263	129 263
Other financial liabilities	728 115	35 201	11 477	774 793
Subordinated debt	4 304 048	-	-	4 304 048
Total financial liabilities	**144 956 279**	**3 283 462**	**4 295 620**	**152 535 361**
Non-financial liabilities				
Current income tax liability	33 175	-	3	33 178
Deferred income tax liability	15 428	-	-	15 428
Other non-financial liabilities	715 148	5 787	31 777	752 712
Total liabilities	**145 720 030**	**3 289 249**	**4 327 400**	**153 336 679**
Net balance sheet position	**23 300 207**	**(464 356)**	**4 950 488**	**27 786 339**
Credit related commitments (Note 29)	**7 331 162**	**907 090**	**786 974**	**9 025 226**

28 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. The column "OECD" in the table above includes mainly balances with counterparties from the USA, Germany and Great Britain. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

In thousands of Russian roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	36 597 417	10 974 931	712 110	48 284 458
Mandatory cash balances with central banks	1 045 654	-	101 540	1 147 194
Trading securities	5 033 023	-	-	5 033 023
Due from other banks	101 082	26 887	465 087	593 056
Loans and advances to customers	91 861 581	1 877	7 755 165	99 618 623
Investment securities available for sale	11 620 405	2 271	118 416	11 741 092
Other financial assets	225 821	83 587	19 662	329 070
Total financial assets	**146 484 983**	**11 089 553**	**9 171 980**	**166 746 516**
Non-financial assets				
Current income tax prepayment	297 894	-	7 053	304 947
Deferred tax asset	277 889	-	41 052	318 941
Premises and equipment	3 689 538	-	89 999	3 779 537
Other non-financial assets	667 678	6 596	71 794	746 068
Total assets	**151 417 982**	**11 096 149**	**9 381 878**	**171 896 009**
Financial liabilities				
Due to other banks	3 593 055	4 316 401	423 762	8 333 218
Customer accounts	105 696 588	2 928 951	3 502 240	112 127 779
Debt securities in issue	17 715 215	51 384	-	17 766 599
Other borrowed funds	-	-	376 265	376 265
Other financial liabilities	745 019	41 280	13 874	800 173
Subordinated debt	4 229 972	-	-	4 229 972
Total financial liabilities	**131 979 849**	**7 338 016**	**4 316 141**	**143 634 006**
Non-financial liabilities				
Current income tax liability	121 974	-	-	121 974
Deferred income tax liability	30 669	-	-	30 669
Other non-financial liabilities	528 745	1 212	38 950	568 907
Total liabilities	**132 661 237**	**7 339 228**	**4 355 091**	**144 355 556**
Net balance sheet position	**18 756 745**	**3 756 921**	**5 026 787**	**27 540 453**
Credit related commitments (Note 29)	**4 983 493**	**-**	**680 106**	**5 663 599**

28 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the Group's income or value of financial instruments portfolio may change due to exchange rate fluctuations.

The Financial and Economic Committee manages the volume of currency risk by setting a limit on the level of open currency positions. The Department for Financial Market Operations manages the level of open currency positions within the set limits. The Treasury transfers open currency position to the Department for Financial Market Operations through concluding intra-group transactions. The Risk Control Department monitors the aggregate currency risk level.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010:

In thousands of Russian roubles	RR	USD	EUR	Other	Total
Financial Assets					
Cash and cash equivalents	21 057 488	2 487 779	2 623 467	754 660	26 923 394
Mandatory cash balances with central banks	1 109 859	8 903	9 031	60 954	1 188 747
Trading securities	10 940 505	1 200 160	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	4 000 000
Due from other banks	-	128 606	210 906	191 106	530 618
Loans and advances to customers	69 817 379	29 689 030	5 096 473	1 050 280	105 653 162
Investment securities available for sale	23 318 707	483 762	425 065	443 917	24 671 451
Other financial assets	174 695	5 567	19 978	2 327	202 567
Total financial assets	**130 418 633**	**34 003 807**	**8 384 920**	**2 503 244**	**175 310 604**
Non-financial assets					
Current income tax prepayment	183 075	-	-	7 174	190 249
Deferred tax asset	949 182	-	-	123 550	1 072 732
Premises and equipment	3 630 921	-	-	105 840	3 736 761
Other non-financial assets	730 104	802	774	80 992	812 672
Total assets	**135 911 915**	**34 004 609**	**8 385 694**	**2 820 800**	**181 123 018**
Financial liabilities					
Due to other banks	12 077 930	5 006 014	1 345 849	10 652	18 440 445
Customer accounts	86 366 474	18 842 098	11 159 697	1 717 417	118 085 686
Debt securities in issue	9 542 531	1 258 595	-	-	10 801 126
Other borrowed funds	-	129 263	-	-	129 263
Other financial liabilities	748 360	13 757	5 464	7 212	774 793
Subordinated debt	-	4 304 048	-	-	4 304 048
Total financial liabilities	**108 735 295**	**29 553 775**	**12 511 010**	**1 735 281**	**152 535 361**
Non-financial liabilities					
Current income tax liability	33 175	-	-	3	33 178
Deferred income tax liability	15 428	-	-	-	15 428
Other non-financial liabilities	717 267	1 747	151	33 547	752 712
Total liabilities	**109 501 165**	**29 555 522**	**12 511 161**	**1 768 831**	**153 336 679**
Net balance sheet position	**26 410 750**	**4 449 087**	**(4 125 467)**	**1 051 969**	**27 786 339**
Derivative financial instruments (Note 30)	**3 236 528**	**(7 195 886)**	**3 810 268**	**-**	**(149 090)**
Net balance sheet and derivatives position	**29 647 278**	**(2 746 799)**	**(315 199)**	**1 051 969**	**27 637 249**

28 Financial Risk Management (Continued)

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

In thousands of Russian roubles	RR	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	32 604 094	6 795 869	8 268 121	616 374	48 284 458
Mandatory cash balances with central banks	1 045 654	12 677	10 115	78 748	1 147 194
Trading securities	4 457 463	145 664	429 896	-	5 033 023
Due from other banks	101 052	73 918	30 169	387 917	593 056
Loans and advances to customers	62 125 082	32 528 315	4 153 472	811 754	99 618 623
Investment securities available for sale	11 197 048	423 357	2 271	118 416	11 741 092
Other financial assets	290 509	19 805	1 301	17 455	329 070
Total financial assets	**111 820 902**	**39 999 605**	**12 895 345**	**2 030 664**	**166 746 516**
Non-financial assets					
Current income tax prepayment	297 894	-	-	7 053	304 947
Deferred tax asset	277 889	-	-	41 052	318 941
Premises and equipment	3 689 539	-	-	89 998	3 779 537
Other non-financial assets	653 323	969	858	90 918	746 068
Total assets	**116 739 547**	**40 000 574**	**12 896 203**	**2 259 685**	**171 896 009**
Financial liabilities					
Due to other banks	3 483 008	2 339 052	2 510 550	608	8 333 218
Customer accounts	72 250 598	25 252 090	13 403 999	1 221 092	112 127 779
Debt securities in issue	16 503 479	1 263 120	-	-	17 766 599
Other borrowed funds	-	376 265	-	-	376 265
Other financial liabilities	629 243	149 841	9 594	11 495	800 173
Subordinated debt	-	4 229 972	-	-	4 229 972
Total financial liabilities	**92 866 328**	**33 610 340**	**15 924 143**	**1 233 195**	**143 634 006**
Non-financial liabilities					
Current income tax liability	121 974	-	-	-	121 974
Deferred income tax liability	30 669	-	-	-	30 669
Other non-financial liabilities	526 301	2 829	2 042	37 735	568 907
Total liabilities	**93 545 272**	**33 613 169**	**15 926 185**	**1 270 930**	**144 355 556**
Net balance sheet position	**23 194 275**	**6 387 405**	**(3 029 982)**	**988 755**	**27 540 453**
Derivative financial instruments (Note 30)	**8 519 204**	**(10 900 928)**	**2 212 803**	**-**	**(168 921)**
Net balance sheet and derivatives position	**31 713 479**	**(4 513 523)**	**(817 179)**	**988 755**	**27 371 532**

Movements in foreign exchange rates may affect the borrowers' repayment ability and incurrence of loan losses. At the same time, the Group seeks to provide to corporate clients loans in the currency which meets the requirements of the borrower's business structure in order to minimise the incurrence of loan losses due to realisation of potential currency risk for the borrower.

Liquidity risk. Liquidity risk is the risk of difficulties arising with repayment of the Group's financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the CFE.

28 Financial Risk Management (Continued)

Liquidity risk arises when the maturity of assets and liabilities does not match. Given the diversity of the Group’s transactions and associated uncertainty, the full matching of maturities of assets and liabilities is not a standard practice for financial institutions, which enables them to increase profitability of operations, but, at the same time, increases the risk of losses or the risk that the Group will be unable to meet its obligations.

The objective of liquidity management is to establish and maintain such condition of the Group's asset and liability structure by type and basic maturity that would enable the Group to timely fulfil its obligations to creditors, to satisfy the demand of Group’s clients and counterparties for cash borrowings and to maintain the Group’s reputation as a reliable financial institution that is paying special attention to liquidity risk regulation.

The Group seeks to maintain a diversified and stable structure of sources of finance consisting of issued debt securities, long-term and short-term deposits of banks, deposits of major corporate and retail clients as well as a diversified portfolio of highly liquid assets so that the Group could be able to promptly react to unforeseen liquidity requirements.

The CFE is responsible for liquidity management organisation. In order to streamline the liquidity management procedures the Group separately conducts short-term liquidity management, day-to-day management of which is performed by the Treasury and structured liquidity management, where decisions are taken by the Committee for Finance and Economy and information is prepared by the Risk Control Department.

Liquidity risk management is centralised in the Treasury by entering into transfer deals for all term transactions among the Treasury and business units. The deals are concluded for the period corresponding to the period of transactions at transfer rates.

The Group’s liquidity management policy comprises:

- daily projecting of cash flows by major currencies and calculation of the required level of current liquidity which compiles these cash flows;
- maintaining current liquidity in the amount sufficient for full coverage of the liabilities with maturity within 30 days;
- maintaining diversified structure of the sources and structure of financing;
- management of the concentration and structure of borrowed funds;
- development and implementation of debt financing plans;
- development of backup plans for liquidity and specified financing level maintenance;
- control over the compliance of the Group’s balance sheet liquidity ratios with statutory ratios;
- establishing of limits and rates for attraction/placement of funds by instruments and of transfer rates.

The Treasury receives information on planned transactions from the business units. If the dates for notification about the planned transactions are not observed and also if the transaction exceeds the established limits on amount the Treasury has the right to ban this transaction of the business unit.

Monitoring of current and projected current liquidity position is done daily on the basis of preparation of payment schedule and forecast of short-term resources requirements. Monitoring of structural liquidity position is done by means of regular preparation of current and projected reports on assets and liabilities gaps (GAP-report).

28 Financial Risk Management (Continued)

The Bank Petrocommerce and its Russian subsidiaries calculate liquidity ratios on a daily basis in accordance with the requirement 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 regulatory capital and liabilities maturing after one year.

At 31 December 2010 and at 31 December 2009, the Bank's liquidity ratios complied with the statutory level.

Subsidiary banks in Ukraine and Moldova calculate liquidity ratios in accordance with the requirements of national banks of these countries accordingly.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, including prices specified in deliverable forward agreements to purchase financial assets for cash. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are restate applying the official exchange rate at the reporting date.

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2010 is as follows:

In thousands of Russian roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Later than 5 years**	**Total**
Liabilities						
Due to other banks	17 040 420	56 030	219 306	970 731	260 463	18 546 950
Customer accounts	58 099 927	30 161 318	22 510 244	10 450 284	13 962	121 235 735
Debt securities in issue	384 730	1 495 514	1 492 050	9 713 518	252 693	13 338 505
Other borrowed funds	-	88 709	44 259	-	-	132 968
Other financial liabilities	30 987	643 895	42 949	56 962	-	774 793
Subordinated debt	-	48 502	98 622	786 818	4 789 873	5 723 815
Derivative financial instruments						
- Inflows	(201 666)	(3 685 610)	-	-	-	(3 887 276)
- Outflows	203 374	3 853 935	-	-	-	4 057 309
Total potential future payments for financial obligations	**75 557 772**	**32 662 293**	**24 407 430**	**21 978 313**	**5 316 991**	**159 922 799**
Credit related commitments (Note 29)	9 025 226	-	-	-	-	9 025 226

28 Financial Risk Management (Continued)

The maturity analysis of financial liabilities based on the contractual undiscounted cash flows at 31 December 2009 is as follows:

In thousands of Russian roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	3 112 156	1 173 292	2 119 225	1 867 882	405 937	8 678 492
Customer accounts	51 821 713	28 251 270	27 323 234	8 540 961	17 041	115 954 219
Debt securities in issue	475 988	3 469 548	3 090 134	15 928 835	347 437	23 311 942
Other borrowed funds	-	132 808	131 634	132 048	-	396 490
Other financial liabilities	188 631	587 371	24 133	38	-	800 173
Subordinated debt	-	47 548	145 287	722 736	4 943 508	5 859 079
Derivative financial instruments						
- Inflows	(10 322 366)	(1 301 649)	-	-	-	(11 624 015)
- Outflows	10 466 244	1 339 819	-	-	-	11 806 063
Total potential future payments for financial obligations	**55 742 366**	**33 700 007**	**32 833 647**	**27 192 500**	**5 713 923**	**155 182 443**
Credit related commitments (Note 29)	5 663 599	-	-	-	-	5 663 599

The tables below show assets and liabilities by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The entire portfolio of trading securities and repurchase receivable is classified within demand and less than one month as these portfolios are of trading nature and management believes this is a fairer portrayal of its liquidity position.

28 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2010 is set out below:

In thousands of Russian roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	No defined maturity	Total
Financial assets							
Cash and cash equivalents	26 109 893	813 501	-	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	-	-	1 188 747
Trading securities	12 140 665	-	-	-	-	-	12 140 665
Other financial assets at fair value through profit or loss	4 000 000	-	-	-	-	-	4 000 000
Due from other banks	441 139	51 006	37 719	754	-	-	530 618
Loans and advances to customers	8 126 356	29 628 866	13 095 328	51 170 920	3 631 692	-	105 653 162
Investment securities available for sale	1 028 105	2 125 584	4 188 958	10 883 345	2 358 496	4 086 963	24 671 451
Other financial assets	109 587	87 746	4 373	861	-	-	202 567
Total financial assets	**53 144 492**	**32 706 703**	**17 326 378**	**62 055 880**	**5 990 188**	**4 086 963**	**175 310 604**
Non-financial assets							
Current income tax prepayment	114 523	68 552	7 174	-	-	-	190 249
Deferred tax asset	-	-	-	1 072 732	-	-	1 072 732
Premises and equipment	-	-	-	-	-	3 736 761	3 736 761
Other non-financial assets	187 049	11 277	3 905	3 533	-	606 908	812 672
Total assets	**53 446 064**	**32 786 532**	**17 337 457**	**63 132 145**	**5 990 188**	**8 430 632**	**181 123 018**
Financial liabilities							
Due to other banks	16 971 152	54 814	209 107	951 371	254 001	-	18 440 445
Customer accounts	57 932 163	29 065 748	21 402 461	9 674 377	10 937	-	118 085 686
Debt securities in issue	378 969	1 024 086	1 074 864	8 070 514	252 693	-	10 801 126
Other borrowed funds	-	86 287	42 976	-	-	-	129 263
Other financial liabilities	30 987	643 895	42 949	56 962	-	-	774 793
Subordinated debt	-	-	-	-	4 304 048	-	4 304 048
Total financial liabilities	**75 313 271**	**30 874 830**	**22 772 357**	**18 753 224**	**4 821 679**	**-**	**152 535 361**
Non-financial liabilities							
Current income tax liability	28 704	4 474	-	-	-	-	33 178
Deferred income tax liability	15 428	-	-	-	-	-	15 428
Other non-financial liabilities	714 645	29 697	2 985	5 385	-	-	752 712
Total liabilities	**76 072 048**	**30 909 001**	**22 775 342**	**18 758 609**	**4 821 679**	**-**	**153 336 679**
Net liquidity gap	**(22 625 984)**	**1 877 531**	**(5 437 885)**	**44 373 536**	**1 168 509**	**8 430 632**	**27 786 339**
Cumulative liquidity gap	**(22 625 984)**	**(20 748 453)**	**(26 186 338)**	**18 187 198**	**19 355 707**	**27 786 339**	**-**

Customer accounts are classified in the above analysis based on contractual maturities. Management believes that in spite of a substantial portion of customer accounts being up to 12 month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Management is also taking a number of actions to ensure the Group controls liquidity gap, in particular:

- At the end of the reporting period the Bank had trading and available for sale securities which are included in Central Bank's Lombard list. These securities can be pledged under direct Repo deals with Central Bank;
- Bank performs regular stress testing of financial indicators of the Group and the Bank, including estimation and analysis of statistics over permanent balance on customers' current accounts, to ensure they will be in compliance with external covenants and all regulatory requirements in relation to capital adequacy, liquidity and financial risk management procedures in case of negative events on the market.

The management is of the opinion that the above mentioned actions ensure Group's ability to control liquidity gap.

28 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2009 is set out below:

In thousands of Russian roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	No defined maturity	Total
Financial assets							
Cash and cash equivalents	48 284 458	-	-	-	-	-	48 284 458
Mandatory cash balances with central banks	1 147 194	-	-	-	-	-	1 147 194
Trading securities	5 033 023	-	-	-	-	-	5 033 023
Due from other banks	375 218	71 558	46 280	100 000	-	-	593 056
Loans and advances to customers	9 941 550	30 610 649	19 349 094	36 034 302	3 683 028	-	99 618 623
Investment securities available for sale	701 920	1 470 378	250 248	7 926 594	962 008	429 944	11 741 092
Other financial assets	225 246	95 835	7 989	-	-	-	329 070
Total financial assets	**65 708 609**	**32 248 420**	**19 653 611**	**44 060 896**	**4 645 036**	**429 944**	**166 746 516**
Non-financial assets							
Current income tax prepayment	107 990	189 904	7 053	-	-	-	304 947
Deferred tax asset	27 482	41 052	250 407	-	-	-	318 941
Premises and equipment	-	-	-	-	-	3 779 537	3 779 537
Other non-financial assets	275 605	31 330	4 247	71 432	-	363 454	746 068
Total assets	**66 119 686**	**32 510 706**	**19 915 318**	**44 132 328**	**4 645 036**	**4 572 935**	**171 896 009**
Financial liabilities							
Due to other banks	2 971 013	1 095 054	2 043 453	1 826 536	397 162	-	8 333 218
Customer accounts	51 665 357	27 029 578	26 058 313	7 361 701	12 830	-	112 127 779
Debt securities in issue	473 178	2 577 411	2 075 940	12 292 633	347 437	-	17 766 599
Other borrowed funds	-	126 246	125 128	124 891	-	-	376 265
Other financial liabilities	188 631	587 371	24 133	38	-	-	800 173
Subordinated debt	-	-	-	-	4 229 972	-	4 229 972
Total financial liabilities	**55 298 179**	**31 415 660**	**30 326 967**	**21 605 799**	**4 987 401**	**-**	**143 634 006**
Non-financial liabilities							
Current income tax liability	2 758	119 216	-	-	-	-	121 974
Deferred income tax liability	30 669	-	-	-	-	-	30 669
Other non-financial liabilities	538 823	12 873	3 228	13 983	-	-	568 907
Total liabilities	**55 870 429**	**31 547 749**	**30 330 195**	**21 619 782**	**4 987 401**	**-**	**144 355 556**
Net liquidity gap	**10 249 257**	**962 957**	**(10 414 877)**	**22 512 546**	**(342 365)**	**4 572 935**	**27 540 453**
Cumulative liquidity gap	**10 249 257**	**11 212 214**	**797 337**	**23 309 883**	**22 967 518**	**27 540 453**	**-**

28 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the 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.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Apart from the above stated, the Group also monitors the level of mismatch in maturity of assets and liabilities within the major time intervals.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Management of capital. The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of the Russian Federation, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Under the current capital requirements set by the Central Bank of Russian Federation banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Refer to Note 29.

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 and monitors compliance with regulatory capital ratios on the part of the Group's Russian banks and the Group in general. National banks of the Ukraine and Moldova Republic set and monitor compliance with regulatory capital ratios mandatory for PAO Petrocommerce-Ukraine Bank and CB Unibank respectively.

The Group manages capital adequacy using capital ratio projections based on the Basel Agreement and the CBRF requirements with the quarter to year horizon. Growth rates for asset-side transactions in the medium- and long term are planned with consideration of capital requirements. The Group develops and implements capital growth measures when appropriate.

To ensure compliance with the capital adequacy ratio in the short run (up to one month), the Group uses a system of limits on the use of capital. Limits on the use of capital are revised on a monthly basis and are generally set for business units with consideration of loan portfolio growth planning for the nearest month, projected expenses and possible losses resulting from crystallisation of credit and/or market risks in the short run. The collegial body in charge of approval of capital management procedures and setting limits on the use of capital is the CFE. The body in charge of development of capital management procedures and compliance with the set limits on the use of capital is the Risk Control Department. Business units should comply with set limits on the use of capital. Compliance with limits is monitored on a daily basis.

Currently, under requirements of the Central Bank of the Russian Federation, the Bank and the Group have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the prescribed minimal level. As at 31 December 2010, the minimal level was set at 10% p.a. (2009: 10% p.a.).

At 31 December 2010 and at 31 December 2009, the Bank's and the Group's capital adequacy ratio complied with the statutory level. Apart from this, the Group and the Bank complied with the minimum capital level stipulated by the terms of the Bank's and the Group's obligations, including requirements to the capital adequacy level calculated on the basis of the Basel Agreement (generally known as Basel I). Refer to Note 29.

28 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may also increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks at 31 December 2010. The table also presents the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents	26 109 893	813 501	-	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	-	-	1 188 747
Trading securities	19 918	3 592 537	2 123 885	4 414 768	1 177 619	811 938	12 140 665
Other financial assets at fair value through profit or loss	-	-	-	-	-	4 000 000	4 000 000
Due from other banks	441 138	51 007	37 719	754	-	-	530 618
Loans and advances to customers	8 126 360	29 659 056	13 095 327	51 140 728	3 631 691	-	105 653 162
Investment securities available for sale	1 028 105	3 769 120	4 716 253	10 804 498	266 514	4 086 961	24 671 451
Other financial assets	-	-	-	-	-	202 567	202 567
Total financial assets	**36 914 161**	**37 885 221**	**19 973 184**	**66 360 748**	**5 075 824**	**9 101 466**	**175 310 604**
Non-financial assets							
Current income tax prepayment	-	-	-	-	-	190 249	190 249
Deferred tax asset	-	-	-	-	-	1 072 732	1 072 732
Premises and equipment	-	-	-	-	-	3 736 761	3 736 761
Other non-financial assets	-	-	-	-	-	812 672	812 672
Total assets	**36 914 161**	**37 885 221**	**19 973 184**	**66 360 748**	**5 075 824**	**14 913 880**	**181 123 018**
Financial liabilities							
Due to other banks	17 012 642	1 144 063	283 740	-	-	-	18 440 445
Customer accounts	57 932 159	29 278 770	21 391 936	9 471 884	10 937	-	118 085 686
Debt securities in issue	378 969	1 024 086	1 074 864	8 070 514	252 693	-	10 801 126
Other borrowed funds	-	129 263	-	-	-	-	129 263
Other financial liabilities	-	-	-	-	-	774 793	774 793
Subordinated debt	4 304 048	-	-	-	-	-	4 304 048
Total financial liabilities	**79 627 818**	**31 576 182**	**22 750 540**	**17 542 398**	**263 630**	**774 793**	**152 535 361**
Non-financial liabilities							
Current income tax liability	-	-	-	-	-	33 178	33 178
Deferred income tax liability	-	-	-	-	-	15 428	15 428
Other non-financial liabilities	-	-	-	-	-	752 712	752 712
Total liabilities	**79 627 818**	**31 576 182**	**22 750 540**	**17 542 398**	**263 630**	**1 576 111**	**153 336 679**
Net gap	**(42 713 657)**	**6 309 039**	**(2 777 356)**	**48 818 350**	**4 812 194**	**13 337 769**	**27 786 339**

28 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2009:

In thousands of Russian roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Later than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents	48 284 458	-	-	-	-	-	48 284 458
Mandatory cash balances with central banks	1 147 194	-	-	-	-	-	1 147 194
Trading securities	19 883	2 208 033	116 432	1 751 524	-	937 151	5 033 023
Due from other banks	375 219	71 557	46 280	100 000	-	-	593 056
Loans and advances to customers	10 033 385	30 551 300	19 349 093	36 001 818	3 683 027	-	99 618 623
Investment securities available for sale	701 920	2 084 832	643 275	7 838 102	43 019	429 944	11 741 092
Other financial assets	-	-	-	-	-	329 070	329 070
Total financial assets	**60 562 059**	**34 915 722**	**20 155 080**	**45 691 444**	**3 726 046**	**1 696 165**	**166 746 516**
Non-financial assets							
Current income tax prepayment	-	-	-	-	-	304 947	304 947
Deferred tax asset	-	-	-	-	-	318 941	318 941
Premises and equipment	-	-	-	-	-	3 779 537	3 779 537
Other non-financial assets	-	-	-	-	-	746 068	746 068
Total assets	**60 562 059**	**34 915 722**	**20 155 080**	**45 691 444**	**3 726 046**	**6 845 658**	**171 896 009**
Financial liabilities							
Due to other banks	4 511 719	3 750 199	71 300	-	-	-	8 333 218
Customer accounts	51 665 352	27 259 226	26 058 313	7 132 058	12 830	-	112 127 779
Debt securities in issue	473 177	2 577 411	2 075 941	12 292 633	347 437	-	17 766 599
Other borrowed funds	-	376 265	-	-	-	-	376 265
Other financial liabilities	-	-	-	-	-	800 173	800 173
Subordinated debt	4 229 972	-	-	-	-	-	4 229 972
Total financial liabilities	**60 880 220**	**33 963 101**	**28 205 554**	**19 424 691**	**360 267**	**800 173**	**143 634 006**
Non-financial liabilities							
Current income tax liability	-	-	-	-	-	121 974	121 974
Deferred income tax liability	-	-	-	-	-	30 669	30 669
Other non-financial liabilities	-	-	-	-	-	568 907	568 907
Total liabilities	**60 880 220**	**33 963 101**	**28 205 554**	**19 424 691**	**360 267**	**1 521 723**	**144 355 556**
Net gap	**(318 161)**	**952 621**	**(8 050 474)**	**26 266 753**	**3 365 779**	**5 323 935**	**27 540 453**

28 Financial Risk Management (Continued)

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. This information is presented in the above table by group of instruments that mature or are repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors the level of mismatch of interest rate repricing terms and dates and manages interest rate risk by regulating the level of the mismatch. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions in respect of dates and repricing terms.

The table below summarises the interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on period-end effective rates.

	2010				2009			
In % p.a.	**Russian Roubles**	**US Dollars**	**Euro**	**Other**	**Russian Roubles**	**US Dollars**	**Euro**	**Other**
Assets								
Correspondent accounts and overnight placements with other banks	1.1	0.0	0.3	0.2	1.4	0.1	0.3	0.0
Placements with other banks with original maturities of less than three months	3.4	5.6	2.0	7.3	5.4	6.0	-	-
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	4.7	-	-	-	6.7	-	-	-
Debt trading securities	7.0	5.4	-	-	21.2	14.2	3.4	-
Due from other banks	-	5.9	1.0	12.4	17.8	0.9	2.0	17.8
Loans and advances to customers	13.6	11.3	6.9	13.8	15.2	13.2	7.6	20.7
Debt investment securities available for sale	5.9	-	2.6	7.5	7.5	-	-	7.0
Liabilities								
Due to other banks	1.8	0.6	2.0	7.0	2.9	5.5	2.1	0.0
Customer accounts								
- current and settlement accounts	0.2	0.1	0.2	0.8	0.2	0.3	0.3	1.5
- term deposits	6.6	4.8	4.7	11.5	9.4	6.4	6.5	12.9
Debt securities in issue	10.9	2.4	-	-	13.6	7.1	-	-
Other borrowed funds	-	5.8	-	-	-	6.4	-	-
Subordinated debt	-	5.6	-	-	-	5.6	-	-

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

Interest risk management by means of monitoring of the mismatching of the maturities of interest bearing assets and liabilities is supplemented by the procedure of monitoring of the Group's net interest income sensitivity to various standard and non-standard interest rate change scenario. Also, for the purpose of balance sheet interest rate risk management the Group regulates conditions of early repayment of assets and liabilities. In order to limit mismatch in the conditions of early repayment of the Group's assets and liabilities, certain clauses are introduced into standard forms of contracts on term transactions that protect from the risk of early repayment and from failure to meet deadlines for fulfilment of commitments. In particular, for uncoordinated (not approved by the Group) early repayment of loans in order to limit the interest risk related with possible early repayment of loans the Group uses the mechanism of penalties in the amount of not received interest and the mechanism of charging commission for issuing a loan, credit tranche or undrawn credit line. In case of early demand of a deposit for deposits envisaging a possibility of uncoordinated (not approved by the Group) early repayment the Group uses such penalties as the mechanism of reducing rates used for calculation of interest paid to depositors.

28 Financial Risk Management (Continued)

The analysis of the sensitivity of net interest income on the Group's non-trading book for one year based on the increase or decrease in market interest rates, prepared on the basis of the following simplified scenario:

- parallel decrease or increase of yield curves by 200 basis points in different hard currencies (USD, EUR, etc.);
- parallel decrease or increase of yield curves by 500 basis points in different soft currencies (RR, UAH, etc.);
- in case of completion of deals during the following year, the prolongation will be made for the same period and at a rate increased by 200 or 500 basis points depending on the currency.

Parameters of the scenario take into account different capacity of interest rate changes of hard and soft currencies under the financial crisis.

The analysis of the sensitivity of net interest income on the Group's non-trading book based on the above scenario is set out below:

In thousands of Russian Roubles	2010	2009
Parallel increase by 200 and 500 basis points (depending on currency)	(1 027 302)	810 594
Parallel decrease by 200 and 500 basis points (depending on currency)	1 027 302	(810 594)

Other price risk. The Group is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to early repay the loans. The Group's current year profit (loss) and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2009: no material impact).

29 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

29 Contingencies and Commitments (Continued)

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks, in the amount from nil to RR 134 819 thousand (2009: from nil to RR 125 217 thousand).

Capital expenditure commitments. At 31 December 2010, the Group did not have any significant contractual capital expenditure commitments in respect of premises and equipment (2009: nil).

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

In thousands of Russian Roubles	**2010**	**2009**
Not later than 1 year	250 577	245 832
Later than 1 year and not later than 5 years	306 804	384 944
Later than in 5 years	138 199	85 350
Total operating lease commitments	**695 580**	**716 126**

Compliance with covenants. During 2010 the Group complied with certain covenants, primarily related to other borrowed funds. Non-compliance with such covenants could result in claims from creditors for early repayment of debt by the Group.

One of these covenants is fulfilment by the Group of minimum capital adequacy requirements calculated in accordance with the requirements of the Basel Accord (known as Basel I), as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

29 Contingencies and Commitments (Continued)

The composition of the Group's capital calculated in accordance with Basel Accord at 31 December 2010 and at 31 December 2009 is as follows:

In thousands of Russian Roubles	**2010**	**2009**
Tier 1 capital	27 792 990	27 561 768
Tier 2 capital	4 301 055	4 220 380
Total equity	**32 094 045**	**31 782 148**
Total risk weighted assets	**151 623 171**	**128 677 523**
Total capital-to-risk-weighted-assets ratio (%) (total capital adequacy ratio)	21.2%	24.7%
Total Tier 1 capital-to-risk–weighted-assets ratio (%) (Tier 1 capital adequacy ratio)	18.3%	21.4%

Also the Group's main objective of capital management is to comply with the capital requirements set by the Central Bank of the Russian Federation.

Management believes that the Group was in compliance with covenants as at 31 December 2010 and 31 December 2009.

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, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, 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 or cash deposits and therefore carry less risk than a direct borrowing.

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, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian roubles	**Note**	**2010**	**2009**
Guarantees issued		7 287 759	4 455 732
Import letters of credit		1 105 997	480 826
Export letters of credit		767 956	491 236
Letters of credit for payments in the Russian Federation		7 500	245 948
Less provision for credit related commitments	18	(143 986)	(10 143)
Total credit related commitments		**9 025 226**	**5 663 599**

Deposits of RR 823 603 thousand (2009: RR 1 291 400 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit with settlement in the Russian Federation are recorded in customer accounts (Refer to Note 15). These letters of credit are not included in the table above.

As at 31 December 2010, the Group had commitments in relation to unused credit lines totalling RR 16 439 515 thousand (2009: RR 9 135 559).

29 Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 143 986 thousand at 31 December 2010 (2009: RR 10 143 thousand).

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2010**	**2009**
Russian Roubles	6 801 072	4 215 652
US Dollars	2 156 153	669 254
Euro	48 895	512 473
Other	19 106	266 220
Total	**9 025 226**	**5 663 599**

Trust activities. The Group provides asset management services to its customers in its own name but on their account. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

In thousands of Russian Roubles	**2010**	**2009**
Corporate bonds	838 763	990 976
Russian Federation Eurobonds	819 629	-
Corporate shares	104 096	100 585
Cash funds	56 881	644 864
Promissory notes	-	150 000
Municipal bonds and bonds of the Russian Federation's regions	-	36 869
Total assets in trust management	**1 819 369**	**1 923 294**

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Investment units are recorded at their estimated fair value. Other securities are disclosed at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	**2010**	**2009**
Corporate bonds	4 187 869	2 215 208
Corporate shares	1 762 750	1 460 759
Corporate Eurobonds	274 292	272 198
Municipal bonds and bonds of the Russian Federation's regions	20 687	497
Promissory notes	10 719	10 533

29 Contingencies and Commitments (Continued)

Assets pledged and restricted At 31 December 2010 and 31 December 2009, the Group has the following assets pledged as collateral:

In thousands of Russian Roubles	Note	2010 Asset pledged	2010 Related liability	2009 Asset pledged	2009 Related liability
Trading securities pledged for the credit line of the CBRF	8	-	-	81 259	-
Investment securities available for sale pledged for the credit line of the CBRF	11	5 040 387	-	2 546 420	-
Investment securities available for sale and restricted	11	209 465	-	-	-
Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements	14	2 110 647	2 000 362	-	-
Premises and equipment pledged against attracted customer deposits	12,15	113 552	132 726	137 561	164 794
Term loans of other banks.	9, 14	401 442	400 195	276 156	276 930

In addition, as at 31 December 2009 the Group pledged for credit line of CBRF bonds of the Bank denominated in Russian roubles with fair value of RR 243 087 thousand.

30 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative financial instruments held are set out in the following table. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

30 Derivative Financial Instruments (Continued)

In thousands of Russian Roubles	**2010** Principal or agreed amount	**2010** Positive fair value	**2010** Negative fair value	**2009** Principal or agreed amount	**2009** Positive fair value	**2009** Negative fair value
Forwards						
Foreign currency						
- purchase of USD for RR	-	-	-	1 798 579	7 325	(326)
- purchase of USD for EUR	-	-	-	261 401	1 071	-
- purchase of EUR for USD	3 831 645	17 355	(1 708)	3 471 064	-	(104 931)
- purchase of RR for USD	3 383 270	3 382	-	9 356 734	4 688	(39 867)
- purchase of RR for EUR	21 515	138	-	991 800	43	(6 174)
- other	6 183	68	-	-	-	-
Securities						
- sale of securities	3 685 610	-	(168 325)	367 922	-	(30 750)
Total derivative financial instruments		**20 943**	**(170 033)**		**13 127**	**(182 048)**

31 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The economy of Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities available for sale, derivative financial instruments and repurchase receivable are carried on the consolidated statement of financial position at their fair value.

The best evidence of fair value is price quotations of financial instruments in an active market. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative can result in a different profit, income, total assets or total liabilities.

31 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. Due from other banks and other financial assets are carried at amortised cost which approximates their current fair value. The fair value of loans and advances to customers were estimated as follows:

- Non-risk rate was determined (for rouble-denominated loans – yield curve rates of OFZ with corresponding maturities);
- This non-risk rate, depending on the degree of impairment of the loan, was increased by the fair cost of the risk estimated by the Group;
- Future cash flows of the loan were discounted using the above calculated adjusted non-risk rate.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

These rates are analysed below:

	2010		**2009**	
In % p.a.	**from**	**to**	**from**	**to**
ASSETS				
Due from other banks				
Term placements with other banks with original maturities of more than three months	0.0	14.0	0.0	23.0
Loans and advances to customers				
Corporate entities				
Commercial loans	2.3	36.0	3.5	36.0
Factoring	7.9	23.0	8.5	23.5
Reverse repurchase agreements	4.6	12.0	3.5	9.0
Individuals				
Loans to individuals	3.8	38.0	3.5	38.0
Reverse repurchase agreements	7.9	7.9	8.5	8.5

Liabilities carried at amortised cost. The fair value of bonds and Eurobonds in issue is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Due from other banks and other financial liabilities are carried at amortised cost which approximates their current fair value. The fair value of term customer deposits was determined as follows:

- Transfer rate which was determined in the Group at the moment of fair value calculation was defined based on maturity and currency of deposit;
- Future cash flows of the deposit were discounted using a transfer rate which matches the maturity at the date of calculation and currency of the deposit;
- Transfer rates used for calculation of fair value are determined by the Group Treasury based on market interest rate lines.

31 Fair Value of Financial Instruments (Continued)

These rates are analysed below:

	2010		2009	
In % p.a.	**from**	**to**	**from**	**to**
LIABILITIES				
Due to other banks				
Correspondent accounts and overnight placements of other banks	0.0	0.5	0.0	0.5
Term loans of other banks	0.0	7.5	0.0	9.0
Term deposits of the CBRF	-	-	8.8	8.8
Sale and repurchase agreements with other banks	3.3	3.3	-	-
Customer accounts				
Current/settlement accounts	0.0	6.5	0.0	6.5
Term deposits	0.2	22.5	0.1	22.5
Debt securities in issue				
Promissory notes	0.0	12.8	0.0	16.3
Savings certificates	5.7	11.3	10.6	16.0
Other borrowed funds				
Syndicated loans	1.7	1.7	1.7	1.7
Subordinated debt	5.6	5.6	5.6	5.6

31 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

	2010		2009	
In thousands of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents				
Cash on hand	7 700 864	7 700 864	7 584 642	7 584 642
Cash balances with central banks (other than mandatory reserve deposits)	5 835 658	5 835 658	7 495 909	7 495 909
Correspondent accounts and overnight placements with other banks				
- Russian Federation	507 847	507 847	680 913	680 913
- other countries	2 769 757	2 769 757	10 989 041	10 989 041
Placements with other banks with original maturities of less than three months	4 019 624	4 019 624	18 369 009	18 369 009
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	5 272 863	5 272 863	834 231	834 231
Settlement accounts with trading systems	816 781	816 781	2 330 713	2 330 713
Mandatory cash balances with central banks	1 188 747	1 188 747	1 147 194	1 147 194
Due from other banks				
Term placements with other banks with original maturities of more than three months	530 618	530 618	593 056	593 056
Loans and advances to customers				
Corporate entities				
Commercial loans	83 328 707	81 873 776	69 941 329	65 452 124
Factoring	6 998 640	6 887 000	4 848 875	4 415 301
Reverse repurchase agreements	7 446 088	7 086 420	15 103 600	14 839 839
Individuals				
Loans to individuals	7 671 896	8 489 963	9 587 170	9 545 696
Reverse repurchase agreements	207 831	207 441	137 649	137 591
Other financial assets				
Receivables on commissions	91 075	91 075	195 967	195 967
Receivables on plastic card operations	67 866	67 866	93 237	93 237
Cash transfers	12 235	12 235	9 346	9 346
Dividends receivable	4 757	4 757	5 668	5 668
Other financial assets	5 691	5 691	11 725	11 725
Total financial assets carried at amortised cost	**134 477 545**	**133 368 983**	**149 959 274**	**144 731 202**

31 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
Financial liabilities carried at amortised cost				
Due to other banks				
Correspondent accounts and overnight placements of other banks	271 069	271 069	455 357	455 357
Term loans of other banks	16 169 014	16 169 014	6 877 142	6 877 142
Term deposits of the CBRF	-	-	1 000 719	1 000 719
Sale and repurchase agreements with other banks	2 000 362	2 000 362	-	-
Customer accounts				
State and public organisations				
- Current/settlement accounts	86	86	3 288	3 288
- Term deposits	-	-	149	149
Corporate entities				
- Current/settlement accounts	23 853 580	23 853 580	19 691 336	19 691 336
- Term deposits	26 597 803	27 012 307	33 921 495	34 472 649
Individuals				
- Current/demand accounts	13 663 506	13 663 506	11 125 549	11 125 549
- Term deposits	53 970 711	53 754 529	47 385 962	46 950 641
Debt securities in issue				
Bonds	7 576 482	8 181 853	11 846 962	12 088 535
Promissory notes	3 033 637	3 137 061	5 427 262	5 737 442
Savings certificates	191 007	191 007	492 375	492 375
Other borrowed funds				
Syndicated loans	129 263	131 831	376 265	390 668
Other financial liabilities				
Settlements on factoring operations	293 500	293 500	450 805	450 805
Payables on plastic card operations	131 192	131 192	104 366	104 366
Accrued liabilities	23 354	23 354	33 498	33 498
Cash transfers	2 327	2 327	5 629	5 629
Other financial liabilities	10 401	10 401	13 684	13 684
Provisions for credit related commitments	143 986	143 986	10 143	10 143
Subordinated debt	4 304 048	4 304 048	4 229 972	4 229 972
Total financial liabilities carried at amortised cost	**152 365 328**	**153 275 013**	**143 451 958**	**144 133 947**

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

31 Fair Value of Financial Instruments (Continued)

	2010			2009		
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**
Financial assets						
Trading securities						
Promissory notes	5 368 879	-	-	811 387	-	-
Corporate bonds	3 334 577	-	-	1 046 124	-	-
Federal loan bonds (OFZ bonds)	1 404 762	-	-	220 156	-	-
Russian Federation Eurobonds	762 981	-	-			
Corporate Eurobonds	437 178	-	-	-	-	145 663
Municipal bonds and bonds of the Russian Federation's regions	20 350	-	-	1 872 542	-	-
Quoted corporate shares	811 938	-	-	930 006	-	-
Global depositary receipts	-	-	-	7 145	-	-
Other financial assets at fair value through profit or loss	-	-	4 000 000	-	-	-
Investment securities available for sale						
Federal loan bonds (OFZ bonds)	10 778 948	-	-	7 444 626	-	-
Corporate bonds	7 073 754	-	-	2 548 199	8 322	-
Municipal bonds and bonds of the Russian Federation's regions	1 416 135	-	-	414 764	-	-
CBRF bonds	446 670	-	-	785 146	-	-
Corporate Eurobonds	425 065	-	-	-	-	-
Debt securities of central banks of non-OECD countries	-	225 446	-	-	16 974	-
State debt securities of non-OECD countries	-	77 667	-	-	93 117	-
Investments in mutual funds	-	-	2 278 798	-	-	-
Private equity fund investments	-	-	483 762	-	-	423 357
Quoted corporate shares	1 465 206	-	-	4 316	-	-
Unquoted corporate shares	-	-	-	-	-	2 271
Other financial assets						
Derivative financial instruments (foreign exchange forward contracts)	-	20 943	-	-	13 127	-
Total financial assets carried at fair value	**33 746 443**	**324 056**	**6 762 560**	**16 084 411**	**131 540**	**571 291**

31 Fair Value of Financial Instruments (Continued)

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy.

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market. The fair value of securities with insignificant trading volumes is based on adjusted market quotes.

Level 3. As at 31 December 2010 investments in mutual funds in the amount of RR 2 278 798 represent investments which have been valued using the values of net assets reported to the Group by the respective fund managers. Private equity fund investments in the amount of RR 483 762 and other financial assets at fair value through profit or loss in the amount of RR 4 000 000 have been valued using discounted cash flows with all significant inputs non-observable in the market.

	2010		**2009**	
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**
Other financial liabilities				
Derivative financial instruments (foreign exchange forward contracts)	-	1 708	-	151 298
Derivative financial instruments (forward contracts on securities' sale)	165 072	3 253	30 750	-
Total financial liabilities carried at fair value	**165 072**	**4 961**	**30 750**	**151 298**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2010 is as follows:

In thousands of Russian Roubles	**Trading securities**	**Other financial assets at fair value through profit or loss**	**Investment securities available for sale**
Fair value at 1 January 2010	**145 663**	**-**	425 628
Gains or losses recognised in profit or loss for the year	(145 663)	-	-
Gains or losses recognised in other comprehensive income	-	-	89 151
Acquisition	-	4 000 000	2 278 798
Disposals	-	-	(31 017)
Fair value at 31 December 2010	**-**	**4 000 000**	**2 762 560**
Revaluation gains less losses recognised in profit or loss for the current or previous years for assets held at 31 December 2010	**(274 292)**	**-**	**-**

32 Presentation of Financial Instruments by Measurement Category

Under IAS 39, *Financial instruments*: recognition and measurement, the Group assigns its financial assets to the following categories: (a) loans and receivables; (b) financial assets available for sale; (c) financial assets at fair value through profit or loss ('FVTPL'). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

In thousands of Russian Roubles	**Loans and receivables**	**Assets available for sale**	**Trading assets**	**Other financial assets designated at fair value through profit or loss**	**Total**
Assets					
Cash and cash equivalents	26 923 394	-	-	-	26 923 394
Mandatory cash balances with central banks	1 188 747	-	-	-	1 188 747
Trading securities	-	-	12 140 665	-	12 140 665
Other securities at fair value through profit or loss	-	-		4 000 000	4 000 000
Due from other banks	530 618	-	-	-	530 618
Loans and advances to customers	105 653 162	-	-	-	105 653 162
Investment securities available for sale	-	24 671 451	-	-	24 671 451
Other financial assets	181 624	-	20 943	-	202 567
Total financial assets	**134 477 545**	**24 671 451**	**12 161 608**	**4 000 000**	**175 310 604**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In thousands of Russian Roubles	**Loans and receivables**	**Assets available for sale**	**Trading assets**	**Total**
Assets				
Cash and cash equivalents	48 284 458	-	-	48 284 458
Mandatory cash balances with central banks	1 147 194	-	-	1 147 194
Trading securities	-	-	5 033 023	5 033 023
Due from other banks	593 056	-	-	593 056
Loans and advances to customers	99 618 623	-	-	99 618 623
Investment securities available for sale	-	11 741 092	-	11 741 092
Other financial assets	315 943	-	13 127	329 070
Total financial assets	**149 959 274**	**11 741 092**	**5 046 150**	**166 746 516**

As of 31 December 2010 and 31 December 2009, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

33 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

33 Related Party Transactions (Continued)

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. A majority stake in IFD Kapital Group is beneficially owned by Mr. Alekperov and Mr. Fedun (the “ultimate beneficiaries”) and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with the Bank’s significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions and other transactions. These transactions are priced at market rates. At 31 December 2010 and 31 December 2009 the outstanding balances with related parties were as follows:

	2010		2009	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Correspondent accounts and overnight deposits with other banks (contractual interest rate: 2010: 0.0% p.a.; 2009: 0.0% p.a.)	-	17 340	-	14 178
Trading securities	-	158 396	-	-
Other financial assets at fair value through profit or loss	-	4 000 000	-	-
Loans and advances to customers				
Loans and advances (contractual interest rate: 2010: 5.0% p.a. - 26.0% p.a.; 2009: 5.0% p.a. - 26.0% p.a.)	74 505	7 684 611	67 740	10 335 158
Provision for impairment of loans and advances to customers	(2 891)	(84 834)	(2 091)	(13 181)
Debt investment securities available for sale (contractual interest rate: 2009: 7.2% p.a. - 9.5% p.a.)	-	-	-	1 440 980
Equity investment securities available for sale	-	2 137 995	-	2 271
Due to other banks				
Correspondent accounts and overnight deposits of other banks (contractual interest rate: 2010: 0.0% p.a.; 2009: 0.0% p.a.)	-	404	-	69
Customer accounts				
Current/settlement accounts (contractual interest rate: 2010: 0.0% p.a. - 1.0% p.a.; 2009: 0.0% p.a.- 2.5% p.a.)	27 038	7 207 801	35 349	5 684 255
Term deposits (contractual interest rate: 2010: 0.5% p.a. - 15.0% p.a.; 2009: 0.5% p.a. - 20.5% p.a.)	7 774 175	15 259 038	7 582 118	21 194 062
Debt securities in issue (contractual interest rate: 2010: 0.0% p.a.; 2009: 0.0% p.a. - 11.6% p.a.)	-	420 182	-	530 637
Other liabilities				
Derivative financial instruments	-	168 325	-	30 750
Subordinated debt (contractual interest rate: 2010: 5.6% p.a.; 2009: 5.6% p.a.)	-	4 304 048	-	4 229 972
Guarantees issued by the Group	-	324 300	-	2 836 039
Guarantees received by the Group	-	160 470	-	161 442
Import letters of credit	-	185 724	-	214 838
Letters of credit for payments in RF	-	-	-	245 948
Assets in trust management	918 261	4 226	962 148	3 922

33 Related Party Transactions (Continued)

The income and expense items with related parties for the years 2010 and 2009 were as follows:

	2010		2009	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Interest income:				
- Debt securities	-	2 363	-	2 190
- Loans to customers	7 074	229 280	7 068	108 908
- Debt investment securities available for sale	-	110 895	-	79 743
- Reverse repurchase agreements	-	257 660	-	80 627
Interest expense:				
- Due to other banks	-	(3)	-	(4)
- Customer accounts	(644 320)	(1 533 475)	(712 684)	(1 324 529)
- Debt securities in issue	-	(5 071)	-	(11 130)
- Subordinated debt	-	(239 280)	-	(156 146)
(Losses less gains)/gains less losses from trading securities	-	(6 897)	-	29 510
Gains less losses from disposal of investment securities available for sale	-	109 976	-	14 417
Gains less losses from derivative financial instruments	-	(85 701)	-	(94 593)
Gains less losses/(losses less gains) from trading in foreign currencies	4 113	(82 268)	507	(834 118)
Gains less losses from disposals of loans	-	62 100	-	4 165 405
Fee and commission income	439	376 902	493	425 623
Fee and commission expense	-	(2)	-	(3)

Aggregate amounts lent to and repaid by related parties during 2010 and 2009 were:

	2010		2009	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Amounts lent to related parties during the period	13 960	24 954 798	18 773	19 927 155
Amounts repaid by related parties during the period	14 247	28 451 201	18 485	10 826 750

The “Shareholders” column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The “Other” column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

33 Related Party Transactions (Continued)

As at 31 December 2010, included in customer accounts are amounts of RR 3 667 931 thousand (2009: RR 1 970 717 thousand) belonging to ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts for the reporting period comprised RR 223 460 thousand (2009: RR 178 218 thousand).

At 31 December 2010, financial assets at fair value through profit or loss included financial assets of RR 4 000 000 thousand (2009: nil) which together represent the fair value of investments in an IFD Kapital Group company, which is not the Group's associate as it is solely managed by another company within IFD Kapital Group, and the fair value of guarantees provided to the Group by IFD Kapital Group in case this investment is sold below RR 4 000 000 thousand. Management of the Group manages these instruments and estimates their financial results together not estimating each instrument separately.

In 2010, the remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 71 113 thousand (2009: RR 84 290 thousand).

34 Principal Subsidiaries

Name	Nature of business	Percentage of the Bank's direct ownership	Percentage of the Group's control	Country of registration
Ukhtabank	Banking	100.00	100.00	Russia
Petrocommerce-Ukraine Bank	Banking	90.06	98.24	Ukraine
Stavropolpromstroybank	Banking	86.05	91.62	Russia
Unibank	Banking	-	100.00	Moldova
OOO PK - Invest	Financial activity	99.99	99.99	Russia

The Group does not have direct ownership in Unibank, but exercises control as the Supervisory Council consists of Vice-presidents of the Bank. In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities on the Russian market.

In November 2010, the Group increased its share in Joint Stock Investment Commercial Industrial and Construction Bank Stavropolie for 0.12% up to 91.62% (2009: 91.5%) due to acquisition of 45 215 ordinary shares.

35 Events After the Reporting Date

In March 2011 the Group increased equity share and effective control in Petrocommerce-Ukraine Bank by purchasing of additional 206 434 505 shares on the first stage of private emission exercising its stockholders' preemptive right.