BANK VOZROZHDENIE

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

31 December 2010

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CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Vozrozhdenie:

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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 financial statements present fairly, in all material respects, the financial position of the Bank 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

28 March 2011
Moscow, Russian Federation

In millions of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	32 151	34 101
Mandatory cash balances with the CBRF		1 072	868
Trading securities	8	12 182	9 756
Due from other banks	9	5 860	6 363
Loans and advances to customers	10	104 046	85 205
Investment securities available for sale	11	2 043	1 312
Premises, equipment and intangible assets	12	3 132	3 102
Other financial assets	13	1 644	1 236
Other assets	14	4 028	3 660
TOTAL ASSETS		**166 158**	**145 603**
LIABILITIES			
Due to other banks	15	7 772	4 368
Customer accounts	16	130 334	113 129
Debt securities in issue	17	5 794	6 364
Subordinated loans	18	4 293	4 578
Other financial liabilities	19	611	576
Other liabilities		494	302
TOTAL LIABILITIES		**149 298**	**129 317**
EQUITY			
Share capital	20	250	250
Share premium	20	7 306	7 306
Retained earnings	21	9 227	8 660
Other reserves		77	70
TOTAL EQUITY		**16 860**	**16 286**
TOTAL LIABILITIES AND EQUITY		**166 158**	**145 603**

Approved for issue and signed on behalf of the Board of Directors on 28 March 2011.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

In millions of Russian Roubles	Note	2010	2009
Interest income	22	13 600	16 954
Interest expense	22	(8 109)	(8 628)
Net interest income		**5 491**	**8 326**
Provision for loan impairment	10	(1 872)	(4 752)
Net interest income after provision for loan impairment		**3 619**	**3 574**
Fee and commission income	23	4 295	4 027
Fee and commission expense	23	(360)	(298)
Losses less gains/Gains less losses from trading securities		(90)	204
Gains from trading in foreign currencies		3 139	3 513
Foreign exchange translation losses		(2 794)	(2 939)
Foreign exchange translation losses less gains		(24)	(3)
Gains less losses from disposals of investment securities available for sale		15	18
Dividend income		2	1
Other operating income		225	147
Administrative and other operating expenses	24	(7 180)	(6 325)
Provision for impairment of other assets	14	(121)	-
Profit before tax		**726**	**1 919**
Income tax expense	25	(145)	(702)
PROFIT FOR THE YEAR		**581**	**1 217**
Other comprehensive income:			
Available-for-sale investments:			
(Losses less gains)/Gains less losses arising during the year	11	(5)	26
Income tax credit/(expense) recorded directly in other comprehensive income	25	12	(8)
Other comprehensive income for the year		**7**	**18**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**588**	**1 235**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in RR per share)			
Ordinary shares	26	23	49
Preference shares with determined dividend amount	26	25	50

In millions of Russian Roubles	Note	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 31 December 2008		**250**	**7 306**	**52**	**7 457**	**15 065**
Total comprehensive income for 2009		**-**	**-**	18	1 217	1 235
Dividends declared	27	-	-	-	(14)	(14)
Balance at 31 December 2009		**250**	**7 306**	**70**	**8 660**	**16 286**
Total comprehensive income for 2010		**-**	**-**	7	581	588
Dividends declared	27	-	-	-	(14)	(14)
Balance at 31 December 2010		**250**	**7 306**	**77**	**9 227**	**16 860**

In millions of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		13 199	16 244
Interest paid		(8 448)	(7 978)
Fees and commissions received		4 267	4 014
Fees and commissions paid		(360)	(298)
Net income received from trading in trading securities		19	47
Net income received from trading in foreign currencies		345	613
Other operating income received		217	160
Administrative and other operating expenses paid		(6 575)	(5 840)
Income tax paid		(633)	(580)
Cash flows from operating activities before changes in operating assets and liabilities		**2 031**	**6 382**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(204)	(713)
Net increase in trading securities		(2 541)	(484)
Net decrease/(increase) in due from other banks		506	(4 338)
Net (increase)/decrease in loans and advances to customers		(20 568)	2 114
Net increase in other financial assets		(425)	(340)
Net decrease in other assets		148	209
Net increase/(decrease) in due to other banks		3 126	(17 679)
Net increase in customer accounts		17 978	21 062
Net (decrease)/increase in debt securities in issue		(333)	416
Net increase in other financial liabilities		26	95
Net increase in other liabilities		41	10
Net cash (used in)/from operating activities		**(215)**	**6 734**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(1 589)	(786)
Proceeds from disposal of investment securities available for sale	11	876	1 916
Acquisition of premises and equipment and intangible assets	12	(511)	(382)
Proceeds from disposal of premises, equipment and intangible assets		8	4
Income from disposal of non-current assets available for sale		63	-
Proceeds from disposal of investment properties		7	-
Dividend income received		2	1
Net cash (used in)/from investing activities		**(1 144)**	**753**
Cash flows from financing activities			
Receipt of funding from international financial institutions		407	766
Repayment of subordinated loans	18	(395)	-
Receipt of subordinated loans	18	91	-
Repayment of syndicated loans		-	(3 307)
Dividends paid	27	(14)	(14)
Net cash from/(used in) financing activities		**89**	**(2 555)**
Effect of exchange rate changes on cash and cash equivalents		**(680)**	**679**
Net (decrease)/increase in cash and cash equivalents		**(1 950)**	**5 611**
Cash and cash equivalents at the beginning of the year		34 101	28 490
Cash and cash equivalents at the end of the year	7	**32 151**	**34 101**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for Bank Vozrozhdenie (the "Bank").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations. The Bank is ultimately de-facto controlled by Mr. D. L. Orlov (2009: Mr. D. L. Orlov).

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law No177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% 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 has 53 (2009: 55) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. In January 2011 the Bank opened a new branch in Voronej. The number of the Bank's employees as at 31 December 2010 was 6 521 (2009: 6 449).

The Bank's Head Office is located at the following address: Luchnikov pereulok, 7/4 bld. 1, 101990, Moscow, Russian Federation.

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

2 Operating Environment of the Bank

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 31). 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.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These 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 and available for sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 3 and 5).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, 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 Bank 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 financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to equity investments that do not have a quoted market price and whose fair value cannot be reliably measured. Refer to Note 11.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. These are costs 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 or received between parties to the contract that are an integral part of the effective interest.

Initial recognition of financial instruments. Trading securities 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.

3 Summary of Significant Accounting Policies (Continued)

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 Bank commits to deliver a financial asset. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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 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. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Trading securities. Trading securities are financial assets 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 Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Bank 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 Bank 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 statement of comprehensive income as interest income. Dividends are included in dividend income when the Bank'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 for the year as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank 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 are recorded when the Bank 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 for the year 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 Bank 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. This rule does not apply to the financial assets recognised in the end of the reporting period (usually in December) for which not enough information has been collected to identify an impairment trigger event. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

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 borrower's financial information that the Bank 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; or
- 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.

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 for the year.

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 profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The acquired non-financial assets are initially recognised at fair value and are included in premises and equipment, long-term assets held for sale, investment property or inventories within other assets depending on their nature and the Bank's intention in respect of use of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

3 Summary of Significant Accounting Policies (Continued)

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs. Subsequently the Bank measures that investment property using the cost model less accumulated depreciation and provision for impairment according to IAS 16, Property, Plant and Equipment.

Land and construction in progress are not depreciated. Depreciation on other items of premises is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the annual rate of 2%.

If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Inventories. Inventories include the assets acquired or held for sale in the normal course of business and also those intended for the use in the course of service provision.

On initial recognition inventories are measured at cost. Subsequently, inventories are measured at the lower of cost and possible net realisable value. Cost of inventories includes all costs of acquisition and other costs of their conditioning for the intended use. Acquisition costs include purchase price, transportation costs and other costs directly attributable to the acquisition. The costs that are excluded from the cost of inventories and are recognised as expenses in the period when they are incurred include: holding costs, administrative overhead costs that are not associated with bringing inventories to their current location; costs to sell. Possible net realisable value is an estimated sales price in the course of normal business less possible costs of work and possible costs to sell.

Write-off of inventories to possible net realisable value is recognised as an expense within profit or loss during the period of write-off or the period of loss. If possible net realisable value increases the written down value of inventories is recovered within the amount not exceeding the earlier recognised loss.

Credit related commitments. The Bank 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. 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 Bank 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 the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale. This classification includes investment securities which the Bank 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.

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 for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank'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 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 year.

Impairment losses are recognised in profit or loss for the year 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 reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

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. 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 the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. 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 for the year.

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%;
Office and computer equipment	15-20%;
Intangible assets	20%.

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

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software.

3 Summary of Significant Accounting Policies (Continued)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. These non-derivative financial liabilities are carried at amortised cost.

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

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

Subordinated loans. Subordinated loans are carried at amortised cost. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank. Subordinated loans are included in the calculation of equity in accordance with Russian Accounting Rules.

Derivative financial instruments. Derivative financial instruments, including forwards agreements and foreign exchange contracts are carried at their fair value.

All derivative instruments are carried as assets when fair value at the end of the reporting period is positive and as liabilities when fair value at the end of the reporting period is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with the legislation enacted or substantively enacted as at the end of the reporting period. 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. 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 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.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are 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 end of the reporting period 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 end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank 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. Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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 share capital. 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. Any 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. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in profit or loss for all debt instruments on an accrual basis using the effective interest 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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank 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.

Foreign currency translation. The functional currency of the Bank and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

3 Summary of Significant Accounting Policies (Continued)

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. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

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

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to shareholders of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the contributions to nonappropriated funds.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. 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

The Bank makes estimates and assumptions that affect the amounts of assets and liabilities recognised in the financial statements 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 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 Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank 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.

A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 91 million (2009: RR 140 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 5% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 597 million (2009: RR 376 million), respectively.

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

Deferred income 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 income tax assets are recorded to the extent that realisation of the related tax benefits is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management that is based on a moderately optimistic scenario of the development of the Russian economy which includes measures undertaken by the government aimed at assuring macro economic equilibrium, stable national currency, consistent lowering of inflation, and investment and consumer demand. Key assumptions used in the business plan: average annual growth of assets is set at 11% until 2015 with the main focus on corporate and retail lending; increase of the efficiency of business processes; achieving pre-crisis financial ratios in 2012.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

5 Adoption of New or Revised Standards and Interpretations

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

The following new standards and interpretations became effective for the Bank 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 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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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

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

(b) Amendments to standards adopted before their effective date

The Bank adopted the amendment to IFRS 7 *Financial Instruments: Disclosures* was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. These amendments clarify certain disclosure requirements, in particular about the nature and extent of financial risks: in particular, by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and 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.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and which the Bank 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.

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.

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.

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.

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.

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.

6 New Accounting Pronouncements (Continued)

- 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 Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

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 Bank is currently assessing the impact of the amended standard on disclosures in its financial statements. The amendment is not expected to have any impact on the Bank's financial statements.

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 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 Bank does not expect the amendments to have any material effect on its financial statements, except the amendment to IFRS 7 which was early adopted by the Bank as explained in Note 5.

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

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2010**	**2009**
Cash on hand	10 792	9 642
Correspondent accounts and overnight placements with other banks		
- Russian Federation	202	633
- other countries	15 823	16 125
Cash balances with the CBRF (other than mandatory reserve deposits)	5 334	7 701
Total cash and cash equivalents	**32 151**	**34 101**

Cash and cash equivalents are not impaired and are not collateralised.

The credit quality of cash and cash equivalents balances as at 31 December 2010 is disclosed in the table below:

In millions of Russian Roubles	**Cash balances with the CBRF (excluding mandatory reserves)**	**Correspondent accounts and overnight placements with banks**	**Total**
Neither past due nor impaired			
- Central bank of the Russian Federation	5 334	-	5 334
- Russian banks not Top-20	-	15	15
- Large OECD banks	-	64	64
- Other OECD banks	-	1 501	1 501
- Other banks	-	1	1
- AA- to AA+ rated	-	8 218	8 218
- A- to A+ rated	-	471	471
- BBB- to BBB+ rated	-	5 642	5 642
- B- to B+ rated	-	7	7
- Unrated	-	106	106
Total cash and cash equivalents, excluding cash on hand	**5 334**	**16 025**	**21 359**

The credit quality of cash and cash equivalents balances as at 31 December 2009 is disclosed in the table below:

In millions of Russian Roubles	**Cash balances with the CBRF (excluding mandatory reserves)**	**Correspondent accounts and overnight placements with banks**	**Total**
Neither past due nor impaired			
- Central bank of the Russian Federation	7 701	-	7 701
- Russian banks not Top-20	-	348	348
- Large OECD banks	-	71	71
- Other OECD banks	-	1 074	1 074
- Other banks	-	9	9
- AA- to AA+ rated	-	6 655	6 655
- A- to A+ rated	-	408	408
- BBB- to BBB+ rated	-	8 122	8 122
- Unrated	-	71	71
Total cash and cash equivalents, excluding cash on hand	**7 701**	**16 758**	**24 459**

7 Cash and Cash Equivalents (Continued)

The credit ratings are based on Standard & Poor's ratings where available or Moody's ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

As at 31 December 2010 fair value of cash and cash equivalents equals to RR 32 151 million (2009: RR 34 101 million). Refer to Note 33.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 29.

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 millions of Russian Roubles	2010	2009
Non-cash operating activities		
Other assets acquired by the Bank in settlements of overdue loans and advances to customers	216	3 500
Repayment of loans and advances to customers by non-cash assets	(216)	(3 500)
Non-cash operating activities	**-**	**-**

Additional information on non-cash transactions is disclosed in Note 14 with a detailed description of assets acquired by the Bank in settlements of overdue loans and advances to customers.

8 Trading Securities

In millions of Russian Roubles	2010	2009
CBRF bonds	4 588	3 429
VneshEconomBank 3% coupon bonds (VEB bonds)	3 898	308
Corporate bonds	1 869	3 571
Municipal bonds	1 126	1 584
Corporate Eurobonds	431	701
Federal loan bonds (OFZ bonds)	269	-
Russian Federation Eurobonds	-	162
Total debt securities	12 181	9 755
Corporate shares	1	1
Total trading securities	**12 182**	**9 756**

The entire trading securities portfolio includes trading securities quoted on the market.

8 Trading Securities (Continued)

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

In millions of Russian Roubles	CBRF bonds	Vnesh-Econom-Bank 3% coupon bonds (VEB bonds)	Corporate bonds	Municipal bonds	Corporate Euro-bonds	Federal loan bonds (OFZ)	Total
Neither past due nor impaired (at fair value)							
- BBB- to BBB+ rated	4 588	3 898	1 577	1 060	193	269	11 585
- BB- to BB+ rated	-	-	292	-	238	-	530
- B- to B+ rated	-	-	-	54	-	-	54
- Unrated	-	-	-	12	-	-	12
Total neither past due nor impaired	**4 588**	**3 898**	**1 869**	**1 126**	**431**	**269**	**12 181**
Total debt trading securities	**4 588**	**3 898**	**1 869**	**1 126**	**431**	**269**	**12 181**

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

In millions of Russian Roubles	CBRF bonds	Vnesh-Econom-Bank 3% coupon bonds (VEB bonds)	Corporate bonds	Municipal bonds	Corporate Euro-bonds	Russian Federa-tion Euro-bonds	Total
Neither past due nor impaired (at fair value)							
- BBB- to BBB+ rated	3 429	308	2 678	1 539	418	162	8 534
- BB- to BB+ rated	-	-	671	-	283	-	954
- B- to B+ rated	-	-	-	31	-	-	31
- Unrated	-	-	222	14	-	-	236
Total neither past due nor impaired	**3 429**	**308**	**3 571**	**1 584**	**701**	**162**	**9 755**
Total debt trading securities	**3 429**	**308**	**3 571**	**1 584**	**701**	**162**	**9 755**

The credit ratings are based on Standard & Poor's ratings where available or Moody's ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

8 Trading Securities (Continued)

CBRF bonds are zero-coupon bonds denominated in Russian Roubles issued by the Central Bank of Russian Federation. These bonds are issued at a discount to face value. These bonds have maturity dates in March 2011 (2009: in March and June 2010) and yield to maturity of 3.6% p.a. (2009: from 5.3% to 6.7% p.a.).

VEB bonds are interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and have coupon rate of 3.0% p.a. (2009: 3.0% p.a.). These bods have maturity date in May 2011 (2009: May 2011) and yield to maturity of 1.7% p.a. (2009: 3.0% p.a.).

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies and freely tradable in the Russian Federation. These bonds have maturity dates from July 2011 to April 2019 (2009: from February 2010 to June 2018), coupon rate from 8.5% to 16.8% p.a. (2009: from 8.2% to 16.5% p.a.), and yield to maturity from 5.6% to 7.4% p.a. (2009: from 4.3% to 14.3% p.a.), depending on the type of bond issue.

Municipal bonds are interest bearing securities denominated in Russian Roubles issued by Russian regional authorities and are freely tradable in the Russian Federation, and interest bearing securities denominated in Euro issued under guarantees of the Moscow Government and freely tradable internationally. These bonds have maturity dates from March 2011 to October 2011 (2009: from March 2010 to August 2011), interest rate from 6.5% to 10.0% p.a. (2009: from 6.8% to 10.0% p.a.) and yield to maturity from 1.8% to 7.1% p.a. (2009: from 7.0% to 11.3% p.a.) depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from June 2011 to October 2011 (2009: from February 2010 to July 2011), coupon rate from 6.9% to 9.0% p.a. (2009: from 6.9% to 8.4% p.a.), and yield to maturity from 1.7% to 3.5% p.a. (2009: from 1.6% to 4.5% p.a.) depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates in June-July 2011, coupon rate from 4.6% to 10.6% p.a. and yield to maturity from 4.4% to 4.5% p.a. depending on the type of bond issue.

Corporate shares are shares of Russian companies.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Trading securities are used by the Bank basically for managing liquidity risk.

Geographical, currency, interest rate and maturity analyses of trading securities are disclosed in Note 29.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

9 Due from Other Banks

In millions of Russian Roubles	**2010**	**2009**
Deposits with the CBRF	4 500	4 000
Short-term placements with other banks	1 055	2 104
Insurance deposits with non-resident banks	305	259
Total due from other banks	**5 860**	**6 363**

9 Due from Other Banks (Continued)

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

In millions of Russian Roubles	**Placements with CBRF**	**Short term placements with other banks**	**Insurance deposits with banks-non residents**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	4 500	-	-	4 500
- Russian banks not Top-20	-	600	-	600
- Large OECD banks	-	-	305	305
- A- to A+ rated	-	2	-	2
- BBB- to BBB+ rated	-	300	-	300
- B- to B+ rated	-	153	-	153
Total neither past due nor impaired	**4 500**	**1 055**	**305**	**5 860**
Total due from other banks	**4 500**	**1 055**	**305**	**5 860**

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

In millions of Russian Roubles	**Placements with CBRF**	**Short term placements with other banks**	**Insurance deposits with banks-non residents**	**Total**
Neither past due nor impaired				
- Central Bank of the Russian Federation	4 000	-	-	4 000
- Russian banks not Top-20	-	1 200	-	1 200
- Large OECD banks	-	-	259	259
- A- to A+ rated	-	3	-	3
- BBB- to BBB+ rated	-	751	-	751
- BB- to BB+ rated	-	150	-	150
Total neither past due nor impaired	**4 000**	**2 104**	**259**	**6 363**
Total due from other banks	**4 000**	**2 104**	**259**	**6 363**

The credit ratings are based on Standard & Poor's ratings where available or Moody's ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

As at 31 December 2010 the Bank had short-term deposits placed with the CBRF in the amount of RR 4 500 million (2009: RR 4 000 million) with maturity date in January 2011 (2009: January 2010) and contractual interest rate of 3.0% p.a. (2009: 4.0% p.a.). Deposits with the CBRF are not collateralised.

As at 31 December 2010 the Bank had short-term deposits of RR 1 055 million with maturity dates in January 2011 and contractual interest rates from 0.5% to 3.2% p.a. placed with top 50 banks of Russia in terms of equity (2009: RR 2 104 million with maturity date in January 2010 and contractual interest rate from 4.2% to 4.3% p.a. placed with top 50 banks of Russia in terms of equity). All amounts due from other banks are neither past due nor impaired. Amounts due from other banks are not collateralised.

The Bank has a significant concentration of credit risk with the CBRF. In total, credit risk exposure to the CBRF is estimated to have amounted to RR 15 494 million (2009: RR 15 998 million) comprising cash and cash equivalents, mandatory reserve deposits with the CBRF and other amounts due from other banks and trading securities.

9 Due from Other Banks (Continued)

As at 31 December 2010 under with the requirements of Visa International payment system, the Bank placed an insurance deposit of RR 305 million at LIBOR rate with a non-resident bank located in the United Kingdom for the purpose of banking card settlements (2009: RR 259 million).

At 31 December 2010 the estimated fair value of due from other banks was RR 5 860 million (2009: RR 6 363 million). Refer to Note 33 for the estimated fair value of each class of amounts due from other banks.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29.

10 Loans and Advances to Customers

In millions of Russian Roubles	**2010**	**2009**
Corporate loans - large	31 715	25 657
Corporate loans - medium	48 206	38 683
Corporate loans - small	18 705	16 194
Mortgage loans	9 806	7 914
Other loans to individuals	6 804	6 196
Total loans and advances to customers (before impairment)	**115 236**	**94 644**
Less: Provision for loan impairment	(11 190)	(9 439)
Total loans and advances to customers	**104 046**	**85 205**

In accordance with the annually approved Credit policy loans are divided into corporate and retail. Taking into consideration the Bank's customer policy requirements for 2010 the corporate portion of borrowers is further divided on the basis of total amount owed by the customer into the following categories: large – in excess of RR 750 million, medium – from RR 100 million to RR 750 million, small – less than RR 100 million (2009: large - in excess of RR 750 million, medium – from RR 100 million to RR 750 million, small – less than RR 100 million). Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans and bank card loans.

Movements in the provision for loan impairment during 2010 are as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2010	**1 631**	**4 129**	**2 660**	**449**	**570**	**9 439**
Provision for impairment during the year	383	957	476	31	25	1 872
Amounts written off during the year as uncollectible	-	-	(110)	-	(11)	(121)
Provision for loan impairment at 31 December 2010	**2 014**	**5 086**	**3 026**	**480**	**584**	**11 190**

Movements in the provision for loan impairment during 2009 are as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2009	**732**	**1 700**	**1 722**	**192**	**411**	**4 757**
Provision for impairment during the year	899	2 429	1 003	257	164	4 752
Amounts written off during the year as uncollectible	-	-	(65)	-	(5)	(70)
Provision for loan impairment at 31 December 2009	**1 631**	**4 129**	**2 660**	**449**	**570**	**9 439**

10 Loans and Advances to Customers (Continued)

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

	2010		2009	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	28 261	24	19 507	21
Trade	27 118	24	20 198	21
Individuals	16 610	14	14 110	15
Construction	10 251	9	7 830	8
State and public organisations	8 097	7	11 862	13
Transport and communications	6 849	6	5 068	5
Agriculture	4 406	4	3 823	4
Finance	2 916	3	6 087	6
Other	10 728	9	6 159	7
Total loans and advances to customers (before impairment)	**115 236**	**100**	**94 644**	**100**

State and public organisations exclude government owned profit orientated businesses.

As at 31 December 2010 loans and advances to customers include loans with the carrying amount of RR 3 004 million, with the rights of claim pledged as collateral with respect to term placements of other banks. See Note 15 and 31.

At 31 December 2010 the Bank had 23 borrowers with aggregated loan amounts equal or above RR 750 million. The total aggregate amount of these loans was RR 31 715 million or 27.5% of the gross loan portfolio.

At 31 December 2009 the Bank had 17 borrowers with aggregated loan amounts equal or above RR 750 million. The total aggregate amount of these loans was RR 25 657 million or 27.1% of the loan portfolio.

The Bank usually issues loans in case there is a liquid and sufficient collateral that is documented in accordance with legally established procedures (except for some credit products used for lending to individuals, overdrafts without collateral, loans to subjects of the Russian Federation and municipal organisations, factoring financing, loans assessed on an individual basis and authorised for granting without collateral). Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- motor vehicles
- goods in turnover;
- guarantee deposit;
- banking guarantee;
- state (municipal) guarantee;
- Bank's promissory notes;
- liquid securities;
- refined precious metals (gold, silver, platinum and palladium);
- vested interest (for demand) implied from commitments under an agreement.

In 2010 the Bank resumed lending to corporate borrowers against collateral of goods and materials and granting overdraft loans without collateral. Loans collateralised by inventories may be provided once a positive decision is taken by the authorised body of the Bank's Central Office.

Loans collateralised by third parties may be issued once the third parties provide their guarantees as collateral. In this case:

- the financial position of a guarantor-legal entity should be classified as not worse than average in accordance with the Bank's internal methodologies on evaluation of financial position;
- the financial position of an individual guarantor should be classified as good in accordance with the Bank's internal methodologies on evaluation of financial position; A guarantee of an individual provided as collateral for the loan issued by Bank to a legal entity is possible only if it is an additional pledge, and other main collateral that complies with the Bank's internal regulations does exist.

10 Loans and Advances to Customers (Continued)

Pledged real estate property (except for land), equipment, motor vehicles and inventory items should be insured. The insured amount of the collateral should be not less than its collateral value, the term of the insurance contract should expire not earlier than one month after the loan maturity date.

Loans to individuals may be collateralised by the following:

- real estate purchased under the mortgage agreement;
- real estate owned by individuals;
- motor vehicles;
- guarantees of third parties, in particular employers of an individual borrower;
- pledge of right of claim on the individual's deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk the Bank uses insurance by borrowers of the subject of pledge, the individual borrower's life and disability or accident insurance.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Bank's potential expenses associated with the fulfilment of debtor's obligations. The liquidity of the collateral is assessed on the basis of the term during which it can be realised.

Information about collateral at 31 December 2010 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	5 613	7 404	2 046	707	1 140	16 910
Loans collateralised by:						
residential real estate	-	-	-	8 999	1 399	10 398
other real estate	13 928	24 127	8 273	-	-	46 328
equipment, inventories, motor vehicles	3 978	8 791	6 001	-	483	19 253
securities (promissory notes, shares)	-	-	22	1	10	33
cash deposits	-	116	17	-	51	184
state guarantees and guarantees of the RF constituents	-	1 571	507	-	-	2 078
other guarantees and third parties' guarantees	5 061	3 266	1 694	97	2 458	12 576
other assets (other types of property, rights)	3 135	2 931	145	2	1 263	7 476
Total loans and advances to customers (before impairment)	**31 715**	**48 206**	**18 705**	**9 806**	**6 804**	**115 236**

Information about collateral at 31 December 2009 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	9 605	5 234	1 789	1	965	17 594
Loans collateralised by:						
residential real estate	-	-	-	6 680	818	7 498
other real estate	7 603	19 666	7 763	-	-	35 032
equipment, inventories, motor vehicles	3 323	5 881	5 033	-	529	14 766
securities (promissory notes, shares)	333	153	79	319	18	902
cash deposits	-	101	90	-	30	221
state guarantees and guarantees of the RF constituents	-	1 417	542	-	-	1 959
other guarantees and third parties' guarantees	4 685	3 687	740	132	3 755	12 999
other assets (other types of property, rights)	108	2 544	158	782	81	3 673
Total loans and advances to customers (before impairment)	**25 657**	**38 683**	**16 194**	**7 914**	**6 196**	**94 644**

10 Loans and Advances to Customers (Continued)

Unsecured corporate loans mainly represent loans to the constituents of the Russian Federations and municipalities, as well as overdraft loans. Unsecured loans to individuals mainly represent mortgage loans, whose mortgage documents are being registered with the state bodies, as well as loans issued using banking cards.

The collateral value of property is determined when the loan is issued in accordance with the Bank's effective procedure based on the system of discounts that are applied to the estimated market value and are equal to 25-40% (except for promissory notes and shares of the Bank) (in 2009 discount was not less than 40%) depending on the valuation date and the credit product's life.

In addition, the Bank has a right for acceptance-free write-off from the borrower's settlement and current accounts in the Bank in case of non-fulfilment of loan contract obligations by the borrower.

Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of property is confirmed by the report on real estate market valuation prepared by a valuation company not earlier than two months prior to execution of pledge contract, transaction price of the acquired property or transaction price of similar property. If there is more than one transaction with identical property, market value is determined on the basis of the lowest transaction price.

Bank card loans are secured by guarantees (except for loans with a limit up to one hundred thousand roubles where collateral is not required for certain categories of borrowers), life and disability insurance. If required and depending upon the amount of a credit limit, the borrower's occupation and place of work, the Bank may request additional collateral in the form of a pledge.

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired						
- Large borrowers with credit history over two years	17 805	-	-	-	-	17 805
- Large new borrowers	10 974	-	-	-	-	10 974
- Loans to medium size entities	-	3 042	-	-	-	3 042
- Loans assessed on a portfolio basis	-	39 792	15 960	9 327	6 258	71 337
Total neither past due nor impaired	**28 779**	**42 834**	**15 960**	**9 327**	**6 258**	**103 158**
Past due but not impaired						
- less than 30 days overdue	-	200	29	169	55	453
- 30 to 90 days overdue	-	2	-	34	6	42
- 91 to 180 days overdue	-	223	-	20	8	251
- 181 to 360 days overdue	-	-	-	17	5	22
Total past due but not impaired	**-**	**425**	**29**	**240**	**74**	**768**
Loans collectively determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	56	-	12	68
- 91 to 180 days overdue	-	-	26	-	11	37
- 181 to 360 days overdue	-	100	68	-	23	191
- over 360 days overdue	-	870	2 347	-	181	3 398
Total collectively impaired loans (gross)	**-**	**970**	**2 497**	**-**	**227**	**3 694**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	2 086	914	-	-	-	3 000
- 30 to 90 days overdue	-	-	-	-	8	8
- 91 to 180 days overdue	-	16	-	-	6	22
- 181 to 360 days overdue	-	1 180	86	-	13	1 279
- over 360 days overdue	850	1 867	133	239	218	3 307
Total individually impaired loans (gross)	**2 936**	**3 977**	**219**	**239**	**245**	**7 616**
Less impairment provisions	(2 014)	(5 086)	(3 026)	(480)	(584)	(11 190)
Total loans and advances to customers	**29 701**	**43 120**	**15 679**	**9 326**	**6 220**	**104 046**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired						
- Large borrowers with credit history over two years	15 201	-	-	-	-	15 201
- Large new borrowers	7 536	-	-	-	-	7 536
- Loans to medium size entities	-	1 148	-	-	-	1 148
- Loans assessed on a portfolio basis	-	31 501	12 500	7 391	5 463	56 855
- Loans renegotiated in 2009	2 070	1 732	641	37	62	4 542
Total neither past due nor impaired	**24 807**	**34 381**	**13 141**	**7 428**	**5 525**	**85 282**
Past due but not impaired						
- less than 30 days overdue	-	-	55	136	153	344
- 30 to 90 days overdue	-	300	-	56	33	389
- 91 to 180 days overdue	-	-	-	39	-	39
- 181 to 360 days overdue	-	-	-	108	-	108
Total past due but not impaired	**-**	**300**	**55**	**339**	**186**	**880**
Loans collectively determined to be impaired (gross)						
- 30 to 90 days overdue	-	-	188	-	23	211
- 91 to 180 days overdue	-	197	391	-	31	619
- 181 to 360 days overdue	-	425	751	-	81	1 257
- over 360 days overdue	-	248	1 433	-	101	1 782
Total collectively impaired loans (gross)	**-**	**870**	**2 763**	**-**	**236**	**3 869**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	-	1 536	-	-	-	1 536
- 30 to 90 days overdue	-	26	-	-	-	26
- 91 to 180 days overdue	850	424	-	-	30	1 304
- 181 to 360 days overdue	-	811	94	-	59	964
- over 360 days overdue	-	335	141	147	160	783
Total individually impaired loans (gross)	**850**	**3 132**	**235**	**147**	**249**	**4 613**
Less impairment provisions	(1 631)	(4 129)	(2 660)	(449)	(570)	(9 439)
Total loans and advances to customers	**24 026**	**34 554**	**13 534**	**7 465**	**5 626**	**85 205**

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and booked portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan at the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Past due but not impaired loans represent collateralised loans where the fair value of collateral subject to discounting covers the overdue interest and principal repayments. 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.

At 31 December 2010 the estimated fair value of loans and advances to customers was RR 103 990 million (2009: RR 84 945 million). Refer to Note 33 for the estimated fair value of each class of loans and advances to customers.

10 Loans and Advances to Customers (Continued)

In 2010, the Bank did not issue loans at rates below market. In 2009, a loss on initial recognition of loans at rates below market of RR 1 million was recognised in profit or loss within administrative and other operating expenses.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

In millions of Russian Roubles	**2010**	**2009**
Municipal bonds	1 171	-
Corporate Eurobonds	197	701
Russian Federation Eurobonds	122	-
Corporate bonds	111	115
Total debt securities	1 601	816
Corporate shares	442	496
Total investment securities available for sale	**2 043**	**1 312**

Analysis by credit quality of debt securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Municipal bonds**	**Corporate eurobonds**	**Russian Federation Eurobonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)					
- BBB- to BBB+ rated	1 171	-	122	54	1 347
- BB- to BB+ rated	-	197	-	57	254
Total neither past due nor impaired	**1 171**	**197**	**122**	**111**	**1 601**
Total debt securities available for sale	**1 171**	**197**	**122**	**111**	**1 601**

Analysis by credit quality of debt securities available for sale outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	**Corporate eurobonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	-	56	56
- BB- to BB+ rated	701	59	760
Total neither past due nor impaired	**701**	**115**	**816**
Total debt securities available for sale	**701**	**115**	**816**

The credit ratings are based on Standard & Poor's ratings where available or Moody's ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

11 Investment Securities Available for Sale (Continued)

Municipal loans represent interest bearing securities denominated in Euro issued under the guarantees of the Moscow Government and are freely tradable internationally. The bonds mature in October 2011 and have coupon rates of 6.5% p.a. and yield to maturity of 1.8% p.a.

Corporate Eurobonds are represented by interest bearing securities denominated in USD and Euro issued by large Russian companies. These bonds mature in October 2011 and January 2012 (2009: in March and December 2010), have a coupon rate from 8.0% to 8.4% p.a. and yield to maturity from 1.9% to 2.7% p.a. (2009: from 9.2% to 10.1% p.a.) depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The bonds mature in April 2015 and have coupon rates of 3.6% p.a. and yield to maturity of 3.7% p.a.

Corporate bonds are represented by bonds denominated in Russian Roubles issued by two Russian companies. These bonds have maturity dates in May 2014 and April 2019 (2009: May 2014 and April 2019), coupon rate from 16.7% to 16.8% p.a. (2009: from 16.7% to 16.8% p.a.), and yield to maturity of 5.7% p.a. (2009: from 8.9% to 9.9% p.a.), depending on the type of bond issue.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. Debt investment securities available for sale are carried at fair value which also reflects any credit risk related write-downs. As debt investment securities available for sale are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Debt investment securities available for sale are not collateralised.

Equity investment securities available for sale with a carrying value of RR 77 million (2009: RR 95 million) are traded on active markets and their fair value is determined by reference to the current market value at the end of the reporting period. The remaining debt investment securities available for sale with a carrying value of RR 365 million (2009: RR 401 million) are not publicly traded and measured at cost. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For assessment of potential impairment of these investments the Bank attracted an independent appraiser.

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

In millions of Russian Roubles	**2010**	**2009**
Carrying amount at 1 January	**1 312**	**2 364**
Fair value gains less losses	(5)	26
Interest income accrued	4	11
Interest income received	55	22
Purchases	1 589	786
Disposals of investment securities available for sale	(876)	(1 916)
Write-off of investment securities available for sale	(30)	-
Other	(6)	19
Carrying amount at 31 December	**2 043**	**1 312**

Geographical, currency, interest rate and maturity analyses of investment securities available for sale are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

12 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Premises	Office and computer equip-ment	Construc-tion in progress	Total premises and equipment	Computer software licences	Total
Carrying amount at 31 December 2008		**1 886**	**1 276**	**11**	**3 173**	**61**	**3 234**
Cost at 31 December 2008							
Balance at the beginning of the year		2 222	2 896	11	5 129	118	5 247
Additions		-	299	60	359	23	382
Transfers		8	-	(8)	-	-	-
Disposals		(2)	(120)	-	(122)	-	(122)
Cost at the end of the year		**2 228**	**3 075**	**63**	**5 366**	**141**	**5 507**
Accumulated depreciation							
Balance at the beginning of the year		336	1 620	-	1 956	57	2 013
Depreciation charge	24	45	428	-	473	26	499
Disposals		(2)	(105)	-	(107)	-	(107)
Balance at the end of the year		**379**	**1 943**	**-**	**2 322**	**83**	**2 405**
Carrying amount at 31 December 2009		**1 849**	**1 132**	**63**	**3 044**	**58**	**3 102**
Cost at 31 December 2009							
Balance at the beginning of the year		2 228	3 075	63	5 366	141	5 507
Additions		100	393	29	522	10	532
Transfers		75	-	(75)	-	-	-
Disposals		(5)	(112)	-	(117)	-	(117)
Cost at the end of the year		**2 398**	**3 356**	**17**	**5 771**	**151**	**5 922**
Accumulated depreciation							
Balance at the beginning of the year		379	1 943	-	2 322	83	2 405
Depreciation charge	24	46	424	-	470	29	499
Disposals		(4)	(110)	-	(114)	-	(114)
Balance at the end of the year		**421**	**2 257**	**-**	**2 678**	**112**	**2 790**
Carrying amount at 31 December 2010		**1 977**	**1 099**	**17**	**3 093**	**39**	**3 132**

Construction in progress consists of construction and refurbishment of the Head Office and branch premises. Upon completion, assets are transferred to premises and equipment.

13 Other Financial Assets

In millions of Russian Roubles	2010	2009
Receivables and advance payments	636	399
Settlements with currency and stock exchanges	506	368
Credit and debit cards receivables	392	418
Precious metals	56	11
Other	54	40
Total other financial assets	**1 644**	**1 236**

Other financial assets are not impaired and are not collateralised.

At 31 December 2010 the estimated fair value of other financial assets was RR 1 644 million (2009: RR 1 236 million). Refer to Note 33 for the estimated fair value of each class of other financial assets.

Geographical, currency and maturity analyses of financial assets are disclosed in Note 29.

14 Other Assets

In millions of Russian Roubles	Note	2010	2009
Inventories		2 827	2 356
Investment properties		601	609
Deferred income tax asset	25	566	52
Non-current assets held for sale		114	536
Other		42	108
Total other assets (before provision for impairment for other assets)		**4 150**	**3 661**
Less provision for impairment		(122)	(1)
Total other assets		**4 028**	**3 660**

Inventories represent real estate assets, equipment, motor vehicles, inventory acquired by the Bank in settlement of overdue loans. The assets do not meet the definition of investment property and non-current assets held for sale and are classified as inventories in accordance with IAS 2, Inventories. The assets were initially recognised at cost when acquired. All of the above assets are expected to be realised within more than twelve months after the year-end. A decision on the use of the repossessed property is taken by the Bank's Management Board or the Board of Directors. In June 2009, to ensure operational management of the repossessed assets the Bank established a separate business unit – Restructured Assets Department - responsible for dealing with non-core assets, determining the most efficient areas and forms of dealing with property, attracting independent experts and appraisers to determine the actual value of property, and analysing the sales market in order to attract potential buyers and lessees

Investment property includes non-residential premises and land plots repossessed by the Bank in settlements of overdue loans and leased out under operating lease.

Movements in the carrying value of investment properties in 2010 are as follows:

In millions of Russian Roubles	2010	2009
Carrying value of investment properties as at 1 January	**609**	**-**
Additions	5	610
Disposal	(9)	
Depreciation	(4)	(1)
Impairment loss provision	(111)	-
Cost of investment properties as at 31 December	**490**	**609**

The Bank measures the investment property using the cost model less accumulated depreciation and provision for impairment, if necessary.

The rental income from investment properties was RR 21 million (2009: RR 5 million). Direct operating expenses for investment properties that generate rental income amounted to RR 10 million (2009: RR 2 million) and consisted of costs related to property tax, insurance, security, utility services as well as depreciation charges. The Bank did not incur direct operating expenses for investment properties that did not generate rental income in 2010.

The Bank estimated the recoverable amount of investment property as at 31 December 2010. At 31 December 2010 the estimated fair value of investment properties was RR 596 million (2009: RR 818 million). The comparative sales method as well as express valuation by specialized valuation company were used to assess the estimated fair value of investment property. In this context the Bank and a specialized valuation company analysed price and other information with regards to similar properties. The sources of information included Internet publications containing advertisements on the sale/lease of similar properties, and web-sites of real estate agencies and other information.

The portfolio of assets held for sale consists of real estate, equipment and office buildings acquired by the Bank in settlements of overdue loans. The Bank actively markets these assets and expects to dispose of these assets by December 2011. At the end of 2010 the Bank made a reclassification of assets held for sale in the amount of RR 489 million to inventories due to increase of the period for expected sale.

Tangible assets acquired by the Bank in settlements of overdue loans did not require the use of cash and cash equivalents and therefore were not included in the statement of cash flows (refer to Note 7).

15 Due to Other Banks

In millions of Russian Roubles	2010	2009
Placements of other banks	6 936	1 758
Correspondent accounts of other banks	836	304
Short-term placements of the CBRF	-	2 306
Total due to other banks	**7 772**	**4 368**

At 31 December 2010, included in placements of other banks are deposits of banks in the amount of RR 6 936 million with maturity dates from March 2011 to January 2017 and contractual interest rates from 1.1% to 7.2% p.a. At 31 December 2009, included in placements of other banks are deposits of non-resident banks in the amount of RR 1 758 million with maturity dates from February 2010 to August 2018 and contractual interest rates from 1.2% to 7.3% p.a.

In December 2010, the Bank and the Russian Bank for Development (RBD) signed a loan agreement on issuing funds to extend loans to small and medium enterprises as part of the programme on providing state support to SME implemented by RBD. Under this agreement the Bank attracted a deposit of RR 3 000 million at the rate of 6.0% p.a. with maturity in November 2015. This deposit is included in placements of other banks. The rights of claim for the loans issued under these agreements were pledged for the Bank's liabilities to its creditors. Refer to Note 31.

In 2010 the Bank continued participating in the program of the European Bank for Reconstruction and Development (EBRD) of lending to small and medium businesses including individual entrepreneurs.

Under the terms of the agreement with EBRD the Bank should comply with a number of financial covenants. As at 31 December 2010 the Bank breached one of the covenants. Refer to Note 31. As at 31 December 2009 the Bank was in compliance with the covenants.

At 31 December 2010 the estimated fair value of due to other banks was RR 7 803 million (2009: RR 4 369 million). Refer to Note 33 for the estimated 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 29.

16 Customer Accounts

In millions of Russian Roubles	2010	2009
State and public organisations		
- Current/settlement accounts	245	319
- Term deposits	1 501	-
Other legal entities		
- Current/settlement accounts	28 201	24 253
- Term deposits	15 136	19 993
Individuals		
- Current/demand accounts	16 539	14 088
- Term deposits	68 712	54 476
Total customer accounts	**130 334**	**113 129**

State and public organisations exclude government owned profit orientated businesses.

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	2010 Amount	2010 %	2009 Amount	2009 %
Individuals	85 251	65	68 564	60
Finance	12 594	10	12 167	11
Trade	10 341	8	11 428	10
Manufacturing	6 129	5	5 382	5
Transport and communications	3 663	3	4 414	4
Construction	3 335	3	5 385	5
State and public organisations	1 746	1	319	-
Agriculture	1 358	1	810	1
Other	5 917	4	4 660	4
Total customer accounts	**130 334**	**100**	**113 129**	**100**

At 31 December 2010 the Bank had 16 customers with balances above RR 300 million. The aggregate balance of these customers was RR 15 528 million or 11.9% of total customer accounts.

At 31 December 2009 the Bank had 29 customers with balances above RR 200 million. The aggregate balance of these customers was RR 20 229 million or 17.9% of total customer accounts.

At 31 December 2010 the estimated fair value of customer accounts was RR 130 963 million (2009: RR 112 974 million). Refer to Note 33 for the estimated fair value of each class of customer accounts.

Geographical, currency, interest rate and maturity analyses of customer accounts are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

17 Debt Securities in Issue

In millions of Russian Roubles	2010	2009
Promissory notes	5 534	3 055
Deposit certificates	260	222
Debentures	-	3 087
Total debt securities in issue	**5 794**	**6 364**

At 31 December 2010 promissory notes in issue had maturity dates from January 2011 to December 2011 (2009: from January 2010 to November 2011) and effective interest rates from 1.0% to 10.3% p.a. (2009: from 1.0% to 15.0% p.a.).

At 31 December 2010 deposit certificates in issue had maturity dates from January 2011 to October 2011 (2009: from January 2010 to December 2010) and effective interest rates from 4.5% to 9.8% p.a. (2009: from 6.0% to 15.0% p.a.).

At 31 December 2009 the Bank's debt securities in issue included bonds issued on the domestic market in the amount of RR 3 087 million and a nominal value of RR 3 000 million. The coupon rate was 8.95% p.a. In March 2010 the Bank redeemed its bonds in compliance with the terms and conditions of the issue.

At 31 December 2010 the estimated fair value of debt securities in issue was RR 6 109 million (2009: RR 6 258 million). Refer to Note 33 for the estimated 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 29. Information on debt securities in issue held by related parties is disclosed in Note 35.

18 Subordinated Loans

Subordinated loans represent long-term deposits of the Bank's customers, which mature from 2011 to 2018 and bear contractual interest rates ranging from 2.25% to 9.21% p.a. (2009: from 2.25% to 9.21% p.a.). The contractual interest rates are regularly revised in accordance with the terms of the subordinated loans agreements No.9 and No.10. The debt ranks after all other creditors in case of liquidation. The details of subordinated loans attracted by the Bank are disclosed in the table below:

				2010		2009	
	Start date	**Maturity date**	**Currency**	**Contractual interest rate, %**	**Value, RR million**	**Contractual interest rate, %**	**Value, RR million**
Subordinated loan 1	May 2000	April 2011	USD	2,25	241	2,25	229
Subordinated loan 2	June 2002	June 2010	USD	-	-	8,00	91
Subordinated loan 3	July 2004	July 2012	USD	-	-	8,00	303
Subordinated loan 4	June 2005	June 2013	USD	5,75	305	5,75	303
Subordinated loan 5	December 2005	December 2013	USD	8,00	214	8,00	212
Subordinated loan 6	March 2006	March 2014	USD	6,50	153	6,50	151
Subordinated loan 7	May 2006	May 2014	USD	6,50	91	6,50	91
Subordinated loan 8	June 2006	June 2014	USD	6,50	153	6,50	151
Subordinated loan 9	December 2006	December 2013	RR	7,75	1 000	8,75	1 000
Subordinated loan 10	April 2007	April 2014	RR	7,75	500	8,75	500
Subordinated loan 11	July 2008	August 2018	USD	9,21	1 545	9,21	1 547
Subordinated loan 12	August 2010	August 2018	USD	8,00	91	-	-
Total subordinated loans					**4 293**		**4 578**

On 15 June 2010 the Bank repaid its subordinated loan No.2 in the amount of USD 3 million received from a related party.

On 6 August 2010 the Bank early repaid its subordinated loan No. 3 of USD 10 million.

Under the terms of the agreement on subordinated loan No.11, the Bank should comply with a number of financial covenants. As at 31 December 2010, the Bank breached one of such covenants. Refer to Note 31.

At 31 December 2010 the estimated fair value of subordinated loans was RR 4 404 million (2009: RR 4 851 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 29. Subordinated loans No. 5, 12 were received by the Bank from a related party. Refer to Note 35.

19 Other Financial Liabilities

Other financial liabilities comprise the following:

In millions of Russian Roubles	**2010**	**2009**
Debit or credit card payables	489	359
Trade payables	97	197
Settlements on conversion operations	1	1
Other liabilities	24	19
Total other financial liabilities	**611**	**576**

At 31 December 2010 the estimated fair value of other financial liabilities was RR 611 million (2009: RR 576 million). Refer to Note 33 for the estimated fair value of each class of other financial liabilities.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 29.

20 Share Capital

In millions of Russian Roubles	Number of outstanding shares	Ordinary shares	Preference shares with a determined dividend amount	Share premium	Total
At 31 December 2008	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2009	**25 043 199**	**237**	**13**	**7 306**	**7 556**
At 31 December 2010	**25 043 199**	**237**	**13**	**7 306**	**7 556**

Nominal registered amount of the Bank's issued share capital as at 31 December 2010 is RR 250 million (2009: RR 250 million). At 31 December 2010 all of the Bank's outstanding shares were authorised, issued and fully paid in.

The total amount of the authorised ordinary shares is 23 748 694 shares (2009: 23 748 694 shares). All issued ordinary shares are fully paid. All ordinary shares have a nominal value of RR 10 per share (2009: RR 10 per share) and rank equally. Each share carries one vote.

The total amount of the authorised preference shares is 1 294 505 shares (2009: 1 294 505 shares). All issued preference shares are fully paid. The preference shares have a nominal value of RR 10 (2009: RR 10) and rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed. Preference shares are not redeemable. Preference share dividends are set at 20% of nominal value (2009: 20% of nominal value) and rank above ordinary dividends. Dividends on preference share are not cumulative. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until the dividend is paid.

The Bank's ordinary shares were included into A quotation list of the second level of Closed Joint Stock Company MICEX Stock Exchange.

Share premium represents the excess of contributions to share capital received over the nominal value of shares issued.

As at 31 December 2010 482 680 (2009: 502 680) ordinary shares of the Bank were circulating on international over-the-counter markets through Level One American Depository Receipts (ADR). One ADR is equal to one ordinary share of the Bank with a nominal value of RR 10.

21 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2010 amount to RR 8 208 million (2009: RR 7 710 million).

22 Interest Income and Expense

In millions of Russian Roubles	2010	2009
Interest income		
Loans and advances to customers - legal entities	10 218	13 012
Loans and advances to customers - individuals	2 220	2 542
Trading securities	766	912
Correspondent accounts and due from other banks	303	390
Investment securities available for sale	93	98
Total interest income	**13 600**	**16 954**
Interest expense		
Term deposits of individuals	5 743	4 489
Term deposits of legal entities	1 477	1 585
Debt securities in issue	392	503
Subordinated loans	346	447
Due to other banks	115	1 468
Current/settlement accounts of legal entities	36	66
Syndicated loans	-	70
Total interest expense	**8 109**	**8 628**
Net interest income	**5 491**	**8 326**

Information on related party balances is disclosed in Note 35.

23 Fee and Commission Income and Expense

In millions of Russian Roubles	2010	2009
Fee and commission income		
Settlement transactions	1 107	1 003
Cash transactions	1 014	1 038
Credit/debit cards and cheques settlements	920	736
Payroll projects	530	545
Cash collection	229	209
Guarantees issued	182	185
Other	313	311
Total fee and commission income	**4 295**	**4 027**
Fee and commission expense		
Credit/debit cards and cheques settlements	258	199
Settlements with currency and stock exchanges	26	17
Settlement transactions	22	23
Cash transactions	13	15
Guarantees received	9	12
Other	32	32
Total fee and commission expense	**360**	**298**
Net fee and commission income	**3 935**	**3 729**

24 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2010	2009
Staff costs		3 998	3 431
Administrative expenses		604	621
Depreciation of premises, equipment and amortisation of intangible assets	12	499	499
Other costs related to premises, equipment and intangible assets		444	416
Contributions to the State Deposit Insurance Agency		298	226
Taxes other than on income		279	247
Rent		279	270
Repair of premises and equipment		150	106
Advertising and marketing		144	129
Other		485	380
Total administrative and other operating expenses		**7 180**	**6 325**

Included in staff costs are statutory contributions to nonappropriated funds in the amount of RR 573 million (2009: RR 501 million).

25 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In millions of Russian Roubles	2010	2009
Current tax	647	633
Deferred tax	(502)	69
Income tax expense for the year	**145**	**702**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's income is 20% (2009: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2010	2009
IFRS profit before tax	**726**	**1 919**
Theoretical tax charge at statutory rate (2009-2010: 20%)	145	384
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(1)
- Income on government securities taxed at different rates	(37)	(26)
- Non-deductible expenses/other permanent differences	321	61
- Unrecognized deferred tax asset	(284)	284
Income tax expense for the year	**145**	**702**

Deferred taxation relating to the fair value remeasurement of investment securities available-for-sale is charged or credited directly to equity and is subsequently recorded in other comprehensive income when the gain or loss on the securities is realised.

25 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%), except for income on state securities that is taxed at 15% (2009: 15%).

In millions of Russian Roubles	2008	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	2009	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	2010
Tax effect of deductible/(taxable) temporary differences							
Premises, equipment and intangible assets	(60)	(1)	-	(61)	9	-	(52)
Loan impairment provision	33	59	-	92	11	-	103
Fair valuation of trading securities	13	(28)	-	(15)	13	-	(2)
Fair valuation of investment securities available for sale	(16)	-	(8)	(24)	-	12	(12)
Accrued income and expenses	125	188	-	313	134	-	447
Deferred fee and commission income	43	(4)	-	39	25	-	64
Other	(9)	1	-	(8)	26	-	18
Less unrecognized deferred tax asset	-	(284)	-	(284)	284	-	-
Total deferred tax asset	**214**	**(54)**	**-**	**160**	**472**	**-**	**632**
Total deferred tax liabilities	**(85)**	**(15)**	**(8)**	**(108)**	**30**	**12**	**(66)**
Total net deferred tax asset	**129**	**(69)**	**(8)**	**52**	**502**	**12**	**566**

The net deferred tax asset represents income taxes recoverable through future income and is recorded within other assets. Unrecognized deferred tax asset is composed of a temporary difference arising from interest income accrued on non-performing loans included in tax base in full but not fully recognized for the purposes of the financial statements in 2009 as due to unstable economic situation in 2009 the Bank was unable to reliably estimate the recoverability of future tax credits. Refer to Note 4.

(d) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2010			2009		
In millions of Russian Roubles	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount
Available-for-sale investments:						
- (Losses)/gains arising during the year	(5)	12	7	26	(8)	18
Other comprehensive income	**(5)**	**12**	**7**	**26**	**(8)**	**18**

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2010	2009
Profit attributable to ordinary shareholders of the Bank	549	1 152
Profit attributable to preference shareholders of the Bank	32	65
Profit for the year	**581**	**1 217**
Weighted average number of ordinary shares in issue (million)	23.7487	23.7487
Weighted average number of preference shares in issue (million)	1.2945	1.2945
Basic and diluted earnings per ordinary share (expressed in RR per share)	**23**	**49**
Basic and diluted earnings per preference share (expressed in RR per share)	**25**	**50**

Profit for the year attributable to ordinary and preference shareholders is calculated as follows:

In millions of Russian Roubles	Note	2010	2009
Profit for the year		581	1 217
Less dividends on ordinary and preference shares	27	(14)	(14)
Undistributed profit for the year		**567**	**1 203**
Undistributed profit for the year attributable to preference shareholders based on terms of the shares		29	62
Preference dividends declared during the year	27	3	3
Profit for the year attributable to preference shareholders		**32**	**65**
Undistributed profit for the year attributable to ordinary shareholders based on terms of the shares		538	1 141
Ordinary dividends declared during the year	27	11	11
Profit for the year attributable to ordinary shareholders		**549**	**1 152**

27 Dividends

	2010		2009	
In millions of Russian Roubles	Ordinary shares	Preference	Ordinary shares	Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	11	3	11	3
Dividends paid during the year	(11)	(3)	(11)	(3)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2.0**	**0.5**	**2.0**

All dividends are declared and paid in Russian Roubles.

28 Segment Analysis

This segment analysis is prepared in accordance with IFRS 8, Operating Segments.

Operating segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) with the purpose to generate income, whose operating results are regularly reviewed by the Bank's Management Board based on management accounts in terms of each operating segment. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Bank. Operating management and performance of an operating segment are the responsibility of the Deputy Chairman of the Management Board of the Bank supervising corresponding business line.

(a) Description of products and services from which each reportable segment derives its revenue

For the purpose of management, the Bank's operations are split by types of products and services and by classes of clients acquiring them, into the following operating segments:

- Corporate business – representing direct debit facilities, current accounts, deposits, loans, overdrafts, credit lines and other credit facilities, foreign currency and derivative products.
- Retail business – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, consumer loans and mortgages.
- Bank cards business – representing settlement services to individuals with the use of bank cards, overdrafts and revolving loans with the use of bank cards, payroll project services, acquiring, self-service operations on ATMs, information service to plastic cards holders.
- Financial business – representing transactions in the interbank lending market and securities transactions.
- Liquidity – representing reallocation of funds between operating segments.

(b) Factors that management used to identify the reportable segments

Reportable segments are identified on the basis of the organisational structure that is used to assess performance and to take a decision on allocating resources. The Bank'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. For the purposes of these financial statements each operating segment of the Bank is presented as a reportable segment. The other category includes individual unallocated financial indicators related to the Bank's capital.

An operating segment is reported separately if it meets any of the following quantitative thresholds:

- the amount of reported revenue, including revenue earned from sales to external customers, intersegment sales or transfers are ten percent or more of aggregated income (internal and external) of all operating segments.
- the absolute value of its reported profit or loss is ten percent or more of the aggregate reported profit of all operating segments that were not loss making in the reported period, or aggregate reported loss of all operating segments that were loss-making in the reported period;
- its assets are ten percent or more of aggregate assets of all operating segments.

The aforementioned reportable segments are to be separately disclosed in the financial statements as they comply with one of the above quantitative thresholds.

(c) Measurement of operating segment profit or loss, assets and liabilities

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are based on market indicators.

Segment assets and liabilities include operating assets and liabilities representing a major part of the Bank's assets and liabilities, as well as funds reallocated between operating segments, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

28 Segment Analysis (Continued)

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(ii) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on Russian law rather than based on the incurred loss model prescribed in IAS 39;

(v) commission income related to lending is recognised immediately rather than deferred using the effective interest method;

(vi) liabilities for the Bank's unused vacation payments are not recognised

The CODM evaluates performance of each segment based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

The table below represents the segment information of interest-bearing assets and interest-bearing liabilities per reportable segments for the year ended 31 December 2010 and 31 December 2009. For the purpose of preparation of the management accounts the amount of assets and liabilities is calculated as average balances for the respective accounting period. Total assets and liabilities do not include the subsequent events.

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transactions	Financial business	Liquidity	Other	Total
31 December 2010							
Total reportable segment assets	**86 386**	**12 580**	**2 436**	**42 392**	**-**	**-**	**143 794**
Total reportable segment liabilities	**50 269**	**60 491**	**14 277**	**3 174**	**-**	**1 519**	**129 680**
31 December 2009							
Total reportable segment assets	**78 788**	**14 490**	**2 774**	**34 645**	**-**	**403**	**131 100**
Total reportable segment liabilities	**41 820**	**44 928**	**11 358**	**19 317**	**-**	**-**	**117 423**

28 Segment Analysis (Continued)

The table below represents information of income and expenses per reportable segments for the year ended 31 December 2010. The Bank's management considers operating income before provision for loan impairment as a key measurement of reportable segments results.

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transac-tions	Financial business	Liquidity	Other	Total
2010							
- Interest income	10 004	1 770	399	1 123	-	3	13 299
- Non-interest income	3 205	805	1 382	154	-	62	5 608
- Transfer income	2 834	5 726	294	322	814	140	10 130
Total revenues	**16 043**	**8 301**	**2 075**	**1 599**	**814**	**205**	**29 037**
- Interest expense	(2 050)	(5 694)	(48)	(163)	-	(140)	(8 095)
- Non-interest expense	(186)	-	(215)	(55)	-	(35)	(491)
- Transfer expense	(8 044)	(1 438)	(206)	(442)	-	-	(10 130)
Total expense	**(10 280)**	**(7 132)**	**(469)**	**(660)**	**-**	**(175)**	**(18 716)**
Operating income before provision for loan impairment	**5 763**	**1 169**	**1 606**	**939**	**814**	**30**	**10 321**
Provision for loan impairment	(2 082)	(26)	(25)	-	-	-	(2 133)
Operating income	**3 681**	**1 143**	**1 581**	**939**	**814**	**30**	**8 188**
Administrative and other operating expenses	(2 672)	(2 909)	(1 324)	(89)	-	(27)	(7 021)
Profit/(loss) before tax (Segment result)	**1 009**	**(1 766)**	**257**	**850**	**814**	**3**	**1 167**

28 Segment Analysis (Continued)

Segment information for the Bank's reportable segments for the year ended 31 December 2009 is set out below:

In millions of Russian Roubles	Corporate business	Retail business	Bank cards transac-tions	Financial business	Liquidity	Other	Total
2009							
- Interest income	12 482	2 035	457	1 631	-	4	16 609
- Non-interest income	2 527	851	1 249	305	-	65	4 997
- Transfer income	3 732	6 298	404	2 776	1 806	-	15 016
Total revenues	**18 741**	**9 184**	**2 110**	**4 712**	**1 806**	**69**	**36 622**
- Interest expense	(2 181)	(4 454)	(32)	(1 945)	-	-	(8 612)
- Non-interest expense	(79)	(9)	(214)	(44)	-	(7)	(353)
- Transfer expense	(11 510)	(2 322)	(432)	(752)	-	-	(15 016)
Total expense	**(13 770)**	**(6 785)**	**(678)**	**(2 741)**	**-**	**(7)**	**(23 981)**
Operating income before provision for loan impairment	**4 971**	**2 399**	**1 432**	**1 971**	**1 806**	**62**	**12 641**
Provision for loan impairment	(4 281)	(298)	(104)	-	-	-	(4 683)
Operating income	**690**	**2 101**	**1 328**	**1 971**	**1 806**	**62**	**7 958**
Administrative and other operating expenses	(2 682)	(2 352)	(1 156)	(77)	-	(23)	(6 290)
Profit/(loss) before tax (Segment result)	**(1 992)**	**(251)**	**172**	**1 894**	**1 806**	**39**	**1 668**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

The reconciliation of assets, liabilities, income and expenses of the Bank's reportable segments for the year ended 31 December 2010 and 31 December 2009 is as follows:

Reconciliation of reportable segment assets

In millions of Russian Roubles	2010	2009
Total reportable segment assets	**143 794**	**131 100**
Assets unallocated between operating segments	19 707	17 670
Interest claim	1 351	773
Differences in financial statements format*	2 080	(3 589)
Deviation due to recording of reportable segment assets without regard to the events after the end of the reporting period	(39)	-
Differences in fair valuation of securities	19	70
Adjustment of provisions for loan impairment based on the incurred loss model	(735)	(594)
Recognition of commission income from lending using the effective interest method	(220)	(138)
Fair valuation of instruments with non-market rates	(1)	(2)
Recognition of financial instruments using the effective interest method	324	314
Provision for impairment of other assets	(122)	(1)
Total assets under IFRS	**166 158**	**145 603**

28 Segment Analysis (Continued)

Reconciliation of reportable segment liabilities

In millions of Russian Roubles	2010	2009
Total reportable segment liabilities	**129 680**	**117 423**
Liabilities unallocated between operating segments	1 105	878
Liabilities on interest payment	2 068	2 347
Differences in financial statements format*	16 473	8 711
Deviation due to recording of reportable segment liabilities without regard to the events after the end of the reporting period	(5)	(6)
Recognition of liabilities at amortised cost	(23)	(36)
Total liabilities under IFRS	**149 298**	**129 317**

* Differences in financial statements format arise from presentation of assets and liabilities of reportable segments calculated as average balances for the reporting period and recognition of reportable segment assets before provision for impairment for the purpose of management accounts preparation.

Reconciliation of income and expense before tax of the reportable segments

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the statement on comprehensive income under IFRS for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	Before-tax profit	Interest income	Non-interest income	Interest expense	Non-interest income	Provision for loan impairment	Administrative and other operating expenses
Total amount for all reportable segments	**1 167**	**13 299**	**5 608**	**(8 095)**	**(491)**	**(2 133)**	**(7 021)**
Recognition of commission income from lending using the effective interest method	(81)	(154)	73	-	-	-	-
Recognition of other fees and commissions by reference to completion of the specific transaction	(44)	-	(44)	-	-	-	-
Recognition of interest income/expense using the effective interest method	(13)	-	-	(13)	-	-	-
Differences in fair valuation of trading securities	(38)	(49)	11	-	-	-	-
Fair valuation of instruments with non-market rates	1	1	-	-	-	-	-
Adjustment of provisions for loan impairment based on the incurred loss model	(64)	-	(328)	-	-	264	-
Accrued liabilities on unused vacations	(22)	-	-	-	-	-	(22)
Capitalised software implementation costs	10	-	-	-	-	-	10
Differences in depreciation charge on premises and equipment	(81)	-	-	-	-	-	(81)
Recognition of financial instruments using the effective interest method	10	10	-	-	-	-	-
Reclassification of management accounts items	-	493	(479)	(1)	56	(3)	(66)
Provision for impairment of other assets	(121)	-	-	-	-	-	-
Other	2	-	2	-	-	-	-
IFRS profit before tax	**726**	**13 600**	**4 843**	**(8 109)**	**(435)**	**(1 872)**	**(7 180)**

28 Segment Analysis (Continued)

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the statement on comprehensive income under IFRS for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	Before-tax profit	Interest income	Non-interest income	Interest expense	Non-interest income	Provision for loan impair-ment	Administ-rative and other operating expenses
Total amount for all reportable segments	**1 668**	**16 609**	**4 997**	**(8 612)**	**(353)**	**(4 683)**	**(6 290)**
Recognition of commission income from lending using the effective interest method	27	-	27	-	-	-	-
Recognition of other fees and commissions by reference to completion of the specific transaction	(3)	-	(3)	-	-	-	-
Recognition of interest income/expense using the effective interest method	(21)	-	(3)	(18)	-	-	-
Differences in fair valuation of trading securities	(12)	-	(12)	-	-	-	-
Fair valuation of instruments with non-market rates	9	10	-	-	-	-	(1)
Adjustment of provisions for loan impairment based on the incurred loss model	(69)	-	-	-	-	(69)	-
Accrued liabilities on unused vacations	29	-	-	-	-	-	29
Capitalised software implementation costs	23	-	-	-	-	-	23
Differences in depreciation charge on premises and equipment	(31)	-	-	-	-	-	(31)
Recognition of financial instruments using the effective interest method	314	314	-	-	-	-	-
Reclassification of management accounts items	-	21	(36)	2	55	-	(42)
Provision for inventory impairment	(1)	-	-	-	-	-	(1)
Other	(14)	-	(2)	-	-	-	(12)
IFRS profit before tax	**1 919**	**16 954**	**4 968**	**(8 628)**	**(298)**	**(4 752)**	**(6 325)**

29 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and geographical risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

29 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Bank has developed and applies policies and procedures aimed at prevention and mitigation of the damage that the Bank might incur as a result of exposure to credit risk.

Thus, within the Bank there is a Credit and Investments Committee (CIC) with a system of subcommittees. For credit risk management purposes the CIC of the Bank has the following members and subcommittees:

- Senior members of the CIC – review general issues of managing credit risk, determining and implementing the credit policy within the scope of the Bank's approved development strategy;
- Junior members of the CIC – review issues related to implementing the credit policy within the scope of delivery of products with inherent credit risk to the Bank's customers within established authority; deal with the Bank's investments;
- Subcommittee for corporate clients – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to corporate customers of the Bank within established authority;
- Subcommittee for retail loans – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk to retail customers of the Bank (except bank cards) within established authority; and
- Subcommittee for bank cards – credit risk management issues and credit policy implementation within the scope of delivery of products with inherent credit risk using bank cards to retail customers of the Bank within established authority.

Key functions and objectives of the CIC:

- review and development of the credit policy of the Bank within the approved development strategy;
- operational decisions on the diversification of credit risks;
- within the authority set by the Management Board, decisions on the following issues:
  - delivery of Russian Rouble or foreign currency denominated products with inherent credit risk to the Bank's borrowers;
  - purchasing or acceptance of external issuers' promissory notes; and
  - setting limits for counterparty banks.
- taking decisions focused at strengthening and modernising the methodological basis of the Bank;
- taking decisions on developing and implementing new types of lending and services in order to expand capabilities and enhance the competitive advantages of the Bank in the credit market;
- reviewing and approving new products and services;
- issues relating to writing off uncollectible loans and interest thereon against loan loss provision, overdue loans and debt equivalent to overdue loans, subject to approval by the relevant authorised body of the Bank;
- identifying the level of authority of CIC subcommittees, structural business units of the Central Office of the Bank (hereafter - the "CO"), managers and individual specialists in business units of the CO, and independent crediting by branches with subsequent approval by the Management Board;
- approving the total number of members and membership in the branch credit committees; and
- setting limits for the CIC subcommittees, structural business units of the CO, heads and individual specialists from the CO's business units on implementing credit programs with subsequent approval by the Management Board.

29 Financial Risk Management (Continued)

The Junior members of the CIC of the Bank review and approve limits of up to RR 500 million on Rouble loans and Rouble equivalent on currency loans to legal entities, up to RR 30 million for individuals and from RR 6 to 10 million on bank card loans. Loan applications in excess of the above maximum limits are approved by the Management Board of the Bank.

The CIC subcommittees and management of the Bank, in charge of retail loans, as well as Junior members of the CIC are assigned the individual authority on taking credit risks limiting the amount of obligations of one borrower (guarantor).

The CIC subcommittees operate with corresponding business units of the Bank's CO (Credit Department, Retail Department and Credit Cards Department) within their authority on loan issuance documented by the Regulation on Major Principles of the Bank's Rouble and Currency Resource Management:

- The CIC subcommittee for corporate clients – up to RR 150 million on rouble loans and rouble equivalent on currency loans when issuing loans and guarantees to legal entities and individual entrepreneurs and setting guarantee limits on individual loans;
- The CIC subcommittee for retail loans – up to RR 15 million when issuing loans to individuals; and
- The CIC subcommittee for bank cards – up to RR 6 million when issuing bank card loans to individuals.

The authority and certain types of limits, terms and conditions for issuing loans within corresponding authority are subject to mandatory approval by the Management Board of the Bank and quarterly review within the scope of Regulations on Major Principles of the Bank's Rouble and Currency Resource Management. From the first quarter 2010 the Bank resumed the authority of credit Committees of the Bank's branches that meet the Bank's criteria on the level of overdue loans and profitability of finances and business operations.

Credit risk management techniques (beside the system of authority and decision taking) also include:

- a centralised system for applying and adjusting interest rates and tariffs (approved quarterly by the Management Board in accordance with the Regulations on Major Principles of the Bank's Rouble and Currency Resource Management which establish underlying interest rates by loan types and borrowers' categories);
- a system of credit risk limits. General limits-restrictions aimed at reducing the concentration risk and the related parties risk applied to all loans (irrespective of the client sector to which the borrower belongs) are approved annually by the Management Board in accordance with the Credit Policy of the Bank:
  - the maximum loan amount issued by the Bank to one borrower - 15% of the Bank's equity calculated in accordance with CB RF Instruction No. 110-I as of 16 January 2004 "On Obligatory Normatives for Banks" (hereinafter – "the Bank's equity"); to a group of related borrowers – 25% of the Bank's equity;
  - the maximum amount of all large loans (the amount of loans issued to one borrower exceeding 5% of the Bank's equity) - 400% of the Bank's equity;
  - the maximum amount of all loans issued by the Bank to shareholders of the Bank – 20% of the Bank's equity;
  - the maximum amount of all loans issued by the Bank to insiders of the Bank – 3% of the Bank's equity.

In addition to the overall limits, the Bank's credit policy sets planning quantitative and qualitative limits that represent segmental, industry, regional, currency and maturity structure of the corporate credit portfolio.

The credit risk limits within the authority to take decisions on loan issuance by authorised bodies and structural units responsible for providing the Bank's clients with its products exposed to credit risk are quarterly updated and approved by the Bank's Management Board taking into consideration the changes in economic situation and the working practice of the credit institution.

The Bank also manages credit risk through establishing and fixing requirements to the borrower on securing a credit obligation, pledge assessment, insurance of pledge or the borrower, levy of execution upon pledge in normative, instructive and functional-technological documents approved by the Management Board of the Bank.

29 Financial Risk Management (Continued)

Classification of collateral into various groups and its assessment is exercised based on the Regulation on Ensuring Performance of Obligations by Borrowers of the Bank on Products Exposed to Credit Risk and also on the basis of an expert opinion based on the market situations established as at the date of credit risk assessment.

Analytical reports on credit quality containing information on non-performing loans by client, credit programs, days and amounts overdue are summarised on a regular basis by responsible divisions of the Central Office and communicated to the Bank's Management on a monthly basis for corporate loans, on a weekly basis for retail loans and on a daily basis – for bank card loans. The materials of analytical reports are further used when reviewing credit applications.

The Bank's branches monitor the current loans on a daily basis.

Current loans are transferred under the supervision of the CO, if the following factors, or at least one, arise:

- overdue status of principal and/or interest amount during more than thirty calendar days. If a borrower is a part of a group of related borrowers, in which other borrowers have overdue debts to the Bank during more than thirty calendar days, all borrowers of the group are transferred under the supervision of the CO;
- repeated change of the contractual maturity date;
- the amount of transfers to a borrower's settlement account from its settlement account in other bank (as replenishment) during the prior month is more than a half of the total replenishments;
- existence of negative information on a borrower or its management (for legal entities);
- existence of information on conflicts between the owners (shareholders, participants) of a business;
- failure of a third party which is a borrower, guarantor or pledger to fulfil its obligations under its contracts signed with the Bank.

As a result of further deterioration of servicing, loans are transferred to the Legal Department for control and supporting the collection by enforcement procedures. The terms and criteria for transferring non-performing loans are outlined by the Regulation on monitoring of loans and advances issued to legal entities and individual entrepreneurs that are under CO monitoring, the Regulation on monitoring the retail loan portfolio and the Regulation on procedures in respect of overdue and impaired credit cards loans issued to individuals. Activities aimed at disposing loans overdue may include the following:

- negotiations and claims administration with respect to the borrower, guarantors and pledgers;
- initiating and participating in insolvency (bankruptcy) proceedings;
- restructuring the debtors' assets with the aim of recovering the business activities and/or out-of-court levying of execution upon their property and rights;
- resorting to law enforcement authorities for criminal proceedings against the debtor's management, guarantors, pledgers;
- sale (assignment) of debt to an external organisation; or
- transferring the case to a debt collection agency that renders services on collecting overdue debt.

A loan is considered to be uncollectible in the following cases:

- the time allowed for claims has expired;
- the obligation is cancelled in accordance with the Civil Law as its fulfilment is not possible;
- the obligation has been cancelled pursuant to an act from government authorities;
- the obligation has been cancelled following the liquidation of the borrower;
- the fact that the borrower failed to fulfil its obligations to creditors within the period of at least one year from the date of the decision to write-off the loan is confirmed by documents. In addition to that, all necessary and sufficient legal and factual actions on collection of this loan have been taken while further actions in this direction are legally impossible and/or the Bank's assumed expenses will exceed the result.

29 Financial Risk Management (Continued)

Uncollectible loans are written-off from the statement of financial position of the Bank against the loan loss provision in accordance with the Regulations approved by the Board of Directors. Uncollectible loan is written-off to the off-balance sheets accounts as follows:

- on the basis of the decision of the Management Board if the amount of the loan is less than 1% of equity as at the latest end of the reporting period prior to taking the decision; or
- on the basis of the decision of the Board of Directors if the amount of the loan is equal or exceeds 1% of equity as at the latest end of the reporting period before the decision; or the loan is issued to a shareholder or affiliate of the Bank and/or an affiliate thereof.

The amount of uncollectible loan written off from the Bank's balance sheet as well as related interest shall be generally accounted for on off-balance sheet accounts during at least five years in order to monitor collection possibility in case of change in conditions.

The Credit Risk Monitoring Department monitors the credit risk of the Bank and its main objectives are as follows:

- prevention, detection and mitigation of the damage that the Bank might incur as a result of exposure to credit risk;
- determining the aggregate credit risk taking into account all financial instruments;
- forecasting future credit risks arising; and
- an objective assessment of credit risks, monitoring the loan loss provisions adequacy and communicating to Management with a view to taking appropriate management decisions.

The Internal Control and Audit Function follows up credit transactions of branches during internal audits performed in accordance with six months internal audit plans for branches approved by the Board of Directors of the Bank.

Market risk. The Bank 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. The Board of Directors and the Assets and Liabilities Management Committee set limits on the volume of risk exposure and monitor it 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.

Currency risk. The Bank is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Bank manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

29 Financial Risk Management (Continued)

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

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	15 149	8 718	8 261	23	32 151
Mandatory cash balances with the CBRF	1 072	-	-	-	1 072
Trading securities	7 814	4 329	38	-	12 181
Due from other banks	5 401	457	2	-	5 860
Loans and advances to customers	95 834	5 714	2 498	-	104 046
Investment securities available for sale	111	319	1 171	-	1 601
Other financial assets	985	337	266		1 588
Total monetary financial assets	**126 366**	**19 874**	**12 236**	**23**	**158 499**
Monetary financial liabilities					
Due to other banks	3 831	1 922	2 019	-	7 772
Customer accounts	104 352	15 769	10 211	2	130 334
Debt securities in issue	5 572	53	169	-	5 794
Subordinated loans	1 499	2 794	-	-	4 293
Other financial liabilities	599	12	-	-	611
Total monetary financial liabilities	**115 853**	**20 550**	**12 399**	**2**	**148 804**
Net balance sheet position	**10 513**	**(676)**	**(163)**	**21**	**9 695**
Credit related commitments (Note 31)	**19 906**	**399**	**1 745**	**-**	**22 050**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

29 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2009:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	16 475	7 182	10 423	21	34 101
Mandatory cash balances with the CBRF	868	-	-	-	868
Trading securities	8 892	541	322	-	9 755
Due from other banks	6 101	259	3	-	6 363
Loans and advances to customers	74 304	9 956	945	-	85 205
Investment securities available for sale	115	701	-	-	816
Other financial assets	739	341	153	-	1 233
Total monetary financial assets	**107 494**	**18 980**	**11 846**	**21**	**138 341**
Monetary financial liabilities					
Due to other banks	2 609	1 055	704	-	4 368
Customer accounts	87 758	14 377	10 993	1	113 129
Debt securities in issue	5 609	612	143	-	6 364
Subordinated loans	1 515	3 063	-	-	4 578
Other financial liabilities	558	15	3	-	576
Total monetary financial liabilities	**98 049**	**19 122**	**11 843**	**1**	**129 015**
Net balance sheet position	**9 445**	**(142)**	**3**	**20**	**9 326**
Credit related commitments (Note 31)	**10 222**	**90**	**204**	**-**	**10 516**

At 31 December 2010, if the US Dollar exchange rate had been 5.0% higher (or 5.0% lower) with all other variables held constant, profit for the year would have been RR 34 million lower (RR 34 million higher), mainly as a result of higher interest expense on attracted funds denominated in US Dollars.

At 31 December 2009, if the US Dollar exchange rate had been 4.5% higher (or 4.5% lower) with all other variables held constant, profit for the year would have been RR 6 million lower (RR 6 million higher), mainly as a result of higher interest expense on attracted funds denominated in US Dollars.

At 31 December 2010, if the Euro exchange rate had been 2.5% higher (or 2.5% lower) with all other variables held constant, profit for the year would have been RR 4 million lower (RR 4 million higher), mainly as a result of higher interest expense on client accounts denominated in Euros.

At 31 December 2009, if the Euro exchange rate had been 4.0% higher (or 4.0% lower) with all other variables held constant, profit for the year would have been unaffected.

In 2009-2010, the Bank estimated a reasonably possible change of USD and Euro currency rates based on the futures contracts for the next twelve months period in calculation of sensitivity to changes in foreign currency rates.

Interest rate risk. The Bank 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 increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

Assessment of the Bank's exposure to interest rate risk is managed upon gap analysis of financial instruments sensitive to changes in interest rates (SFI). The principal methodological approach of gap analysis within the framework of interest rate risk evaluation is recognition of future payment flows under SFI at carrying amounts. These carrying amounts are broken down by the earlier of contractual interest repricing or maturity dates.

29 Financial Risk Management (Continued)

Any changes in net interest income resulting from changes in the value of SFI at the date of their redemption or interest repricing determine the amount of interest rate risk exposure. Any changes in the amount of net interest income depend upon net cumulative gap on SFI and possible changes in interest rate at the end of the annual reporting period.

For the purposes of analysis of financial instruments that are sensitive to interest rate changes a year long period is selected as the maximum analysed interval.

The table below summarises the Bank's exposure to interest rate risks at the annual reporting dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2010						
Total financial assets exposed to interest rate changes	42 821	36 604	25 393	40 123	-	144 941
Total financial liabilities exposed to interest rate changes	55 926	34 918	27 196	30 153	-	148 193
Net interest sensitivity gap at 31 December 2010	**(13 105)**	**1 686**	**(1 803)**	**9 970**	**-**	**(3 252)**
Gap coefficient (aggregate relative cumulative gap)	**0.77**	**0.87**	**0.89**	**0.98**		
31 December 2009						
Total financial assets exposed to interest rate changes	44 823	24 152	27 982	29 570	-	126 527
Total financial liabilities exposed to interest rate changes	47 319	29 968	28 295	22 857	-	128 439
Net interest sensitivity gap at 31 December 2009	**(2 496)**	**(5 816)**	**(313)**	**6 713**	**-**	**(1 912)**
Gap coefficient (aggregate relative cumulative gap)	**0.95**	**0.89**	**0.92**	**0.99**		

At 31 December 2010, if interest rates at that date had been 200 basis points higher (2009: 200 basis points higher) with all other variables held constant, profit for the year would have been RR 244 million (2009: RR 137 million) lower, mainly as a result of higher interest expense on term deposits of individuals and legal entities and due to other banks. At 31 December 2010, other components of equity would have been RR 8 million (2009: RR 5 million) higher, mainly as a result of an increase in the fair value of fixed rate financial instruments classified as available for sale.

At 31 December 2010, if interest rates at that date had been 200 basis points lower (2009: 200 basis points lower) with all other variables held constant, profit for the year would have been RR 244 million (2009: RR 137 million) higher as a result of lower interest expense on term deposits of individuals and legal entities and due to other banks. At 31 December 2010, other components of equity would have been RR 8 million (2009: RR 5 million) lower, mainly as a result of a decrease in the fair value of fixed rate financial instruments classified as available for sale.

Risk management comprises minimising net gap established in analysis of assets and liabilities sensitive to interest rate changes. Depending upon the net gap amount the Bank takes the decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of changes in the market interest rate.

29 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

In % p.a.	2010				2009			
	RR	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0%	0%	0%	0%	0%	0%	0%	1%
Trading securities	4%	2%	2%	-	7%	3%	2%	-
Due from other banks	3%	1%	0%	-	4%	0%	1%	-
Loans and advances to customers	12%	10%	8%	-	17%	14%	7%	-
Investment securities available for sale	6%	3%	2%	-	9%	10%	-	-
Liabilities								
Due to other banks	6%	7%	2%	-	10%	8%	2%	-
Customer accounts								
- current and settlement accounts	0%	0%	0%	0%	0%	0%	0%	0%
- term deposits	9%	6%	5%	-	11%	5%	3%	-
Debt securities in issue	7%	5%	2%	-	10%	7%	5%	-
Subordinated loans	8%	8%	-	-	9%	7%	-	-

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

Other price risk. This risk is not significant for the Bank as the Bank has limited exposure to equity price risk.

The Bank is exposed to prepayment risk as it provides fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit or loss and equity at the current reporting 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.

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

In millions of Russian Roubles	**Russia**	**OECD**	**Non-OECD**	**Total**
Financial assets				
Cash and cash equivalents	16 324	15 815	12	32 151
Mandatory cash balances with the CBRF	1 072	-	-	1 072
Trading securities	12 182	-	-	12 182
Due from other banks	5 553	307	-	5 860
Loans and advances to customers	103 763	-	283	104 046
Investment securities available for sale	1 967	76	-	2 043
Other financial assets	1 644	-	-	1 644
Total financial assets	**142 505**	**16 198**	**295**	**158 998**
Non-financial assets	**7 160**	**-**	**-**	**7 160**
Total assets	**149 665**	**16 198**	**295**	**166 158**
Financial liabilities				
Due to other banks	3 836	3 936	-	7 772
Customer accounts	128 125	339	1 870	130 334
Debt securities in issue	5 686	-	108	5 794
Subordinated loans	2 046	1 545	702	4 293
Other financial liabilities	611	-	-	611
Total financial liabilities	**140 304**	**5 820**	**2 680**	**148 804**
Non-financial liabilities	**494**	**-**	**-**	**494**
Total liabilities	**140 798**	**5 820**	**2 680**	**149 298**
Net balance sheet position	**8 867**	**10 378**	**(2 385)**	**16 860**
Credit related commitments (Note 31)	**22 050**	**-**	**-**	**22 050**

29 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. 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 Bank's assets and liabilities at 31 December 2009 is set out below:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	17 975	16 115	11	34 101
Mandatory cash balances with the CBRF	868	-	-	868
Trading securities	9 552	204	-	9 756
Due from other banks	6 101	262	-	6 363
Loans and advances to customers	84 655	-	550	85 205
Investment securities available for sale	1 218	94	-	1 312
Other financial assets	1 236	-	-	1 236
Total financial assets	**121 605**	**16 675**	**561**	**138 841**
Non-financial assets	**6 762**	**-**	**-**	**6 762**
Total assets	**128 367**	**16 675**	**561**	**145 603**
Financial liabilities				
Due to other banks	2 607	1 758	3	4 368
Customer accounts	110 746	365	2 018	113 129
Debt securities in issue	6 159	-	205	6 364
Subordinated loans	2 060	1 519	999	4 578
Other financial liabilities	576	-	-	576
Total financial liabilities	**122 148**	**3 642**	**3 225**	**129 015**
Non-financial liabilities	**302**	**-**	**-**	**302**
Total liabilities	**122 450**	**3 642**	**3 225**	**129 317**
Net balance sheet position	**5 917**	**13 033**	**(2 664)**	**16 286**
Credit related commitments (Note 31)	**10 516**	**-**	**-**	**10 516**

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank 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. The overall liquidity management is carried out by the Management Board of the Bank, which may delegate some functions to the Asset and Liability Committee.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

29 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 86.8% at 31 December 2010 (2009: 94.0%). As at 31 December 2010 and 31 December 2009, the minimum required level for N2 ratio was 15%.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 101.5% at 31 December 2010 (2009: 113.4%). As at 31 December 2010 and 31 December 2009, the minimum required level for N3 ratio was 50%.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to Bank's regulatory capital and liabilities maturing after one year. The ratio was 81.7% at 31 December 2010 (2009: 74.3%). As at 31 December 2010 and 31 December 2009, the maximum allowed level for N4 ratio was 120%.

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows assets and liabilities by their remaining contractual maturity. The amounts disclosed in the table are contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the 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 translated using the spot exchange rate at the reporting date.

29 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2010 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 2 years**	**Due between 2 and 3 years**	**Over 3 years**	**Total**
Assets							
Cash and cash equivalents	32 151	-	-	-	-	-	32 151
Mandatory cash balances with the CBRF	1 072	-	-	-	-	-	1 072
Trading securities	12 182	-	-	-	-	-	12 182
Due from other banks	5 558	1	1	1	-	305	5 866
Loans and advances to customers	5 577	44 744	32 772	19 898	11 079	34 404	148 474
Investment securities available for sale	446	119	1 289	100	4	128	2 086
Other financial assets	1 644	-	-	-	-	-	1 644
Total potential future payments for financial assets	**58 630**	**44 864**	**34 062**	**19 999**	**11 083**	**34 837**	**203 475**
Liabilities							
Due to other banks	2 432	495	278	393	320	4 937	8 855
Customer accounts	53 275	33 864	24 990	21 955	1 458	1 194	136 736
Debt securities in issue	321	1 584	4 073	33	-	-	6 011
Subordinated loans	-	348	221	325	1 831	3 263	5 988
Other financial liabilities	611	-	-	-	-	-	611
Total potential future payments for financial obligations	**56 639**	**36 291**	**29 562**	**22 706**	**3 609**	**9 394**	**158 201**
Net liquidity gap arising from financial instruments at 31 December 2010	**1 991**	**8 573**	**4 500**	**(2 707)**	**7 474**	**25 443**	**45 274**
Cumulative liquidity gap at 31 December 2010	**1 991**	**10 564**	**15 064**	**12 357**	**19 831**	**45 274**	
Financial guarantees	8 987	-	-	-	-	-	8 987
Other credit related commitments	13 063	-	-	-	-	-	13 063

29 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial liabilities at 31 December 2009 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 2 years**	**Due between 2 and 3 years**	**Over 3 years**	**Total**
Assets							
Cash and cash equivalents	34 101	-	-	-	-	-	34 101
Mandatory cash balances with the CBRF	868	-	-	-	-	-	868
Trading securities	9 756	-	-	-	-	-	9 756
Due from other banks	6 108	1	1	1	1	259	6 371
Loans and advances to customers	5 360	32 087	36 330	20 016	7 971	22 418	124 182
Investment securities available for sale	496	164	609	63	50	-	1 382
Other financial assets	1 236	-	-	-	-	-	1 236
Total potential future payments for financial assets	**57 925**	**32 252**	**36 940**	**20 080**	**8 022**	**22 677**	**177 896**
Liabilities							
Due to other banks	329	406	2 587	256	139	1 157	4 874
Customer accounts	46 362	25 972	27 786	18 601	2 205	-	120 926
Debt securities in issue	732	5 151	453	221	-	-	6 557
Subordinated loans	-	207	265	617	665	4 973	6 727
Other financial liabilities	576	-	-	-	-	-	576
Total potential future payments for financial obligations	**47 999**	**31 736**	**31 091**	**19 695**	**3 009**	**6 130**	**139 660**
Net liquidity gap arising from financial instruments at 31 December 2009	**9 926**	**516**	**5 849**	**385**	**5 013**	**16 547**	**38 236**
Cumulative liquidity gap at 31 December 2009	**9 926**	**10 442**	**16 291**	**16 676**	**21 689**	**38 236**	
Financial guarantees	4 751	-	-	-	-	-	4 751
Other credit related commitments	5 765	-	-	-	-	-	5 765

29 Financial Risk Management (Continued)

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

In accordance with amendments to IFRS 7, *Financial Instruments: Disclosures*, the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis as the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The Bank does not use the above undiscounted contractual maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2010:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	32 151	-	-	-	32 151
Mandatory cash balances with the CBRF	421	270	213	168	1 072
Trading securities	12 182	-	-	-	12 182
Due from other banks	5 553	1	1	305	5 860
Loans and advances to customers	3 834	36 493	24 123	39 596	104 046
Investment securities available for sale	442	110	1 269	222	2 043
Other financial assets	1 644	-	-	-	1 644
Total financial assets	**56 227**	**36 874**	**25 606**	**40 291**	**158 998**
Financial liabilities					
Due to other banks	2 415	408	162	4 787	7 772
Customer accounts	53 191	32 663	23 151	21 329	130 334
Debt securities in issue	320	1 560	3 883	31	5 794
Subordinated loans	-	287	-	4 006	4 293
Other financial liabilities	611	-	-	-	611
Total financial liabilities	**56 537**	**34 918**	**27 196**	**30 153**	**148 804**
Net liquidity gap based on expected maturities at 31 December 2010	**(310)**	**1 956**	**(1 590)**	**10 138**	**10 194**
Cumulative liquidity gap at 31 December 2010	**(310)**	**1 646**	**56**	**10 194**	

29 Financial Risk Management (Continued)

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The expected maturity of investment securities available for sale is based on offer agreement date.

As at 31 December 2010 the Bank classified its obligation on long-term borrowing agreement in the amount of RR 1 573 million as on demand due to the breach of the covenant set in the loan agreement with the European Bank for Reconstruction and Development. Refer to Notes 15 and 31.

The analysis by expected maturities may be summarised as follows at 31 December 2009:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	34 101	-	-	-	34 101
Mandatory cash balances with the CBRF	342	215	186	125	868
Trading securities	9 756	-	-	-	9 756
Due from other banks	6 100	1	1	261	6 363
Loans and advances to customers	4 580	24 003	27 428	29 194	85 205
Investment securities available for sale	496	148	553	115	1 312
Other financial assets	1 236	-	-	-	1 236
Total financial assets	**56 611**	**24 367**	**28 168**	**29 695**	**138 841**
Financial liabilities					
Due to other banks	316	306	2 506	1 240	4 368
Customer accounts	46 275	24 631	25 238	16 985	113 129
Debt securities in issue	728	5 031	417	188	6 364
Subordinated loans	-	-	134	4 444	4 578
Other financial liabilities	576	-	-	-	576
Total financial liabilities	**47 895**	**29 968**	**28 295**	**22 857**	**129 015**
Net liquidity gap based on expected maturities at 31 December 2009	**8 716**	**(5 601)**	**(127)**	**6 838**	**9 826**
Cumulative liquidity gap at 31 December 2009	**8 716**	**3 115**	**2 988**	**9 826**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates.

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

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

30 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The Bank considers total capital under management to be equity in accordance with Russian Accounting Rules as shown in the balance sheet. The statutory amount of capital that the Bank managed as of 31 December 2010 is RR 19 347 million (2009: RR 19 412 million). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily with monthly reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant.

The Bank maintains a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%: as at 31 December 2010 this ratio was 14.4% (2009: 19.8%). Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2010**	**2009**
Tier 1 capital		
Share capital formed from ordinary shares	164	164
Share premium	7 399	7 399
Retained earnings	8 035	7 532
Less intangible assets	(1)	(1)
Less the Bank's investments in interest held	-	(31)
Total tier 1 capital	**15 597**	**15 063**
Tier 2 capital		
Revaluation reserve for premises and equipment	524	525
Capitalisation of property revaluation	76	76
Share capital formed from preference shares	11	11
Subordinated loans	3 139	3 737
Total tier 2 capital	**3 750**	**4 349**
Total regulatory capital	**19 347**	**19 412**

The Bank has complied with all externally imposed capital requirements throughout 2009 and 2010.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are 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 financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant 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 them 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, significant 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.

31 Contingencies and Commitments (Continued)

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%.

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 potentially be challenged in the future. 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.

At 31 December 2010, the management has not created any provision for potential tax liabilities (31 December 2009: nil), as the management of the Bank believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2010, the Bank has contractual capital expenditure commitments in respect of premises and equipment and in respect of software and premises renovation totalling RR 34 million (2009: RR 51 million). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

In millions of Russian Roubles	**2010**	**2009**
Not later than 1 year	199	358
Due between 1 and 5 years	277	440
Over 5 years	305	97
Total operating lease commitments	**781**	**895**

Compliance with covenants. The Bank is subject to certain covenants related to deposits from other banks and subordinated loans. Refer to Notes 15 and 18. These covenants include capital adequacy, single borrower concentration, USD equity equivalent requirements and other covenants. Non-compliance with such covenants may result in creditor's demand for early repayment of provided funds.

As at 31 December 2010 the Bank breached one of the covenants set forth by the debt agreement with the European Bank for Reconstruction and Development with regard to cost to income ratio in percentages. The actual value of this covenant was 72.5% with the maximum level of 70%. As confirmed by the Bank's creditor on 14 March 2011, they agreed to waive the breach with regard to the above covenant and increased the maximum limit of the covenant. The waiver is effective up to 31 December 2011. Refer to Note 15.

As at 31 March 2010, the Bank also breached this covenant (the actual value of this covenant was 65.3% with the maximum level of 60%). As confirmed by the Bank's creditor on 21 July 2010, they agreed to waive the breach with regard to the above covenant until 31 December 2010 and increased the maximum limit up to 70%.

As at 31 December 2010 the Bank breached one of the covenants with regard to the open credit risk ratio, set forth in the subordinated deposit agreement. The actual value of this covenant amounted to 39.6% with the maximum limit of 15%. The terms of the agreement provides for potential increased interest for the covenants breach that is to be paid till the increased risk event is foregone. As at the date of these financial statements issuance, the Bank has not received from the creditors any notification about their intention to apply such sanctions with regard to the covenant breach.

31 Contingencies and Commitments (Continued)

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank 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 millions of Russian Roubles	**2010**	**2009**
Unused limits on overdraft loans	10 497	5 029
Guarantees issued	8 987	4 751
Undrawn credit lines	1 561	680
Import letters of credit	935	25
Letters of credit for payments in the Russian Federation	70	31
Total credit related commitments	**22 050**	**10 516**

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.

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2010**	**2009**
Russian Roubles	19 906	10 222
Euros	1 745	204
US Dollars	399	90
Total	**22 050**	**10 516**

Assets pledged and restricted. The Bank had assets pledged as collateral with the following carrying value:

	Note	**2010**		**2009**	
In millions of Russian Roubles		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Pledged rights (claims) on loans	10, 15	3 004	3 000	-	-
Total		**3 004**	**3 000**	-	-

Mandatory cash balances with the CBRF of RR 1 072 million (2009: RR 868 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

32 Derivative Financial Instruments

Derivative financial instruments entered into by the Bank include foreign exchange contracts and forward agreements with precious metals. 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.

At 31 December 2010, the Bank did not have outstanding derivative contracts, except for outstanding obligations from unsettled forward agreements with precious metals maturing in February 2011.

The fair value gain on these derivative contracts at 31 December 2010 was RR 4 million (2009: RR 3 million). The contracts are short term in nature.

33 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

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

	31 December 2010		31 December 2009	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Cash and cash equivalents				
- Correspondent accounts and overnight placements	16 025	16 025	16 758	16 758
- Cash on hand	10 792	10 792	9 642	9 642
- Cash balances with the CBRF	5 334	5 334	7 701	7 701
Mandatory cash balances with CBRF	1 072	1 072	868	868
Due from other banks				
- Deposits with the CBRF	4 500	4 500	4 000	4 000
- Short-term placements with other banks	1 055	1 055	2 104	2 104
- Insurance deposits with non-resident banks	305	305	259	259
Loans and advances to customers				
- Corporate loans - large	29 701	29 978	24 026	23 531
- Corporate loans - medium	43 120	43 069	34 554	34 510
- Corporate loans - small	15 679	15 252	13 534	13 341
- Mortgage loans	9 326	9 448	7 465	8 077
- Other loans to individuals	6 220	6 243	5 626	5 486
Other financial assets				
Receivables and advance payments	636	636	399	399
- Settlements with currency and stock exchanges	506	506	368	368
- Credit and debit cards receivables	392	392	418	418
- Other assets	110	110	51	51
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**144 773**	**144 717**	**127 773**	**127 513**

33 Fair Value of Financial Instruments (Continued)

	31 December 2010		31 December 2009	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL LIABILITIES				
Due to other banks				
- Placements of other banks	6 936	6 967	1 758	1 805
- Correspondent accounts of other banks	836	836	304	304
- Short-term placements of the CBRF	-	-	2 306	2 260
Customer accounts				
- Current/settlement accounts of state and public organisations	245	245	319	319
- Term deposits of state and public organisations	1 501	1 499	-	-
- Current/settlement accounts of other legal entities	28 201	28 201	24 253	24 253
- Term deposits of other legal entities	15 136	15 582	19 993	20 088
- Current/demand accounts of individuals	16 539	16 539	14 088	14 088
- Term deposits of individuals	68 712	68 897	54 476	54 226
Debt securities in issue				
- Promissory notes	5 534	5 849	3 055	2 938
- Deposit certificates	260	260	222	220
- Bonds	-	-	3 087	3 100
Subordinated loans	4 293	4 404	4 578	4 851
Other financial liabilities				
- Debit or credit card payables	489	489	359	359
- Trade payables	97	97	197	197
- Settlements on conversion operations	1	1	1	1
- Other liabilities	24	24	19	19
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**148 804**	**149 890**	**129 015**	**129 028**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

The Bank uses the following hierarchy for determining and disclosing fair values of financial instruments:

Level 1: current quoted (unadjusted) prices of financial assets or quoted prices for similar financial assets.

Level 2: valuation technique, whose inputs that have a significant impact on the fair value can be directly or indirectly observed in the market.

Level 3: valuation technique taking into account significant adjustments of market data or based on a significant volume of data inaccessible to objective observation.

33 Fair Value of Financial Instruments (Continued)

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 December 2010			31 December 2009		
In millions of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS						
Trading securities						
- CBRF bonds	4 588	-	-	3 429	-	-
- VneshEconomBank 3% coupon bonds (VEB bonds)	3 898	-	-	308	-	-
- Corporate bonds	1 869	-	-	3 571	-	-
- Municipal bonds	1 126	-	-	1 584	-	-
- Corporate Eurobonds	431	-	-	701	-	-
- Federal loan bonds (OFZ)	269	-	-	-	-	-
- Corporate shares	1	-	-	1	-	-
- Russian Federation Eurobonds	-	-	-	162	-	-
Investment securities available for sale						
- Municipal bonds	1 171	-	-	-	-	-
- Corporate Eurobonds	197	-	-	701	-	-
- Russian Federation Eurobonds	122	-	-	-	-	-
- Corporate bonds	111	-	-	115	-	-
- Corporate shares	77	-	365	95	-	401
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**13 860**	**-**	**365**	**10 667**	**-**	**401**

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.

(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows:

In millions of Russian Roubles	**2010 Securities available for sale Corporate shares**	**2009 Securities available for sale Corporate shares**
Fair value at 1 January	**401**	**401**
Sales	(36)	-
Fair value at 31 December	**365**	**401**
Cumulative revaluation gains less losses recognised in profit or loss for the current or prior years for assets held at 31 December	-	-
Sensitivity of fair value at 31 December to reasonably possible changes in assumptions not based on observable market data	-	-

33 Fair Value of Financial Instruments (Continued)

(d) The methods and assumptions applied in determining fair values.

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, and is best evidenced by an active quoted market price. If there is no active market price, the Bank applies analysis based on both observable and non-observable market data.

Estimated fair value of financial instrument was calculated by the Bank on the assumption of available market data, if any, and appropriate valuation methods. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The 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.

Discount rates used to calculate the estimated fair value of instruments carried at amortised cost depend on the Bank's credit risk, as well as the currency and maturity of the counterparty's instrument. These rates are analysed below:

	2010	**2009**
Due from other banks		
Short-term placements with other banks	1 % - 3 % p.a.	2 % - 4 % p.a.
Loans and advances to customers		
Corporate loans - large	9 % p.a.	12 % - 19 % p.a.
Corporate loans - medium	11 % p.a.	9 % - 19 % p.a.
Corporate loans - small	12 % p.a.	8 % - 22 % p.a.
Mortgage loans	13 % p.a.	10 % - 20 % p.a.
Other loans to individuals	17 % p.a.	12 % - 23 % p.a.
Other financial assets		
Receivables and advance payments	0 % p.a.	0 % p.a.
Credit and debit cards receivables	0 % p.a.	0 % p.a.
Due to other banks		
Placements of other banks	3 % - 7 % p.a.	2 % - 4 % p.a.
Correspondent accounts of other banks	0 % p.a.	0 % p.a.
Short-term placements of the CBRF	-	10 % p.a.
Customer accounts		
Current/settlement accounts of state and public organisations	0 % p.a.	0 % p.a.
Term deposits of state and public organisations	5 % p.a.	-
Current/settlement accounts of other legal entities	0 % p.a.	0 % p.a.
Term deposits of other legal entities	2 % - 5 % p.a.	1 % - 9 % p.a.
Current/demand accounts of individuals	0 % p.a.	0 % p.a.
Term deposits of individuals	4 % - 7 % p.a.	5 % - 11 % p.a.
Debt securities in issue		
Promissory notes	2 % - 6 % p.a.	1 % - 13 % p.a.
Deposit certificates	5 % p.a.	9 % p.a.
Subordinated loans	8 % p.a.	7 % - 10 % p.a.
Other financial liabilities		
Trade payables	0 % p.a.	0 % p.a.
Debit or credit card payables	0 % p.a.	0 % p.a.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2010:

	Loans and receivables	Assets available for sale	Trading assets	Total
ASSETS				
Cash and cash equivalents	32 151	-	-	32 151
Mandatory cash balances with CBRF	1 072	-	-	1 072
Trading securities	-	-	12 182	12 182
Investment securities available for sale	-	2 043	-	2 043
Due from other banks	5 860	-	-	5 860
Loans and advances to customers	104 046	-	-	104 046
Other financial assets	1 644	-	-	1 644
TOTAL FINANCIAL ASSETS	**144 773**	**2 043**	**12 182**	**158 998**
NON-FINANCIAL ASSETS	-	-	-	7 160
TOTAL ASSETS	**144 773**	**2 043**	**12 182**	**166 158**

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

	Loans and receivables	Assets available for sale	Trading assets	Total
ASSETS				
Cash and cash equivalents	34 101	-	-	34 101
Mandatory cash balances with CBRF	868	-	-	868
Trading securities	-	-	9 756	9 756
Investment securities available for sale	-	1 312	-	1 312
Due from other banks	6 363	-	-	6 363
Loans and advances to customers	85 205	-	-	85 205
Other financial assets	1 236	-	-	1 236
TOTAL FINANCIAL ASSETS	**127 773**	**1 312**	**9 756**	**138 841**
NON-FINANCIAL ASSETS	-	-	-	6 762
TOTAL ASSETS	**127 773**	**1 312**	**9 756**	**145 603**

All financial liabilities of the Bank are carried at amortised cost.

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party 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.

The outstanding balances with related parties were as follows:

	31 December 2010		31 December 2009	
In millions of Russian Roubles	**Shareholders**	**Directors and related companies**	**Shareholders**	**Directors and related companies**
Loans and advances to customers				
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2010: 3.1% - 22.0%; 31 December 2009: 2.5% - 22.0%)	-	721	-	86
Impairment provisions for loans and advances to customers at 31 December	-	(17)	-	(3)
Investment securities available for sale	-	-	-	30
Customer accounts				
Current/settlement accounts (contractual interest rate: 31 December 2010: 0.0%; 31 December 2009: 0.0%)	13	48	14	51
Term deposits (contractual interest rate: 31 December 2010: 2.5% - 16.0%; 31 December 2009: 2.3% - 16.0%)	579	2 827	483	1 761
Debt securities issued (contractual interest rate: 31 December: 3.5%; 31 December 2009: 7.0% - 8.5%)	84	-	205	4
Subordinated loans (contractual interest rate: 31 December 2010: 8.0%; 31 December 2009: 6.5% - 8.0%)	305	-	696	-

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

	2010		2009	
In millions of Russian Roubles	**Shareholders**	**Directors and related companies**	**Shareholders**	**Directors and related companies**
Interest income:				
Loans and advances to customers	-	53	-	5
Interest expense:				
Term deposits	27	188	32	160
Debt securities in issue	3	-	3	-
Subordinated loans	21	-	52	-

35 Related Party Transactions (Continued)

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

	2010		2009	
In millions of Russian Roubles	**Shareholders**	**Directors and related companies**	**Shareholders**	**Directors and related companies**
Amounts lent to related parties during the period	-	699	-	43
Amounts repaid by related parties during the period	-	328	-	61

In 2010, the total remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 186 million (2009: RR 162 million).