**CREDIT BANK OF MOSCOW**
**(open joint-stock company)**

Consolidated Financial Statements
for the year ended 31 December 2010

## Contents

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**Independent Auditors' Report**

To the Management of Credit Bank of Moscow (open joint-stock company)

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

ZAO KPMG

ZAO KPMG
29 March 2011

| | Notes | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|
| Interest income | 4 | 14,544,991 | 9,584,791 |
| Interest expense | 4 | (8,478,432) | (5,671,209) |
| **Net interest income** | 4 | **6,066,559** | **3,913,582** |
| Provision for impairment of loans | 13 | (1,539,798) | (2,465,362) |
| Net interest income after provision for impairment | | **4,526,761** | **1,448,220** |
| Fee and commission income | 5 | 1,757,978 | 1,191,323 |
| Net gain on financial instruments at fair value through profit or loss | | 83,474 | 429,497 |
| Net realized gain on available-for-sale assets | | 338,527 | 61,633 |
| Foreign exchange gains, net | | 232,039 | 212,098 |
| Other operating income | | 181,488 | 117,032 |
| **Non-interest income** | | **2,593,506** | **2,011,583** |
| Salaries and employment benefits | 6 | (1,373,503) | (1,064,102) |
| Administrative expenses | 6 | (1,287,388) | (868,148) |
| Provision for impairment of other assets and credit related commitments | 7 | (143,438) | (193,314) |
| Depreciation of property and equipment | 14 | (178,163) | (106,625) |
| Fee and commission expense | | (102,363) | (84,653) |
| State deposit insurance scheme contributions | | (153,049) | (82,651) |
| Other operating expenses | | (129,840) | (88,923) |
| **Non-interest expense** | | **(3,367,744)** | **(2,488,416)** |
| **Income before income taxes** | | **3,752,523** | **971,387** |
| Income tax | 8 | (731,147) | (191,425) |
| **Net income** | | **3,021,376** | **779,962** |
| **Other comprehensive income** | | | |
| Revaluation reserve for available-for-sale securities | | (372,159) | 469,456 |
| Revaluation of buildings | | - | 625,531 |
| Income tax related to other comprehensive income | | 74,432 | (218,998) |
| **Other comprehensive (loss) income for the period, net of tax** | | **(297,727)** | **875,989** |
| **Comprehensive income for the period** | | **2,723,649** | **1,655,951** |

Chairman of the Management Board — Alexander N.Nikolashin

Chief Accountant — Svetlana V.Sass

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

| | Notes | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 9 | 23,336,426 | 8,629,775 |
| Obligatory reserves with the Central Bank of the Russian Federation | | 756,584 | 401,006 |
| Due from credit institutions | 10 | 586,968 | 957,665 |
| Financial instruments at fair value through profit or loss | 11 | 27,475,153 | 12,472,290 |
| Available-for-sale securities | 12 | 4,461,645 | 3,235,045 |
| Loans to customers | 13 | 103,852,309 | 58,290,515 |
| Property and equipment | 14 | 4,255,117 | 2,616,418 |
| Other assets | 15 | 746,441 | 456,286 |
| **Total assets** | | **165,470,643** | **87,059,000** |
| **LIABILITIES AND EQUITY** | | | |
| Deposits by the Central Bank of the Russian Federation | 16 | - | 6,129,195 |
| Deposits by credit institutions | 17 | 27,863,284 | 11,052,903 |
| Deposits by customers | 18 | 93,555,780 | 45,624,691 |
| Debt securities issued | 19 | 28,783,344 | 12,385,902 |
| Deferred tax liability | 8 | 493,903 | 250,262 |
| Current tax liability | 8 | 142,237 | 153,797 |
| Other liabilities | 20 | 865,000 | 418,804 |
| **Total liabilities** | | **151,703,548** | **76,015,554** |
| **Equity** | | | |
| Share capital | 21 | 7,138,088 | 7,138,088 |
| Additional paid-in capital | | 162,686 | 162,686 |
| Revaluation surplus for buildings | | 500,424 | 500,424 |
| Revaluation reserve for available-for-sale securities | | 28,067 | 325,794 |
| Retained earnings | | 5,937,830 | 2,916,454 |
| **Total equity** | | **13,767,095** | **11,043,446** |
| **Total liabilities and equity** | | **165,470,643** | **87,059,000** |

| | | | |
|---|---|---|---|
| Commitments and Contingencies | 22-24 | | |

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

| | Notes | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net income** | | 3,021,376 | 779,962 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for impairment of loans | | 1,539,798 | 2,465,362 |
| Depreciation and amortization | | 180,323 | 107,767 |
| Deferred tax expense (benefit) | | 318,073 | (202,534) |
| Revaluation of financial instruments at fair value through profit or loss | | 226,804 | (490,759) |
| Provision for impairment of other assets and credit related commitments | | 143,438 | 193,314 |
| Accrued interest income | | (827,388) | (153,493) |
| Accrued interest expense | | 909,363 | 161,032 |
| Impairment of available-for-sale securities | | - | 175,722 |
| Other | | (190,096) | 110,310 |
| **Operating cash flows before changes in operating assets and liabilities** | | **5,321,691** | **3,146,683** |
| **(Increase) decrease in operating assets** | | | |
| Obligatory reserves with the Central Bank of the Russian Federation | | (355,578) | (344,171) |
| Due from credit institutions | | 309,899 | (628,446) |
| Financial instruments at fair value through profit or loss | | (15,018,949) | (12,212,968) |
| Loans to customers | | (47,051,333) | (20,348,382) |
| Other assets | | (564,398) | (76,677) |
| **Increase (decrease) in operating liabilities** | | | |
| Deposits by credit institutions and the Central Bank of the Russian Federation | | 6,749,875 | (3,888,872) |
| Deposits by customers | | 42,458,167 | 21,375,353 |
| Debt securities issued | | 12,117,623 | 3,688,965 |
| Other liabilities | | 492 | (178,074) |
| **Net cash from (used in) operations** | | **3,967,489** | **(9,466,589)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net (purchase) sale of available-for-sale securities | | (1,529,672) | 4,920,606 |
| Net purchase of property and equipment and intangible assets | | (1,401,581) | (110,004) |
| **Net cash (used in) from investing activities** | | **(2,931,253)** | **4,810,602** |

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

| | Notes | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Issuance of common stock | | - | 3,000,000 |
| Receipts of subordinated borrowings | | 6,614,638 | - |
| Receipts of syndicated borrowings | | 4,356,750 | - |
| Repayment of syndicated borrowings | | (892,263) | (2,371,122) |
| Proceeds from issuance of bonds | | 5,270,896 | 7,626,060 |
| Repayment of bonds | | (1,478,592) | (5,440,670) |
| **Net cash from financing activities** | | **13,871,429** | **2,814,268** |
| **Effect of exchange rates changes on cash and cash equivalents** | | (201,014) | 116,107 |
| **Change in cash and cash equivalents** | | **14,706,651** | **(1,725,612)** |
| Cash and cash equivalents, beginning of the period | | 8,629,775 | 10,355,387 |
| **Cash and cash equivalents, end of the period** | 9 | **23,336,426** | **8,629,775** |

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

| | **Common stock** | **Additional paid-in capital** | **Revaluation surplus for buildings** | **Revaluation reserve for available-for-sale assets** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|---|---|
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **1 January 2009** | **4,138,088** | **162,686** | **-** | **(49,771)** | **2,136,492** | **6,387,495** |
| Total comprehensive income for the period | - | - | 500,424 | 375,565 | 779,962 | 1,655,951 |
| Shares issued | 3,000,000 | - | - | - | - | 3,000,000 |
| **31 December 2009** | **7,138,088** | **162,686** | **500,424** | **325,794** | **2,916,454** | **11,043,446** |
| Total comprehensive income for the period | - | - | - | (297,727) | 3,021,376 | 2,723,649 |
| **31 December 2010** | **7,138,088** | **162,686** | **500,424** | **28,067** | **5,937,830** | **13,767,095** |

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

# 1 Background

## Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

CREDIT BANK OF MOSCOW was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 30 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 51 branches, and ATMs and payment terminals totaling 402 and 1737 items, respectively.

The principal subsidiaries of the Group are as follows:

| | | | | Degree of control, % | |
|---|---|---|---|---|---|
| **Name** | **Date of incorporation** | **Country of incorporation** | **Principal Activities** | **31 December 2010** | **31 December 2009** |
| CBOM Finance p.l.c. | 17 Aug 2006 | Ireland | Raising finance | 100% | 100% |
| MKB-Invest | 4 June 2007 | Russia | Operations with securities | 100% | 100% |
| MKB-Leasing | 20 Sep 2005 | Russia | Finance leasing | 100% | 100% |

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. However CBOM Finance p.l.c. was established under terms that impose strict limits on the decision-making powers of its management. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

## Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

**Supervisory Board**

| | |
|---|---|
| Sandy Vaci | Chairman |
| Richard Damien Glasspool | Member |
| Genadi Lewinski | Member |
| Roman I. Avdeev | Member |
| Alexander N. Nikolashin | Member |
| Anton R. Avdeev | Member |
| Nikolay V. Kosarev | Member |
| Vladimir A. Chubar | Member |

Related party transactions are detailed in note 26.

### Russian business environment

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

## 2 Basis of preparation

### Statement of compliance

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

### Basis of measurement

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

### Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RUR). Management determined the functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the presentation currency for the purposes of these consolidated financial statements.

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

### Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13
- building revaluation estimates - note 14.

## 3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies described at the end of this note.

## Basis of consolidation

### *Subsidiaries*

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

### *Special purpose entities*

The Bank established a special purpose entity (SPE) for trading and investment purposes. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Bank via a number of agreements.

## Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognized in the consolidated statement of comprehensive income.

## Inflation accounting

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

## Cash and cash equivalents

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability.

## Financial instruments

### *Classification*

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

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

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

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

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

### *Recognition*

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

### *Measurement*

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

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

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

- held-to-maturity investments which are measured at amortized cost using the effective interest method and,

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

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

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

### *Fair value measurement principles*

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

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

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

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

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

### *Gains and losses on subsequent measurement*

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

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

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

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

### *Derecognition*

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

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### *Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest method.

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

### *Offsetting*

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

## Property and equipment

### *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

### *Revaluation*

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income directly in equity.

### *Leased assets*

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

### *Depreciation*

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

| | **Years** |
|---|---|
| Buildings | 50 |
| Furniture and other property | 6 |
| Computers and office equipment | 4 |
| Vehicles | 5 |

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

## Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

## Impairment

### *Financial assets carried at amortized cost*

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

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

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

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

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

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

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

### *Financial assets carried at cost*

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

All impairment losses in respect of these investments are recognized in the consolidated statement of comprehensive income and can not be reversed.

### *Available-for-sale financial assets*

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

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

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

### *Non financial assets*

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

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

## Provisions

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

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

## Credit related commitments

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

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

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

## Share capital

### *Repurchase of share capital*

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

### *Dividends*

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

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

## Taxation

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

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

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

## Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

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

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

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

## Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

## Comparative information

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

| | **2009 as previously reported RUR'000** | **2009 as currently reported RUR'000** |
|---|---|---|
| **Reclassification of cash and cash equivalents from statement of financial position captions "Cash and due from the Central Bank of the Russian Federation", "Due from credit institutions" into separate statement of financial position caption "Cash and cash equivalents"** | | |
| Cash and cash equivalents | - | 8,629,775 |
| Cash and due from the Central Bank of the Russian Federation | 6,457,166 | 401,006 |
| Due from credit institutions | 3,531,280 | 957,665 |

## New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts are expected to be issued during the first half of 2011. Management recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in a foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

# 4 Net interest income

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 11,868,667 | 8,033,840 |
| Financial instruments at fair value through profit or loss and available-for-sale securities | 2,626,061 | 1,422,654 |
| Due from credit institutions and the Central Bank of the Russian Federation | 50,263 | 128,297 |
| | **14,544,991** | **9,584,791** |
| **Interest expense** | | |
| Deposits by customers | (5,446,181) | (2,931,465) |
| Debt securities issued | (2,179,243) | (1,320,755) |
| Deposits by credit institutions and the Central Bank of the Russian Federation | (853,008) | (1,418,989) |
| | **(8,478,432)** | **(5,671,209)** |
| **Net interest income** | **6,066,559** | **3,913,582** |

# 5 Fee and commission income

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Cash collection delivery | 549,536 | 443,509 |
| Guarantees and letters of credit | 492,866 | 307,016 |
| Settlements and wire transfers | 458,847 | 271,577 |
| Plastic cards | 116,925 | 59,686 |
| Other cash operations | 77,280 | 60,563 |
| Other | 62,524 | 48,972 |
| **Fee and commission income** | **1,757,978** | **1,191,323** |

# 6 Salaries, employment benefits and administrative expenses

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Salaries | 1,143,744 | 890,184 |
| Social security costs | 216,439 | 158,955 |
| Other | 13,320 | 14,963 |
| **Salaries and employment benefits** | **1,373, 503** | **1,064,102** |

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Occupancy | 332,191 | 183,274 |
| Operating taxes | 290,234 | 141,435 |
| Advertising and business development | 261,149 | 222,868 |
| Security | 123,726 | 117,170 |
| Property maintenance | 77,378 | 69,967 |
| Communications | 59,827 | 52,775 |
| Computer maintenance and software expenses | 43,310 | 24,125 |
| Transport | 40,335 | 30,612 |
| Other | 59,238 | 25,922 |
| **Administrative expenses** | **1,287,388** | **868,148** |

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

# 7 Provision for impairment of other assets and credit related commitments

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Provision for impairment of credit related commitments | 96,830 | 148,985 |
| Provision for impairment of other assets | 46,608 | 44,329 |
| | **143,438** | **193,314** |

# 8 Income tax

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Current tax charge | 413,074 | 393,959 |
| Deferred taxation | 318,073 | (202,534) |
| **Income tax expense** | **731,147** | **191,425** |

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2009: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Income before tax | 3,752,523 | 971,387 |
| Applicable statutory tax rate | 20% | 20% |
| Income tax using the applicable tax rate | 750,505 | 194,277 |
| Income taxed at lower rate | (30,307) | (9,622) |
| Net non-deductible costs | 10,949 | 6,770 |
| **Income tax expense** | **731,147** | **191,425** |

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Current tax liability | 142,237 | 153,797 |
| Deferred tax liability | 493,903 | 250,262 |
| **Income tax liability** | **636,140** | **404,059** |

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

| RUR'000 | Balance 1 January 2010 | Recognised in profit or loss | Recognised in equity | Balance 31 December 2010 |
|---|---|---|---|---|
| Due from credit institutions | (3,249) | 1,664 | - | (1,585) |
| Financial instruments at fair value through profit or loss | 137,604 | (82,221) | - | 55,383 |
| Available-for-sale securities | 23,919 | 49,128 | (74,432) | (1,385) |
| Loans to customers | (116,751) | 368,085 | - | 251,334 |
| Property and equipment | 189,075 | 45,069 | - | 234,144 |
| Other assets | (1,417) | (6,101) | - | (7,518) |
| Deposits by credit institutions and the Central Bank of the Russian Federation | 3,704 | 25,597 | - | 29,301 |
| Debt securities issued | (6,839) | 8,637 | - | 1,798 |
| Other liabilities | 24,216 | (91,785) | - | (67,569) |
| | **250,262** | **318,073** | **(74,432)** | **493,903** |

| RUR'000 | Balance 1 January 2009 | Recognised in profit or loss | Recognised in equity | Balance 31 December 2009 |
|---|---|---|---|---|
| Due from credit institutions | 1,407 | (4,656) | - | (3,249) |
| Financial instruments at fair value through profit or loss | - | 137,604 | - | 137,604 |
| Available-for-sale securities | 5,075 | (75,047) | 93,891 | 23,919 |
| Loans to customers | 172,624 | (289,375) | - | (116,751) |
| Property and equipment | 56,908 | 7,060 | 125,107 | 189,075 |
| Other assets | 3,671 | (5,088) | - | (1,417) |
| Deposits by credit institutions and the Central Bank of The Russian Federation | 282 | 3,422 | - | 3,704 |
| Debt securities issued | - | (6,839) | - | (6,839) |
| Other liabilities | (6,169) | 30,385 | - | 24,216 |
| | **233,798** | **(202,534)** | **218,998** | **250,262** |

## Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| RUR'000 | Amount before tax | Tax gain | Amount net-of-tax | Amount before tax | Tax expense | Amount net-of-tax |
| Revaluation reserve for available-for-sale securities | (372,159) | 74,432 | (297,727) | 469,456 | (93,891) | 375,565 |
| Revaluation of property and equipment | - | - | - | 625,531 | (125,107) | 500,424 |
| **Other comprehensive income** | **(372,159)** | **74,432** | **(297,727)** | **1,094,987** | **(218,998)** | **875,989** |

# 9 Cash and cash equivalents

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Cash on hand | 3,894,457 | 2,482,467 |
| Correspondent account with the Central Bank of the Russian Federation | 9,563,916 | 3,573,693 |
| **Nostro accounts with other banks** | | |
| rated AAA | 644 | - |
| rated from AA+ to AA- | 947,472 | 330,158 |
| rated from A+ to A- | 61,884 | 274,390 |
| rated BBB | 443,966 | 1,009,893 |
| rated from BB+ to BB- | 4,008 | - |
| rated from B+ to B- | 112,262 | 26,860 |
| not rated | 585,818 | 598,564 |
| **Total nostro accounts with other banks** | **2,156,054** | **2,239,865** |
| Due from credit institutions with maturity of less than 1 month | | |
| rated from AA+ to AA- | 458,512 | 323,630 |
| rated A- to A+ | 24,410 | - |
| rated BBB | 2,968,673 | - |
| rated from BB- to BB+ | 727,633 | - |
| rated from B+ to B- | 1,713,940 | - |
| not rated | 1,828,831 | 10,120 |
| **Total due from credit institutions with maturity of less than 1 month** | **7,721,999** | **333,750** |
| **Total cash and cash equivalents** | **23,336,426** | **8,629,775** |

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

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

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Settlements with the stock exchange are included in not rated nostro accounts in the amount of RUR 535,604 thousand as at 31 December 2010 (31 December 2009: RUR 480,751 thousand).

As at 31 December 2010 not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell ("reverse repo") in the amount of RUR 1,783,806 thousand (31 December 2009: none).

As at 31 December 2010 the Group has one counterparty (31 December 2009: none) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these facilities as at 31 December 2010 is RUR 3,184,487 thousand.

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

# 10 Due from credit institutions

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| **Term deposits** | | |
| rated from AA+ to AA- | 201,666 | - |
| rated from A+ to A- | - | 957,665 |
| rated from B+ to B- | 235,302 | - |
| not rated | 150,000 | - |
| **Total due from credit institutions** | **586,968** | **957,665** |

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 29.

# 11 Financial instruments at fair value through profit or loss

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| **Held by the Bank** | | |
| **Government and municipal bonds** | | |
| Russian Government Eurobonds | 2,059,403 | - |
| Russian Government Federal bonds (OFZ) | - | 931,583 |
| Moscow Government bonds | 425,309 | 408,359 |
| Regional authorities and municipal bonds | 787,634 | - |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 1,377,171 | 603,456 |
| from BB+ to BB- | 1,479,989 | 481,832 |
| from B+ to B- | 7,159,838 | 2,663,910 |
| not rated | 2,502,079 | 1,449,045 |
| **Total financial instruments at fair value through profit or loss held by the Bank** | **15,791,423** | **6,538,185** |
| **Pledged as collateral for interbank and other loans** | | |
| **Government and municipal bonds** | | |
| Regional authorities and municipal bonds | **-** | 652,608 |
| **Corporate bonds** | | |
| from BBB+ to BBB- | - | 104,267 |
| from BB+ to BB- | - | 103,089 |
| from B+ to B- | - | 1,383,011 |
| **Total financial instruments at fair value through profit or loss pledged as collateral for interbank and other loans** | **-** | **2,242,975** |
| **Pledged under sale and repurchase agreements** | | |
| **Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | 6,960,112 | 844,667 |
| Moscow Government bonds | 803,035 | 297,055 |
| Regional authorities and municipal bonds | 44,566 | - |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 1,544,220 | 647,642 |
| from BB+ to BB- | 1,493,081 | 1,150,835 |
| from B+ to B- | 838,716 | 402,165 |
| not rated | - | 348,766 |
| **Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements** | **11,683,730** | **3,691,130** |
| **Total financial instruments at fair value through profit or loss** | **27,475,153** | **12,472,290** |

As at 31 December 2010 debt instruments in the amount of RUR 24,153,390 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 10,197,400 thousand).

### Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2010 and 2009 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

| | **Notional amount** | | **Weighted average contractual exchange rates** | |
|---|---|---|---|---|
| | **2010 RUR'000** | **2009 RUR'000** | **2010** | **2009** |
| **Buy EUR sell USD** | | | | |
| Less than 3 months | 602,317 | 1,320,732 | 1.3230 | 1.4354 |
| **Buy RUR sell USD** | | | | |
| Less than 3 months | 239,769 | 26,452 | 30.4645 | 30.1995 |
| **Buy USD sell RUR** | | | | |
| Less than 3 months | 2,158,199 | 128,819 | 30.3972 | 29.9927 |
| **Buy EUR sell RUR** | | | | |
| Less than 3 months | 344,596 | 932,639 | 39.9440 | 43.1079 |
| | **3,344,881** | **2,408,642** | | |

# 12 Available-for-sale securities

| | **31 December 2010 RUR'000** | **31 December 2009 RUR'000** |
|---|---|---|
| **Held by the Bank** | | |
| **Government and municipal bonds** | | |
| Russian Government Eurobonds | - | 7,497 |
| Moscow Government bonds | - | 29,819 |
| Regional authorities and municipal bonds | 17,140 | 213,005 |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 147,373 | 69,631 |
| from BB+ to BB- | 915,370 | - |
| from B+ to B- | 2,655,298 | 666,565 |
| not rated | 465,186 | 32,651 |
| **Equity investments** | 59,799 | 70,025 |
| **Total available-for-sale securities held by the Bank** | **4,260,166** | **1,089,193** |

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| **Pledged as collateral for interbank and other loans** | | |
| **Government and municipal bonds** | | |
| Russian Government Eurobonds | - | 1,594,223 |
| Regional authorities and municipal bonds | - | 230,605 |
| **Corporate bonds** | | |
| from BB+ to BB- | - | 157,185 |
| **Promissory notes** | - | 66,580 |
| **Total available-for-sale securities pledged as collateral for interbank and other loans** | **-** | **2,048,593** |
| | | |
| **Pledged under sale and repurchase agreements** | | |
| **Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | 50,529 | 47,794 |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 33,523 | 49,465 |
| from B+ to B- | 117,427 | - |
| **Total available-for-sale securities pledged under sale and repurchase agreements** | **201,479** | **97,259** |
| **Total available-for-sale securities** | **4,461,645** | **3,235,045** |

As at 31 December 2010 debt instruments in the amount of RUR 2,436,745 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 2,996,160 thousand).

# 13 Loans to customers

| | 31 December 2010 RUR'000 | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|---|
| | **Loans** | **Impairment allowance** | **Loans** | **Impairment allowance** |
| **Loans to corporate clients** | **88,317,606** | **(1,990,001)** | **50,088,406** | **(1,003,134)** |
| | | | | |
| **Loans to individuals** | | | | |
| Auto loans | 5,478,500 | (87,657) | 1,947,239 | (139,619) |
| Mortgage loans | 7,641,432 | (430,242) | 5,582,649 | (362,826) |
| Other loans to individuals | 5,207,880 | (285,209) | 2,496,422 | (318,622) |
| **Total loans to individuals** | **18,327,812** | **(803,108)** | **10,026,310** | **(821,067)** |
| | | | | |
| **Gross loans to customers** | **106,645,418** | **(2,793,109)** | **60,114,716** | **(1,824,201)** |
| **Net loans to customers** | **103,852,309** | | **58,290,515** | |

**Credit quality of loan portfolio**

The following table provides information on credit quality of the loan portfolio as at 31 December 2010:

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to customers** | | | | |
| - Not past due | 104,463,388 | (1,662,364) | 102,801,024 | 1.6% |
| - Overdue less than 31 days | 357,274 | (41,642) | 315,632 | 11.7% |
| - Overdue 31-60 days | 78,384 | (27,312) | 51,072 | 34.8% |
| - Overdue 61-90 days | 118,576 | (42,282) | 76,294 | 35.7% |
| - Overdue 91-180 days | 242,943 | (120,561) | 122,382 | 49.6% |
| - Overdue 181-360 days | 286,708 | (191,925) | 94,783 | 66.9% |
| - Overdue more than 360 days | 1,098,145 | (707,023) | 391,122 | 64.4% |
| **Total loans to customers** | **106,645,418** | **(2,793,109)** | **103,852,309** | **2.6%** |

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

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to customers** | | | | |
| - Not past due | 57,826,397 | (793,085) | 57,033,312 | 1.4% |
| - Overdue less than 31 days | 245,683 | (22,810) | 222,873 | 9.3% |
| - Overdue 31-60 days | 126,988 | (24,200) | 102,788 | 19.1% |
| - Overdue 61-90 days | 122,023 | (56,089) | 65,934 | 46.0% |
| - Overdue 91-180 days | 395,372 | (114,527) | 280,845 | 29.0% |
| - Overdue 181-360 days | 622,488 | (379,955) | 242,533 | 61.0% |
| - Overdue more than 360 days | 775,765 | (433,535) | 342,230 | 55.9% |
| **Total loans to customers** | **60,114,716** | **(1,824,201)** | **58,290,515** | **3.0%** |

As at 31 December 2010, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUR 1,247,175 thousand (31 December 2009: RUR 655,577 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 31 December 2010 and 31 December 2009:

| | Gross loans | Impairment allowance | Net loans | Impairment to gross loans |
|---|---|---|---|---|
| | **RUR'000** | **RUR'000** | **RUR'000** | **%** |
| **Restructured loans** | | | | |
| - As at 31 December 2010 | 1,247,175 | (86,135) | 1,161,040 | 6.9% |
| - As at 31 December 2009 | 655,577 | (6,312) | 649,265 | 1.0% |

As at 31 December 2010, the gross amount of overdue loans with payments that are overdue at least one day, totals RUR 2,182,030 thousand, which represents 2.0% of the loan portfolio (31 December 2009: RUR 2,288,319 thousand and 3.8%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUR 1,627,796 thousand or 1.5% of the loan portfolio (31 December 2009: RUR 1,793,625 thousand and 3.0%, respectively).

NPLs together with restructured loans amount to RUR 2,874,971 thousand or 2.7% of the loan portfolio (31 December 2009: RUR 2,449,202 thousand and 4.1%, respectively).

As at 31 December 2010, the ratio of total impairment allowance to overdue loans equals 128.0%, the ratio of total impairment allowance to NPLs equals 171.6% and the ratio of total impairment allowance to NPLs together with the restructured loans equals 97.2% (31 December 2009: 79.7%, 101.7% and 74.5%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2010 and 31 December 2009 are as follows:

| | 2010<br>RUR'000 | 2009<br>RUR'000 |
|---|---|---|
| Balance at the beginning of the period | 1,824,201 | 506,140 |
| Net charge | 1,539,798 | 2,465,362 |
| Net write-offs | (570,890) | (1,147,301) |
| **Balance at the end of the period** | **2,793,109** | **1,824,201** |

As at 31 December 2010, interest accrued on overdue loans amounts to RUR 385,673 thousand (31 December 2009: RUR 214,939 thousand).

**Credit quality of loans to corporate clients portfolio**

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

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to corporate clients** | | | | |
| - Not past due | 87,733,857 | (1,597,527) | 86,136,330 | 1.8% |
| - Overdue less than 31 days | 119,781 | (16,689) | 103,092 | 13.9% |
| - Overdue 31-60 days | 9,993 | (3,796) | 6,197 | 38.0% |
| - Overdue 61-90 days | 19,427 | (9,008) | 10,419 | 46.4% |
| - Overdue 91-180 days | 40,310 | (21,419) | 18,891 | 53.1% |
| - Overdue 181-360 days | 159,452 | (117,458) | 41,994 | 73.7% |
| - Overdue more than 360 days | 234,786 | (224,104) | 10,682 | 95.5% |
| **Total loans to corporate clients** | **88,317,606** | **(1,990,001)** | **86,327,605** | **2.3%** |

The following table provides information on credit quality of loans to corporate clients as at 31 December 2009 :

| | Gross loans RUR'000 | Impairment allowance RUR'000 | Net loans RUR'000 | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to corporate clients** | | | | |
| - Not past due | 49,406,492 | (750,960) | 48,655,532 | 1.5% |
| - Overdue less than 31 days | 89,523 | (3,066) | 86,457 | 3.4% |
| - Overdue 31-60 days | 21,669 | (5,045) | 16,624 | 23.3% |
| - Overdue 61-90 days | 80,363 | (40,449) | 39,914 | 50.3% |
| - Overdue 91-180 days | 189,536 | (42,653) | 146,883 | 22.5% |
| - Overdue 181-360 days | 190,107 | (117,055) | 73,052 | 61.6% |
| - Overdue more than 360 days | 110,716 | (43,906) | 66,810 | 39.7% |
| **Total loans to corporate clients** | **50,088,406** | **(1,003,134)** | **49,085,272** | **2.0%** |

The Bank estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in economic environment for portfolios of loans for which no indications of impairment has been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management, generally, assumes a discount of 20-50 percent to its fair value, depending on type of collateral and market conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 863,276 thousand (31 December 2009: RUR 490,853 thousand).

### *Analysis of collateral*

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes. As of 31 December 2010 the Group plans to recover a portion of impaired lease contracts with gross amount of RUR 19,646 thousand (31 December 2009: RUR 67,843 thousand) through the sale of collateral with a fair value of RUR 9,455 thousand (31 December 2009: RUR 55,994 thousand).

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2010 are as follows:

| | **RUR'000** |
|---|---|
| Balance at the beginning of the period | 1,003,134 |
| Net charge | 1,237,765 |
| Net write-offs | (250,898) |
| **Balance at the end of the period** | **1,990,001** |

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2009 are as follows:

| | **RUR'000** |
|---|---|
| Balance at the beginning of the period | 241,563 |
| Net charge | 1,796,596 |
| Net write-offs | (1,035,025) |
| **Balance at the end of the period** | **1,003,134** |

### Credit quality of loans to individuals

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

| | Gross loans<br>RUR'000 | Impairment allowance<br>RUR'000 | Net loans<br>RUR'000 | Impairment to gross loans<br>% |
|---|---|---|---|---|
| **Auto loans** | | | | |
| - Not past due | 5,360,587 | (12,314) | 5,348,273 | 0.2% |
| - Overdue less than 31 days | 23,274 | (3,312) | 19,962 | 14.2% |
| - Overdue 31-60 days | 8,512 | (2,349) | 6,163 | 27.6% |
| - Overdue 61-90 days | 9,193 | (3,679) | 5,514 | 40.0% |
| - Overdue 91-180 days | 14,554 | (7,713) | 6,841 | 53.0% |
| - Overdue 181-360 days | 14,166 | (11,168) | 2,998 | 78.8% |
| - Overdue more than 360 days | 48,214 | (47,122) | 1,092 | 97.7% |
| **Total auto loans** | **5,478,500** | **(87,657)** | **5,390,843** | **1.6%** |
| **Mortgage loans** | | | | |
| - Not past due | 6,566,886 | (6,028) | 6,560,858 | 0.1% |
| - Overdue less than 31 days | 121,582 | (129) | 121,453 | 0.1% |
| - Overdue 31-60 days | 15,905 | (343) | 15,562 | 2.2% |
| - Overdue 61-90 days | 42,573 | (1,570) | 41,003 | 3.7% |
| - Overdue 91-180 days | 60,238 | (2,861) | 57,377 | 4.8% |
| - Overdue 181-360 days | 54,675 | (16,737) | 37,938 | 30.6% |
| - Overdue more than 360 days | 779,573 | (402,574) | 376,999 | 51.6% |
| **Total mortgage loans** | **7,641,432** | **(430,242)** | **7,211,190** | **5.6%** |
| **Other loans to individuals** | | | | |
| - Not past due | 4,802,058 | (46,495) | 4,755,563 | 1.0% |
| - Overdue less than 31 days | 92,637 | (21,512) | 71,125 | 23.2% |
| - Overdue 31-60 days | 43,974 | (20,824) | 23,150 | 47.4% |
| - Overdue 61-90 days | 47,383 | (28,025) | 19,358 | 59.1% |
| - Overdue 91-180 days | 127,841 | (88,568) | 39,273 | 69.3% |
| - Overdue 181-360 days | 58,415 | (46,562) | 11,853 | 79.7% |
| - Overdue more than 360 days | 35,572 | (33,223) | 2,349 | 93.4% |
| **Total other loans to individuals** | **5,207,880** | **(285,209)** | **4,922,671** | **5.5%** |
| **Total loans to individuals** | **18,327,812** | **(803,108)** | **17,524,704** | **4.4%** |

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

| | Gross loans | Impairment allowance | Net loans | Impairment to gross loans |
|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | % |
| **Auto loans** | | | | |
| - Not past due | 1,742,956 | (6,964) | 1,735,992 | 0.4% |
| - Overdue less than 31 days | 19,156 | (3,757) | 15,399 | 19.6% |
| - Overdue 31-60 days | 17,382 | (6,359) | 11,023 | 36.6% |
| - Overdue 61-90 days | 10,943 | (5,516) | 5,427 | 50.4% |
| - Overdue 91-180 days | 27,618 | (16,407) | 11,211 | 59.4% |
| - Overdue 181-360 days | 101,737 | (75,566) | 26,171 | 74.3% |
| - Overdue more than 360 days | 27,447 | (25,050) | 2,397 | 91.3% |
| **Total auto loans** | **1,947,239** | **(139,619)** | **1,807,620** | **7.2%** |
| **Mortgage loans** | | | | |
| - Not past due | 4,563,263 | (5,331) | 4,557,932 | 0.1% |
| - Overdue less than 31 days | 83,427 | (80) | 83,347 | 0.1% |
| - Overdue 31-60 days | 68,156 | (1,704) | 66,452 | 2.5% |
| - Overdue 61-90 days | 16,070 | (402) | 15,668 | 2.5% |
| - Overdue 91-180 days | 109,926 | (3,984) | 105,942 | 3.6% |
| - Overdue 181-360 days | 172,181 | (54,635) | 117,546 | 31.7% |
| - Overdue more than 360 days | 569,626 | (296,690) | 272,936 | 52.1% |
| **Total mortgage loans** | **5,582,649** | **(362,826)** | **5,219,823** | **6.5%** |
| **Other loans to individuals** | | | | |
| - Not past due | 2,113,686 | (29,830) | 2,083,856 | 1.4% |
| - Overdue less than 31 days | 53,577 | (15,907) | 37,670 | 29.7% |
| - Overdue 31-60 days | 19,781 | (11,092) | 8,689 | 56.1% |
| - Overdue 61-90 days | 14,647 | (9,722) | 4,925 | 66.4% |
| - Overdue 91-180 days | 68,292 | (51,483) | 16,809 | 75.4% |
| - Overdue 181-360 days | 158,463 | (132,699) | 25,764 | 83.7% |
| - Overdue more than 360 days | 67,976 | (67,889) | 87 | 99.9% |
| **Total other loans to individuals** | **2,496,422** | **(318,622)** | **2,177,800** | **12.8%** |
| **Total loans to individuals** | **10,026,310** | **(821,067)** | **9,205,243** | **8.2%** |

Management estimates loan impairment based on historical loss experience on these types of loans using historical loss migration patterns for the past twenty four months and fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- the Group can sell consumer and auto loans to individuals overdue more than 360 days for 7.63 % and 9.0 % of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 175,247 thousand (31 December 2009: RUR 92,052 thousand).

### *Analysis of collateral*

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured. As of 31 December 2010, the Bank estimates the fair value of private real estate undergoing foreclosure to be RUR 300,902 thousand (31 December 2009: RUR 316,931 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

### *Analysis of movements in the impairment allowance*

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

| | **Auto loans RUR'000** | **Mortgage loans RUR'000** | **Other loans to individuals RUR'000** | **Total RUR'000** |
|---|---|---|---|---|
| Balance at the beginning of the period | 139,619 | 362,826 | 318,622 | 821,067 |
| Net charge | 8,625 | 90,238 | 203,170 | 302,033 |
| Net write-offs | (60,587) | (22,822) | (236,583) | (319,992) |
| **Balance at the end of the period** | **87,657** | **430,242** | **285,209** | **803,108** |

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

| | **Auto loans RUR'000** | **Mortgage loans RUR'000** | **Other loans to individuals RUR'000** | **Total RUR'000** |
|---|---|---|---|---|
| Balance at the beginning of the period | 61,448 | 60,719 | 142,410 | 264,577 |
| Net charge | 111,281 | 302,107 | 255,378 | 668,766 |
| Net write-offs | (33,110) | - | (79,166) | (112,276) |
| **Balance at the end of the period** | **139,619** | **362,826** | **318,622** | **821,067** |

**Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Loans to individuals | 18,327,812 | 10,026,310 |
| Consumer electronics, appliances and computers | 13,135,208 | 9,418,115 |
| Food and farm products | 7,881,881 | 6,766,368 |
| Residential and commercial construction and development | 7,167,974 | 713,320 |
| Construction and decorative materials, furniture | 6,643,890 | 4,090,780 |
| Clothing, shoes, textiles and sporting goods | 6,320,591 | 3,399,728 |
| Financial | 5,895,633 | 19,663 |
| Property rental | 5,650,503 | 1,255,519 |
| Industrial equipment and machinery | 4,946,366 | 2,822,333 |
| Consumer chemicals, perfumes and hygiene products | 4,578,510 | 2,753,586 |
| Equipment leasing | 4,031,825 | 1,773,504 |
| Automotive, motorcycles and spare parts | 3,431,007 | 2,726,147 |
| Metallurgical | 3,203,615 | 1,740,984 |
| Paper, stationery and packaging products | 3,014,739 | 2,614,697 |
| Oil and industrial chemicals | 2,918,276 | 1,764,246 |
| Services | 2,720,873 | 1,842,839 |
| Telecommunications | 1,531,982 | 1,576,154 |
| Pharmaceutical and medical products | 1,390,506 | 638,306 |
| Industrial and infrastructure construction | 773,780 | 270,661 |
| Gardening and pet products | 516,667 | 321,242 |
| Electric utility | 498,302 | 2,013,045 |
| Products for home, gifts, jewelry and business accessories | 346,555 | 236,131 |
| Books, video, print and copy | 310,410 | 398,840 |
| Other | 1,408,513 | 932,198 |
| | **106,645,418** | **60,114,716** |
| Impairment allowance | (2,793,109) | (1,824,201) |
| | **103,852,309** | **58,290,515** |

### *Finance lease*

Finance lease receivables included in loans to customers are as follows:

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Gross investment in finance lease | 1,776,992 | 1,276,316 |
| Unearned interest income | (391,230) | (273,322) |
| **Net investment in finance lease before allowance** | **1,385,762** | **1,002,994** |
| Impairment allowance | **(310,522)** | **(48,115)** |
| **Net investment in finance lease** | **1,075,240** | **954,879** |

The contractual maturity of the net investment in leases is as follows:

| | 2010 RUR'000 | 2009 RUR'000 |
|---|---|---|
| Less than 1 year | 630,110 | 542,280 |
| Between 1 and 5 years | 442,093 | 411,445 |
| More than 5 years | 3,037 | 1,154 |
| | **1,075,240** | **954,879** |

**Loan maturities**

The maturity of the loan portfolio is presented in note 29.

# 14 Property and equipment

The movement in property and equipment for the year ended 31 December 2010 is presented in the table below:

| RUR'000 | Buildings | Vehicles | Computers and office equipment | Furniture and other property | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost/revalued amount | | | | | | |
| At 1 January 2010 | 2,215,029 | 101,912 | 64,511 | 526,051 | 21,311 | **2,928,814** |
| Additions | 1,897 | 66,811 | 22,235 | 277,871 | 1,477,543 | **1,846,357** |
| Disposals | - | (22,464) | (554) | (56,612) | - | **(79,630)** |
| **At 31 December 2010** | **2,216,926** | **146,259** | **86,192** | **747,310** | **1,498,854** | **4,695,541** |
| Accumulated depreciation | | | | | | |
| At 1 January 2010 | 42,026 | 43,195 | 39,848 | 187,327 | - | **312,396** |
| Depreciation charge | 54,027 | 21,402 | 11,529 | 91,205 | - | **178,163** |
| Disposals | - | (16,057) | (554) | (33,524) | - | **(50,135)** |
| **At 31 December 2010** | **96,053** | **48,540** | **50,823** | **245,008** | **-** | **440,424** |
| Carrying value | | | | | | |
| **At 31 December 2010** | **2,120,873** | **97,719** | **35,369** | **502,302** | **1,498,854** | **4,255,117** |

The movement in property and equipment for the year ended 31 December 2009 is presented in the table below:

| RUR'000 | Buildings | Vehicles | Computers and office equipment | Furniture and other property | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost/revalued amount | | | | | | |
| At 1 January 2009 | 1,587,664 | 86,285 | 55,377 | 354,191 | 42,941 | **2,126,458** |
| Additions | 3,357 | 25,028 | 9,327 | 217,209 | 15,324 | **270,245** |
| Disposals | (1,523) | (9,401) | (193) | (45,349) | (36,954) | **(93,420)** |
| Revaluation | 625,531 | - | - | - | - | **625,531** |
| **At 31 December 2009** | **2,215,029** | **101,912** | **64,511** | **526,051** | **21,311** | **2,928,814** |
| Accumulated depreciation | | | | | | |
| At 1 January 2009 | 20,392 | 33,445 | 28,441 | 157,572 | - | **239,850** |
| Depreciation charge | 21,854 | 18,292 | 11,574 | 54,905 | - | **106,625** |
| Disposals | (220) | (8,542) | (167) | (25,150) | - | **(34,079)** |
| **At 31 December 2009** | **42,026** | **43,195** | **39,848** | **187,327** | - | **312,396** |
| Carrying value | | | | | | |
| **At 31 December 2009** | **2,173,003** | **58,717** | **24,663** | **338,724** | **21,311** | **2,616,418** |

## Revalued assets

At 31 December 2009 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The carrying value of buildings as of 31 December 2010, if the buildings would not have been revalued, would be RUR 1,495,342 thousand (31 December 2009: RUR 1,547,472 thousand).

As at 31 December 2010 management did not perform revaluation of the buildings as the movement in the fair values of buildings being revalued did not change significantly during 2010.

# 15 Other assets

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Receivables | 469,950 | 231,085 |
| Prepaid expenses | 88,444 | 52,821 |
| Property held for sale | 66,271 | 98,359 |
| Intangibles | 4,677 | 11,281 |
| Other | 117,099 | 62,740 |
| **Total other assets** | **746,441** | **456,286** |

# 16 Deposits by the Central Bank of the Russian Federation

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Term deposits | - | 1,605,794 |
| Payables under repurchase agreements or collateral loans | - | 4,523,401 |
| **Total deposits by the Central Bank of the Russian Federation** | **-** | **6,129,195** |

# 17 Deposits by credit institutions

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Demand deposits | 53,986 | 36,473 |
| Term deposits | 10,194,233 | 5,291,736 |
| Syndicated loans | 5,213,680 | 1,825,518 |
| Subordinated debt | 1,234,830 | 604,884 |
| Payables under repurchase agreements | 11,166,555 | 3,294,292 |
| **Total deposits by credit institutions** | **27,863,284** | **11,052,903** |

Syndicated loans represents loans denominated in USD with effective interest rates ranging from 3.8% to 5.2% (31 December 2009: from 3.2% to 4.1%) and maturity from 2011 to 2015 (31 December 2009: from 2010 to 2011).

Subordinated debt represent loans denominated in USD with effective interest rates ranging from 5.7% to 8.5% (31 December 2009: 6.4%) and maturity from 2015 to 2017 (31 December 2009: 2015).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

### Concentrations of deposits by credit institutions

As at 31 December 2010 the Group has three counterparties (31 December 2009: two) whose deposits balance exceed 10% of the due to credit institutions. The gross value of these facilities as at 31 December 2010 is RUR 14,388,231 thousand (31 December 2009: RUR 4,032,910 thousand).

# 18 Deposits by customers

| | | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|---|
| Corporate customers | Demand | 11,142,438 | 5,564,236 |
| | Term | 25,630,335 | 8,309,781 |
| | Subordinated | 6,057,760 | - |
| **Total corporate customers** | | **42,830,533** | **13,874,017** |
| Individuals | Demand | 2,839,841 | 1,484,515 |
| | Term | 47,885,406 | 30,266,159 |
| **Total individuals** | | **50,725,247** | **31,750,674** |
| **Total deposits by customers** | | **93,555,780** | **45,624,691** |

## Concentrations of deposits by customers

As of 31 December 2010 and 2009, the are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

# 19 Debt securities issued

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Promissory notes issued at nominal value | 17,914,958 | 5,344,584 |
| Accrued interest | 215,005 | - |
| Unamortized discount on promissory notes | (487,842) | (207,768) |
| | **17,642,121** | **5,136,816** |
| Bonds issued | 11,141,223 | 7,249,086 |
| | **28,783,344** | **12,385,902** |

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

Bondholders are entitled to demand early redemption of bonds at their nominal value. The next date on which bondholders can demand redemption is October 2011. In note 29 bonds are presented on the early redemption option dates.

RUR denominated bonds issue 04 was issued in March 2008 with a fixed coupon rate of 11.5% for the first year of floatation. Coupon rate for the six month period was reset in March 2009 at 18% and in September 2009 at 15% until the final maturity date. In March 2011 the Bank repaid the bond at par.

RUR denominated bonds issue 05 was issued in April 2009 with a fixed coupon rate of 15% for the first year of floatation. Coupon rate for the six month period was reset in April 2010 at 8.5%

until April 2011. The remaining two coupon rates are to be defined by the Bank in April 2011 and October 2011.

RUR denominated bonds issue 06 was issued in August 2009 with a fixed coupon rate of 16% for the first year of floatation. Coupon rate for the six month period was reset in August 2010 at 9.4% until the final maturity date of 7 August 2012.

RUR denominated bonds issue 07 was issued in July 2010 with a fixed coupon rate of 9.76% for the first year of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 14 July 2015.

RUR denominated bonds issue 08 was issued in April 2010 with a fixed coupon rate of 9.7% for the first 1.5 years of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 8 April 2015.

# 20 Other liabilities

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Allowance for credit related commitments | 260,419 | 163,589 |
| Payables to suppliers | 198,981 | 81,761 |
| Deferred income | 69,714 | 10,828 |
| Operating taxes payable | 59,253 | 37,047 |
| Payables to Deposit Insurance Agency | 45,231 | 27,619 |
| Other | 231,402 | 97,960 |
| **Total other liabilities** | **865,000** | **418,804** |

# 21 Share capital

The share capital of the Bank consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprised 6,276,158,008 shares (31 December 2009: 6,276,158,008 shares) with par value of 1 RUR per share. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUR 861,930 thousand.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUR 1,254,331 thousand (2009: RUR 1,102,761 thousand) (unaudited).

# 22 Commitments

| | 31 December 2010 RUR'000 | 31 December 2009 RUR'000 |
|---|---|---|
| Guarantees and letters of credit | 15,419,408 | 11,137,417 |
| Undrawn loan commitments | 503,892 | 294,333 |
| | **15,923,300** | **11,431,750** |

# 23 Operating leases

### Leases as lessee

| | 2010 RUR'000 | 2009 RUR'000 |
|---|---|---|
| Less than 1 year | 128,331 | 100,161 |
| Between 1 and 5 years | 174,282 | 123,463 |
| More than 5 years | 102,328 | 75,510 |
| | **404,941** | **299,134** |

# 24 Contingencies

### Insurance

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

### Litigation

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

### Taxation contingencies

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

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

# 25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

# 26 Related party transactions

The outstanding balances and related average interest rates as at 31 December with related parties are as follows:

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **Amount** | **Average effective interest rate** | **Amount** | **Average effective interest rate** |
| **Loans to customers** | | | | |
| Ultimate shareholder | 308,765 | 11.4% | 207,682 | 15.7% |
| Under control of ultimate shareholder | 333,697 | 10.0% | 411,475 | 16.7% |
| Management | 39,529 | 10.7% | 27,188 | 12.4% |
| **Total loans** | **681,991** | | **646,345** | |
| **Deposits by customers** | | | | |
| Ultimate shareholder | 51,069 | 10.4% | 247,217 | 11.7% |
| Parent company | 5,489 | 8.1% | 41,060 | 15.8% |
| Under control of ultimate shareholder | 6,310,867 | 6.3% | 128,451 | 2.0% |
| Management | 17,913 | 9.8% | 4,446 | 12.9% |
| **Total deposits** | **6,385,338** | | **421,174** | |

Amounts included in the statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

| | **31 December 2010 RUR'000** | **31 December 2009 RUR'000** |
|---|---|---|
| **Interest income on loans to customers** | | |
| Ultimate shareholder | 12,244 | 14,809 |
| Under control of ultimate shareholder | 17,377 | 51,537 |
| Management | 2,980 | 3,371 |
| **Total interest income on loans to customers** | **32,601** | **69,717** |
| **Interest expense on deposits by customers and promissory notes** | | |
| Ultimate shareholder | 18,692 | 23,369 |
| Under control of ultimate shareholder | 49,890 | 2,569 |
| Management | 1,523 | 575 |
| Parent company | 922 | 6,500 |
| **Total interest expense on deposits by customers and promissory notes** | **71,027** | **33,013** |

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

| | **2010 RUR'000** | **2009 RUR'000** |
|---|---|---|
| Members of the Supervisory Board | 2,315 | 2,903 |
| Members of the Management Board | 39,373 | 27,284 |
| | **41,688** | **30,187** |

# 27 Capital management

The Central Bank of the Russian Federation sets and monitors capital requirements for the Bank.

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

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

| | **2010 RUR'000** | **2009 RUR'000** |
|---|---|---|
| Tier 1 capital | | |
| Share capital and additional paid-in capital | 7,300,774 | 7,300,774 |
| Retained earnings | 5,937,830 | 2,916,454 |
| **Total tier 1 capital** | **13,238,604** | **10,217,228** |
| Tier 2 capital | | |
| Revaluation surplus for buildings | 500,424 | 500,424 |
| Revaluation reserve for investments available-for-sale | 28,067 | 325,794 |
| **Subordinated loans** | | |
| Subordinated loan from EBRD | 579,061 | 604,884 |
| Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK | 609,538 | - |
| Subordinated loans from WELLCREEK CORPORATION | 6,000,000 | - |
| Less limitation of subordinated capital to 50% of tier 1 | (569,297) | - |
| **Total tier 2 capital** | **7,147,793** | **1,431,102** |
| **Total capital** | **20,386,397** | **11,648,330** |
| **Risk-weighted assets** | | |
| Banking book | 119,410,805 | 67,618,009 |
| Trading book | 30,390,992 | 15,619,814 |
| **Total risk weighted assets** | **149,801,797** | **83,237,823** |
| **Total capital expressed as a percentage of risk-weighted assets (total capital ratio)** | **13.6** | **14.0** |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)** | **8.8** | **12.3** |

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the years ended 31 December 2010 and 2009.

# 28 Analysis by segment

The Group has five reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the First deputy of the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promisory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on statutory financial information, as included in the internal management reports that are reviewed by the First deputy of the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

| | 2010 RUR'000 | 2009 RUR'000 |
|---|---|---|
| **ASSETS** | | |
| Corporate banking | 80,175,809 | 46,689,068 |
| Retail banking | 20,510,355 | 9,871,494 |
| Treasury | 55,263,244 | 25,673,818 |
| Cash operations | 4,252,559 | 2,696,122 |
| Unallocated assets | 2,949,964 | 1,605,018 |
| **Total assets** | **163,151,931** | **86,535,520** |
| **LIABILITIES** | | |
| Corporate banking | 43,668,169 | 13,865,315 |
| Retail banking | 50,177,207 | 31,372,727 |
| Treasury | 44,566,186 | 24,862,583 |
| International business | 10,580,271 | 5,190,420 |
| Unallocated liabilities | 2,609,003 | 1,293,002 |
| **Total liabilities** | **151,600,836** | **76,584,047** |

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

| **RUR'000** | **Corporate banking** | **Retail banking** | **Treasury** | **International business** | **Cash operations** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|
| External interest income | 9,217,357 | 2,023,678 | 2,220,537 | - | - | - | 13,461,572 |
| Fee and commission income | 1,474,816 | 376,684 | 102,123 | 73,067 | 574,063 | - | 2,600,753 |
| Net gain on securities | - | - | 713,392 | - | - | - | 713,392 |
| Net foreign exchange income (loss) | (4,879) | 28,142 | (29,091) | - | - | - | (5,828) |
| Other income | 32,456 | 58,501 | - | - | - | - | 90,957 |
| (Expenses) revenue from other segments | (4,282,550) | 3,355,381 | 98,059 | 829,110 | - | - | - |
| **Revenue** | **6,437,200** | **5,842,386** | **3,105,020** | **902,177** | **574,063** | **-** | **16,860,846** |
| | | | | | | | |
| Impairment losses | (2,244,200) | (374,734) | (108,595) | - | - | - | (2,727,529) |
| Interest expense | (1,402,924) | (4,449,783) | (2,324,419) | (475,097) | - | - | (8,652,223) |
| Fee and commission expense | (25,705) | - | (13,342) | (131,042) | - | - | (170,089) |
| Depreciation | (19,135) | (116,525) | (227) | (10) | (26,138) | - | (162,035) |
| General administrative expenses | (419,156) | (1,163,332) | (58,286) | (23,051) | (469,364) | (835,502) | (2,968,691) |
| Other expenses | (90,029) | (6,097) | (47,635) | - | - | (47,898) | (191,659) |
| **Income before income taxes** | **2,236,051** | **(268,085)** | **552,516** | **272,977** | **78,561** | **(883,400)** | **1,988,620** |
| Income tax | | | | | | (314,062) | **(314,062)** |
| **Segment result** | **2,236,051** | **(268,085)** | **552,516** | **272,977** | **78,561** | **(1,197,462)** | **1,674,558** |

Segment information for the main reportable segments for the year ended 31 December 2009 is set below:

| **RUR'000** | **Corporate banking** | **Retail banking** | **Treasury** | **International business** | **Cash operations** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|
| External interest income | 6,392,026 | 1,179,501 | 1,627,705 | - | - | - | 9,199,232 |
| Fee and commission income | 907,877 | 205,861 | 84,377 | - | 443,952 | - | 1,642,067 |
| Net gain on securities | - | - | 787,270 | - | - | - | 787,270 |
| Net foreign exchange income (loss) | 180,012 | 169,568 | (155,153) | - | - | 20,091 | 214,518 |
| Other income | 43,076 | 62,881 | - | - | - | 13,051 | 119,008 |
| (Expenses) revenue from other segments | (3,516,001) | 1,867,439 | 310,250 | 1,338,312 | - | - | - |
| **Revenue** | **4,006,990** | **3,485,250** | **2,654,449** | **1,338,312** | **443,952** | **33,142** | **11,962,095** |
| Impairment losses | (1,645,976) | (772,252) | (74,319) | - | - | - | (2,492,547) |
| Interest expense | (443,264) | (2,603,604) | (2,183,487) | (408,560) | - | - | (5,638,915) |
| Fee and commission expense | (1,321) | (5,265) | (22,134) | (73,604) | - | - | (102,324) |
| Depreciation | (548) | (55,520) | (688) | (41) | (20,977) | - | (77,774) |
| General administrative expenses | (59,680) | (665,970) | (20,771) | (29,021) | (378,529) | (1,045,387) | (2,199,358) |
| Other expenses | - | (67,279) | - | - | - | (113,113) | (180,392) |
| **Income before income taxes** | **1,856,201** | **(684,640)** | **353,050** | **827,086** | **44,446** | **(1,125,358)** | **1,270,785** |
| Income tax | - | - | - | - | - | (240,007) | **(240,007)** |
| **Segment result** | **1,856,201** | **(684,640)** | **353,050** | **827,086** | **44,446** | **(1,365,365)** | **1,030,778** |

The segment breakdown of additions to property and equipment for the years ended 31 December 2010 and 2009 is set out below:

| | 2010 RUR'000 | 2009 RUR'000 |
|---|---|---|
| Retail banking | 1,721,836 | 203,286 |
| Cash operations | 67,314 | 30,518 |
| Corporate banking | 3,286 | 14,362 |
| Treasury | 58 | 914 |
| International business | 8 | 457 |
| Unallocated assets | 53,855 | 20,708 |
| **Total additions to property and equipment** | **1,846,357** | **270,245** |

### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

| | 2010 RUR'000 | 2009 RUR'000 |
|---|---|---|
| Income before income taxes per management accounting | 1,988,620 | 1,270,785 |
| Consolidation adjustments | 26,173 | 4,921 |
| Interest and commission accruals | 440,679 | (84,729) |
| Fair value and other adjustments to securities | (331,694) | (296,140) |
| Adjustments to impairment allowances | 1,187,731 | (166,129) |
| Personnel, administrative and operating expenses accruals | 479,954 | 155,606 |
| Other adjustments | (38,940) | 87,073 |
| **Income before income tax per IFRS financials** | **3,752,523** | **971,387** |

| | 31 December 2010 RUR'000 | | 31 December 2009 RUR'000 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Total assets/liabilities per management accounting** | 163,151,931 | 151,600,836 | 86,535,520 | 76,584,047 |
| Accrual of administrative and operating expenses | (2,950) | 85,693 | - | 48,766 |
| Consolidation adjustments | 25,695 | (75,389) | (678,977) | (753,888) |
| Revaluation and other adjustments to property and equipment | 137,237 | - | 913,437 | - |
| Adjustment of current and deferred tax assets and liabilities | (44,453) | 623,340 | - | 385,102 |
| Accrual of interest and commissions | (213,202) | (151,467) | (360,981) | (12,377) |
| Adjustments to impairment allowances | 2,612,705 | (404,687) | 659,753 | (245,221) |
| Fair value adjustment to securities | (196,320) | - | (9,752) | - |
| Accrual of employee compensation payable | - | 25,222 | - | 9,125 |
| **Total assets/liabilities per IFRS financials** | **165,470,643** | **151,703,548** | **87,059,000** | **76,015,554** |

# 29 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

**Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

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

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

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

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and borrowers' credit worthiness evaluation procedures and verification procedures developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

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

| | **31 December 2010 RUR'000** | **31 December 2009 RUR'000** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 19,441,969 | 6,147,308 |
| Obligatory reserves with the Central Bank of the Russian Federation | 756,584 | 401,006 |
| Due from credit institutions | 586,968 | 957,665 |
| Financial instruments at fair value through profit or loss | 27,475,153 | 12,472,290 |
| Available-for-sale securities | 4,401,846 | 3,165,020 |
| Loans to customers | 103,852,309 | 58,290,515 |
| Other assets | 479,138 | 346,646 |
| **Total maximum exposure to credit risk on statement of financial position** | **156,993,967** | **81,780,450** |

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to unrecognised credit risk at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

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

### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

### 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 deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following table as at 31 December 2010 shows the undiscounted cash flows from financial liabilities on the basis of their earliest possible contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis for financial liabilities as at 31 December 2010 and 2009 is as follows:

| **31 December 2010** | **Less than 1 month RUR'000** | **1 to 6 months RUR'000** | **6 months to 1 year RUR'000** | **Over 1 year RUR'000** | **Total RUR'000** |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Deposits by credit institutions | 12,755,231 | 4,951,238 | 6,671,004 | 4,672,006 | **29,049,479** |
| Deposits by customers | 22,350,904 | 28,234,189 | 18,688,821 | 31,793,379 | **101,067,293** |
| Debt securities issued | 1,571,491 | 7,675,117 | 12,525,993 | 8,799,614 | **30,572,215** |
| **Total potential future payments for financial obligations as at 31 December 2010** | **36,677,626** | **40,860,544** | **37,885,818** | **45,264,999** | **160,688,987** |
| Guarantees and letters of credit | 690,760 | 10,442,552 | 3,631,970 | 654,126 | **15,419,408** |
| Credit related commitments | 503,892 | - | - | - | **503,892** |

| **31 December 2009** | **Less than 1 month RUR'000** | **1 to 6 months RUR'000** | **6 months to 1 year RUR'000** | **Over 1 year RUR'000** | **Total RUR'000** |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Deposits by the Central Bank of the Russian Federation | 1,641,461 | 3,566,541 | 1,081,370 | - | **6,289,372** |
| Deposits by credit institutions | 4,726,087 | 1,872,443 | 1,628,673 | 3,492,153 | **11,719,356** |
| Deposits by customers | 12,653,364 | 17,576,871 | 9,535,569 | 10,526,534 | **50,292,338** |
| Debt securities issued | 1,081,830 | 7,266,483 | 2,854,005 | 2,104,310 | **13,306,628** |
| **Total potential future payments for financial obligations as at 31 December 2009** | **20,102,742** | **30,282,338** | **15,099,617** | **16,122,997** | **81,607,694** |
| Guarantees and letters of credit | 245,752 | 4,812,211 | 6,072,272 | 7,182 | **11,137,417** |
| Credit related commitments | 294,333 | - | - | - | **294,333** |

The following tables show all assets and liabilities as at 31 December 2010 and 2009 by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss and available-for-sale that are approved by the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month". The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2010 the contractual maturities of all securities included in financial assets at fair value through profit or loss and available-for-sale securities were as follows:

| | **Less than 1 month RUR'000** | **1 to 6 months RUR'000** | **6 months to 1 year RUR'000** | **1 to 3 years RUR'000** | **3 to 5 years RUR'000** | **Over 5 years RUR'000** | **No maturity RUR'000** | **Total RUR'000** |
|---|---|---|---|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | - | 3,211,012 | 4,104,788 | 8,560,974 | 9,536,426 | 2,061,953 | - | **27,475,153** |
| Available-for-sale securities | - | 729,542 | 777,134 | 2,266,619 | 525,147 | 103,404 | 59,799 | **4,461,645** |

As at 31 December 2009 the contractual maturities of all securities included into financial assets at fair value through profit or loss were as follows:

| | **Less than 1 month RUR'000** | **1 to 6 months RUR'000** | **6 months to 1 year RUR'000** | **1 to 3 years RUR'000** | **3 to 5 years RUR'000** | **Over 5 years RUR'000** | **No maturity RUR'000** | **Total RUR'000** |
|---|---|---|---|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | 268,803 | 2,361,139 | 3,071,495 | 4,082,599 | 2,439,831 | 248,423 | - | **12,472,290** |
| Available-for-sale securities | 223,765 | 763,866 | 29,819 | 81,966 | 463,884 | 1,601,720 | 70,025 | **3,235,045** |

As at 31 December 2010, the Bank had no funds borrowed or available for borrowing under a credit line agreement from the Central Bank of Russian Federation. As at 31 December 2009, the Bank had a revolving line of credit with the Central Bank of Russian Federation, allowing it to draw funds within given limits at any time during the term of the agreement. Cash flows associated with the credit line are presented in the relevant maturity table below.

**31 December 2010**

| | Less than 1 month RUR'000 | 1 to 6 months RUR'000 | 6 months to 1 year RUR'000 | 1 to 3 years RUR'000 | 3 to 5 years RUR'000 | Over 5 years RUR'000 | No maturity RUR'000 | Overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and cash equivalents | 23,336,426 | - | - | - | - | - | - | - | **23,336,426** |
| Obligatory reserves with the Central Bank of the Russian Federation | - | - | - | - | - | - | 756,584 | - | **756,584** |
| Due from credit institutions | - | 436,968 | 150 000 | - | - | - | - | - | **586,968** |
| Financial instruments at fair value through profit or loss | 24,153,390 | 582,640 | 708,848 | 851,524 | 1,178,751 | - | - | - | **27,475,153** |
| Available-for-sale securities | 2,436,745 | - | 310,803 | 1,094,020 | 525,147 | 35,131 | 59,799 | - | **4,461,645** |
| Loans to customers | 5,991,701 | 34,496,158 | 23,184,002 | 25,715,433 | 8,580,143 | 4,833,587 | - | 1,051,285 | **103,852,309** |
| Property and equipment | - | - | - | - | - | - | 4,255,117 | - | **4,255,117** |
| Other assets | 164,058 | 166,952 | 245,111 | 74,220 | 12,554 | - | 83,546 | - | **746,441** |
| | **56,082,320** | **35,682,718** | **24,598,764** | **27,735,197** | **10,296,595** | **4,868,718** | **5,155,046** | **1,051,285** | **165,470,643** |
| **LIABILITIES** | | | | | | | | | |
| Deposits by credit institutions | 12,740,236 | 4,859,385 | 6,504,503 | 1,959,843 | 1,189,779 | 609,538 | - | - | **27,863,284** |
| Deposits by customers | 22,340,004 | 28,062,409 | 18,461,959 | 14,794,925 | 3,838,723 | 6,057,760 | - | - | **93,555,780** |
| Debt securities issued | 1,475,287 | 7,291,566 | 11,830,121 | 8,186,370 | - | - | - | - | **28,783,344** |
| Income tax liability | 142,237 | - | - | - | - | - | 493,903 | - | **636,140** |
| Other liabilities | 319,510 | 110,673 | 103,946 | - | - | - | 330,871 | - | **865,000** |
| | **37,017,274** | **40,324,033** | **36,900,529** | **24,941,138** | **5,028,502** | **6,667,298** | **824,774** | **-** | **151,703,548** |
| **Net position** | **19,065,046** | **(4,641,315)** | **(12,301,765)** | **2,794,059** | **5,268,093** | **(1,798,580)** | **4,330,272** | **1,051,285** | **13,767,095** |
| **Accumulated gap** | **19,065,046** | **14,423,731** | **2,121,966** | **4,916,025** | **10,184,118** | **8,385,538** | **12,715,810** | **13,767,095** | |

**31 December 2009**

| | **Less than 1 month RUR'000** | **1 to 6 months RUR'000** | **6 months to 1 year RUR'000** | **1 to 3 years RUR'000** | **3 to 5 years RUR'000** | **Over 5 years RUR'000** | **No maturity RUR'000** | **Overdue RUR'000** | **Total RUR'000** |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and cash equivalents | 8,629,775 | - | - | - | - | - | - | - | **8,629,775** |
| Obligatory reserves with the Central Bank of the Russian Federation | - | - | - | - | - | | 401,006 | - | **401,006** |
| Due from credit institutions | - | 957,665 | - | - | - | - | - | - | **957,665** |
| Financial instruments at fair value through profit or loss | 10,197,400 | 1,150,056 | 388,038 | 696,050 | 40,746 | - | - | - | **12,472,290** |
| Available-for-sale securities | 3,062,740 | 24,841 | - | 7,811 | 69,628 | - | 70,025 | - | **3,235,045** |
| Loans to customers | 4,615,850 | 20,353,018 | 10,585,415 | 15,137,129 | 2,863,307 | 3,478,593 | - | 1,257,203 | **58,290,515** |
| Property and equipment | - | - | - | - | - | - | 2,616,418 | - | **2,616,418** |
| Other assets | 95,502 | 153,063 | 128,240 | 26,242 | - | - | 53,239 | - | **456,286** |
| | **26,601,267** | **22,638,643** | **11,101,693** | **15,867,232** | **2,973,681** | **3,478,593** | **3,140,688** | **1,257,203** | **87,059,000** |

| | Less than 1 month RUR'000 | 1 to 6 months RUR'000 | 6 months to 1 year RUR'000 | 1 to 3 years RUR'000 | 3 to 5 years RUR'000 | Over 5 years RUR'000 | No maturity RUR'000 | Overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | | | |
| Deposits by the Central Bank of the Russian Federation | 1,629,195 | 3,500,000 | 1,000,000 | - | - | - | - | - | **6,129,195** |
| Deposits by credit institutions | 4,713,359 | 1,863,437 | 1,537,211 | 1,660,095 | 414,680 | 864,121 | - | - | **11,052,903** |
| Deposits by customers | 12,628,836 | 16,960,160 | 8,719,591 | 5,068,657 | 2,247,447 | - | - | - | **45,624,691** |
| Debt securities issued | 1,076,394 | 6,685,492 | 2,585,509 | 2,038,507 | - | - | - | - | **12,385,902** |
| Income tax liability | 153,797 | - | - | - | - | - | 250,262 | - | **404,059** |
| Other liabilities | 140,935 | 109,198 | 1,624 | 3,296 | - | - | 163,751 | - | **418,804** |
| | **20,342,516** | **29,118,287** | **13,843,935** | **8,770,555** | **2,662,127** | **864,121** | **414,013** | **-** | **76,015,554** |
| **Net** | **6,258,751** | **(6,479,644)** | **(2,742,242)** | **7,096,677** | **311,554** | **2,614,472** | **2,726,675** | **1,257,203** | **11,043,446** |
| **Available credit lines** | 1,629,195 | 3,500,000 | 1,000,000 | (6,129,195) | - | - | - | - | - |
| **Net position** | **7,887,946** | **(2,979,644)** | **(1,742,242)** | **967,482** | **311,554** | **2,614,472** | **2,726,675** | **1,257,203** | **11,043,446** |
| **Accumulated gap** | **7,887,946** | **4,908,302** | **3,166,060** | **4,133,542** | **4,445,096** | **7,059,568** | **9,786,243** | **11,043,446** | |

## Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in ALCO, which is chaired by the Chairman of the Managent Board. Market risk limits are approved by ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

### *Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

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

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| | Less than 1 month RUR'000 | 1 to 6 months RUR'000 | 6 months to 1 year RUR'000 | Over 1 year RUR'000 | Overdue RUR'000 | Total RUR'000 |
|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | |
| Interest-bearing assets | 40,303,835 | 35,515,766 | 24,353,653 | 42,813,737 | 1,051,285 | **144,038,276** |
| Interest-bearing liabilities | 18,519,259 | 40,213,360 | 36,796,583 | 40,636,938 | - | **136,166,140** |
| **Net interest sensitivity gap as at 31 December 2010** | **21,784,576** | **(4,697,594)** | **(12,442,930)** | **2,176,799** | **1,051,285** | **7,872,136** |
| **31 December 2009** | | | | | | |
| Interest-bearing assets | 17,875,990 | 21,527,915 | 10,973,453 | 22,293,264 | 1,257,203 | **73,927,825** |
| Interest-bearing liabilities | 12,962,560 | 29,009,089 | 13,842,311 | 12,293,507 | - | **68,107,467** |
| **Net interest sensitivity gap as at 31 December 2009** | **4,913,430** | **(7,481,174)** | **(2,868,858)** | **9,999,757** | **1,257,203** | **5,820,358** |

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

| | **2010** | | **2009** | |
|---|---|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 100 bp parallel rise | (152,662) | (152,662) | (5,012) | (5,012) |
| 100 bp parallel fall | 152,662 | 152,662 | 5,012 | 5,012 |

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

| | **2010** | | **2009** | |
|---|---|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 100 bp parallel rise | (526,594) | (585,445) | (144,750) | (285,370) |
| 100 bp parallel fall | 526,594 | 585,445 | 144,750 | 285,370 |

### *Currency risk*

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

| | **2010** | |
|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** |
| 20% appreciation of USD against RUR | (76,187) | (76,187) |
| 20% depreciation of USD against RUR | 76,187 | 76,187 |

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

| | **2009** | |
|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** |
| 20% appreciation of USD against RUR | (31,525) | (31,525) |
| 20% depreciation of USD against RUR | 31,525 | 31,525 |

### *Price risk*

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

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in all securities prices is as follows:

| | **2010** | | **2009** | |
|---|---|---|---|---|
| | **Profit or loss RUR'000** | **Equity RUR'000** | **Profit or loss RUR'000** | **Equity RUR'000** |
| 5% increase in securities prices | - | 2,392 | - | 2,801 |
| 5% decrease in securities prices | - | (2,392) | - | (2,801) |

**Interest rate analysis**

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

| | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **USD** | **RUR** | **Other foreign currencies** | **USD** | **RUR** | **Other foreign currencies** |
| **Interest bearing assets** | | | | | | |
| Cash and cash equivalents | 0.7% | 3.9% | 1.2% | 0.5% | - | - |
| Obligatory reserves with the Central Bank of the Russian Federation | - | - | - | - | - | - |
| Due from credit institutions | 6.2% | 6.0% | - | - | - | - |
| Financial instruments at fair value through profit or loss – government bonds | 5.4% | 6.9% | - | - | 7.7% | - |
| Financial instruments at fair value through profit or loss – corporate notes and municipal bonds | - | 8.3% | - | - | 10.4% | - |
| Available-for-sale securities – government bonds | - | 6.4% | - | 6.0% | 8.1% | - |
| Available-for-sale securities – corporate notes and municipal bonds | 9.7% | 9.9% | - | - | 11.3% | 7.0% |
| Loans to customers | 11.6% | 14.0% | 11.9% | 12.6% | 17.8% | 13.0% |
| **Interest bearing liabilities** | | | | | | |
| Deposits by the Central Bank of the Russian Federation | - | - | - | - | 9.13% | - |
| Deposits by credit institutions | 4.1% | 4.8% | 2.3% | 4.5% | 7.9% | 2.1% |
| - Syndicated loans | 4.0% | - | - | 3.7% | - | - |
| - Subordinated debt | 7.1% | - | - | 6.4% | - | - |
| Term deposits by customers | 7.5% | 9.7% | 7.4% | 10.5% | 14.4% | 10.0% |
| Debt securities issued | 3.6% | 7.1% | 4.7% | 6.3% | 14.2% | 8.5% |

**Currency analysis**

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of The Group's assets and liabilities to foreign currency exchange rate risk is as follows:

| | 31 December 2010 | | | | 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD** | **RUR** | **Other currencies** | **Total** | **USD** | **RUR** | **Other currencies** | **Total** |
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | 1,887,758 | 17,550,107 | 3,898,561 | **23,336,426** | 830,003 | 5,889,957 | 1,909,815 | **8,629,775** |
| Obligatory reserves with the Central Bank of the Russian Federation | - | 756,584 | - | **756,584** | - | 401,006 | - | **401,006** |
| Due from credit institutions | 235,303 | 150,000 | 201,665 | **586,968** | - | - | 957,665 | **957,665** |
| Financial instruments at fair value through profit or loss | 2,059,403 | 25,415,750 | - | **27,475,153** | - | 12,472,290 | - | **12,472,290** |
| Available-for-sale securities | 127,883 | 4,333,762 | - | **4,461,645** | 1,601,721 | 1,566,744 | 66,580 | **3,235,045** |
| Loans to customers | 13,853,038 | 84,589,069 | 5,410,202 | **103,852,309** | 9,883,588 | 44,843,957 | 3,562,970 | **58,290,515** |
| Property and equipment | - | 4,255,117 | - | **4,255,117** | - | 2,616,418 | - | **2,616,418** |
| Other assets | 75,648 | 668,208 | 2,585 | **746,441** | 19,294 | 435,641 | 1,351 | **456,286** |
| | **18,239,033** | **137,718,597** | **9,513,013** | **165,470,643** | **12,334,606** | **68,226,013** | **6,498,381** | **87,059,000** |

| | 31 December 2010 | | | | 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD** | **RUR** | **Other currencies** | **Total** | **USD** | **RUR** | **Other currencies** | **Total** |
| | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** | **RUR'000** |
| **LIABILITIES** | | | | | | | | |
| Deposits by the Central Bank of the Russian Federation | - | - | - | - | - | 6,129,195 | - | **6,129,195** |
| Deposits by credit institutions | 10,978,350 | 15,463,943 | 1,420,991 | **27,863,284** | 4,469,566 | 5,518,362 | 1,064,975 | **11,052,903** |
| Deposits by customers | 8,341,260 | 76,321,425 | 8,893,095 | **93,555,780** | 6,442,761 | 31,945,888 | 7,236,042 | **45,624,691** |
| Debt securities issued | 702,440 | 27,681,738 | 399,166 | **28,783,344** | 397,599 | 11,281,757 | 706,546 | **12,385,902** |
| Income tax liability | - | 636,140 | - | **636,140** | - | 404,059 | - | **404,059** |
| Other liabilities | 9,263 | 853,417 | 2,320 | **865,000** | 3,349 | 415,268 | 187 | **418,804** |
| | **20,031,313** | **120,956,663** | **10,715,572** | **151,703,548** | **11,313,275** | **55,694,529** | **9,007,750** | **76,015,554** |
| **Net position** | **(1,792,280)** | **16,761,934** | **(1,202,559)** | **13,767,095** | **1,021,331** | **12,531,484** | **(2,509,369)** | **11,043,446** |
| **Spot contracts** | 1,316,113 | (2,263,026) | 946,913 | - | (1,218,365) | (1,035,006) | 2,253,371 | - |
| **Total** | **(476 ,167)** | **14,498,908** | **(255,646)** | **13,767,095** | **(197,034)** | **11,496,478** | **(255,998)** | **11,043,446** |

## Geographical risk

The geographical risk is the risk of losses in the result of a foreign counterparty failing to meet its obligations due to political, economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2010 and 2009 is disclosed in the table below:

| | 31 December 2010 | | | | 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Russia RUR'000 | OECD RUR'000 | Other non-OECD RUR'000 | Total RUR'000 | Russia RUR'000 | OECD RUR'000 | Other non-OECD RUR'000 | Total RUR'000 |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | 18,020,750 | 5,314,349 | 1,327 | **23,336,426** | 6,392,284 | 2,234,737 | 2,754 | **8,629,775** |
| Obligatory reserves with the Central Bank of the Russian Federation | 756,584 | | | **756,584** | 401,006 | | | **401,006** |
| Due from credit institutions | 385,303 | 201,665 | | **586,968** | - | 957,665 | - | **957,665** |
| Financial instruments at fair value through profit or loss | 27,321,018 | - | 154,135 | **27,475,153** | 12,316,938 | - | 155,352 | **12,472,290** |
| Available-for-sale securities | 4,461,645 | - | - | **4,461,645** | 3,235,045 | - | - | **3,235,045** |
| Loans to customers | 103,401,019 | 451,290 | - | **103,852,309** | 58,084,109 | - | 206,406 | **58,290,515** |
| | **154,346,319** | **5,967,304** | **155,462** | **160,469,085** | **80,429,382** | **3,192,402** | **364,512** | **83,986,296** |
| **LIABILITIES** | | | | | | | | |
| Deposits by the Central Bank of the Russian Federation | - | - | - | - | 6,129,195 | - | - | **6,129,195** |
| Deposits by credit institutions | 15,768,554 | 12,094,730 | - | **27,863,284** | 5,735,136 | 5,317,765 | 2 | **11,052,903** |
| Deposits by customers | 85,984,456 | 75,078 | 7,496,246 | **93,555,780** | 45,124,467 | 37,683 | 462,541 | **45,624,691** |
| Debt securities issued | 28,440,705 | 229,631 | 113,008 | **28,783,344** | 12,043,374 | 222,518 | 120,010 | **12,385,902** |
| | **130,193,715** | **12,399,439** | **7,609,254** | **150,202,408** | **69,032,172** | **5,577,966** | **582,553** | **75,192,691** |
| **Net position** | **24,152,604** | **(6,432,135)** | **(7,453,792)** | **10,266,677** | **11,397,210** | **(2,385,564)** | **(218,041)** | **8,793,605** |

# 30 Fair value of financial instruments

For financial instruments whose fair value is estimated by using active market data, the fair value represents quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash and discount rates for similar instruments at the reporting date.

The following table provides an analysis of financial assets and liabilities, for which the discounted cash flow techniques are used to estimate their fair value:

| | **2010 RUR'000** | **2010 RUR'000** | **2009 RUR'000** | **2009 RUR'000** |
|---|---|---|---|---|
| | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** |
| **ASSETS** | | | | |
| Cash and cash equivalents | 23,336,426 | 23,336,426 | 8,629,775 | 8,629,775 |
| Obligatory reserves with the Central Bank of the Russian Federation | 756,584 | 756,584 | 401,006 | 401,006 |
| Due from credit institutions | 586,968 | 586,968 | 957,665 | 957,665 |
| Loans to customers | 104,521,779 | 103,852,309 | 57,712,021 | 58,290,515 |
| **LIABILITIES** | | | | |
| Deposits by the Central Bank of the Russian Federation | - | - | 6,129,195 | 6,129,195 |
| Deposits by credit institutions | 27,863,284 | 27,863,284 | 11,052,903 | 11,052,903 |
| Deposits by customers | 95,234,842 | 93,555,780 | 46,357,273 | 45,624,691 |
| Debt securities issued | 28,970,940 | 28,783,344 | 12,489,310 | 12,385,902 |

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The following table shows an analysis of financial instruments recorded at fair value, for which fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2010:

| | **Quoted market prices RUR'000** | **Valuation techniques based on market observable inputs RUR'000** | **Total RUR'000** |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 27,245,376 | 229,777 | **27,475,153** |
| Available-for-sale securities | 4,310,667 | 150,978 | **4,461,645** |

The following table shows an analysis of financial instruments recorded at fair value, whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

| | **Quoted market prices RUR'000** | **Valuation techniques based on market observable inputs RUR'000** | **Total RUR'000** |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 12,221,365 | 250,925 | **12,472,290** |
| Available-for-sale securities | 3,098,834 | 136,211 | **3,235,045** |

As at 31 December 2010 and 2009, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

# 31 Events subsequent to the reporting date

In January 2011 the Bank paid out the first coupon in the amount of RUR 97.34 million or RUR 48.67 per bond on domestic bonds series 07. The issue was placed in the amount of RUR 2 billion with a maturity of 5 years.

In January 2011 the Bank opened a new branch in Moscow.

In February 2011 Mustafa Boran, Vice-President Banking of Black Sea Trade and Development Bank, joined the Supervisory Board of the Bank as a new independent member.

In February 2011 the Bank paid out the third coupon in the amount of RUR 93.74 million or RUR 46.87 per bond on domestic bonds series 06. The issue was placed in the amount of RUR 2 billion with a maturity of 3 years.

In February 2011 the Bank placed its exchange bond issue series BO-1 with a nominal value of RUR 3 billion with a 3-year maturity at MICEX.

In March 2011 the Bank repaid its domestic bonds series 04. The issue was placed on 18 March 2008 in the amount of RUR 2 billion.