# OJSC “Bank Saint Petersburg” Group

# International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report

# 31 December 2010

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**Independent Auditors' Report**

To the Supervisory Board of OJSC "Bank Saint Petersburg" Group

We have audited the accompanying consolidated financial statements of OJSC "Bank Saint Petersburg" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
18 March 2011

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 13 180 184 | 21 419 473 |
| Mandatory cash balances with the Central Bank of the Russian Federation | | 1 670 712 | 1 373 815 |
| Trading securities | 8 | 36 524 627 | 29 075 842 |
| Trading securities pledged under sale and repurchase agreements | 9 | 254 356 | 640 540 |
| Amounts receivable under reverse repurchase agreements | 10 | 8 423 538 | 3 576 299 |
| Due from banks | 11 | 12 397 925 | 5 867 355 |
| Loans and advances to customers | 12 | 182 818 339 | 158 200 489 |
| Investment securities available-for-sale | 13 | 280 491 | 88 245 |
| Investment securities held-to-maturity | 14 | 169 638 | 180 908 |
| Other financial assets | 15 | 305 785 | 149 014 |
| Deferred tax asset | 32 | 219 616 | 305 598 |
| Investment property | 16 | 3 956 820 | 2 000 008 |
| Premises, equipment and intangible assets | 17 | 11 762 753 | 10 112 710 |
| Other assets | 18 | 643 915 | 478 059 |
| Long-term assets held-for-sale | 19 | - | 2 137 985 |
| **TOTAL ASSETS** | | **272 608 699** | **235 606 340** |
| **LIABILITIES** | | | |
| Due to banks | 20 | 11 326 393 | 16 001 844 |
| Customer accounts | 21 | 191 807 676 | 175 990 284 |
| Bonds issued | 22 | 16 281 994 | 3 113 581 |
| Other debt securities in issue | 23 | 10 365 230 | 5 150 774 |
| Other borrowed funds | 24 | 13 121 108 | 9 206 645 |
| Other financial liabilities | 25 | 474 229 | 414 554 |
| Income tax liability | | 136 223 | 15 543 |
| Other liabilities | 26 | 531 635 | 428 564 |
| **TOTAL LIABILITIES** | | **244 044 488** | **210 321 789** |
| **EQUITY** | | | |
| Share capital | 27 | 3 629 541 | 3 629 541 |
| Share premium | 27 | 15 744 164 | 15 744 164 |
| Revaluation reserve for premises | | 1 966 015 | 1 966 015 |
| Revaluation reserve for investment securities available-for-sale | | 26 346 | 32 430 |
| Retained earnings | | 7 198 145 | 3 912 401 |
| **TOTAL EQUITY** | | **28 564 211** | **25 284 551** |
| **TOTAL LIABILITIES AND EQUITY** | | **272 608 699** | **235 606 340** |

Approved for issue and signed on behalf of the Supervisory Board on 18 March 2011.

A.V. Saveliev
Chairman of the Board

N.G. Tomilina
Acting Chief Accountant

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| Interest income | 29 | 24 259 767 | 25 597 942 |
| Interest expense | 29 | (12 235 339) | (15 176 530) |
| **Net interest income** | | **12 024 428** | **10 421 412** |
| Provision for loan impairment | 11, 12 | (4 485 256) | (10 511 603) |
| **Net interest income (expense) after provision for loan impairment** | | **7 539 172** | **(90 191)** |
| Net gains from trading securities | | 302 455 | 1 712 056 |
| Net gains from investment securities available-for-sale | | 256 | 1 593 |
| Net (losses) gains from trading in foreign currencies | | (517 818) | 648 601 |
| Net gains from foreign exchange translation | | 1 185 600 | 579 524 |
| Fee and commission income | 30 | 2 007 185 | 1 906 770 |
| Fee and commission expense | 30 | (292 060) | (417 272) |
| Impairment of long-term assets held-for-sale | 19 | (213 799) | - |
| Recovery of impairment (impairment) for credit related commitments | 25 | 60 718 | (146 439) |
| Recovery of impairment of investment securities | 14 | 523 | 290 |
| Net losses on redemption of securities | | (67 344) | (132 001) |
| Gain from early redemption of indebtedness | | - | 266 719 |
| Loss on loans granted at below market rates | | (525 061) | - |
| Other net operating income | | 107 296 | 204 706 |
| Administrative and other operating expenses: | 31 | | |
| - Staff costs | | (2 154 180) | (1 706 192) |
| - Costs related to premises and equipment | | (566 083) | (533 348) |
| - Other administrative and operating expenses | | (1 729 889) | (1 533 719) |
| **Profit before tax** | | **5 136 971** | **761 097** |
| Income tax expense | 32 | (1 022 272) | (120 793) |
| **Profit for the year** | | **4 114 699** | **640 304** |
| **Other comprehensive income** | | | |
| (Loss) gain from revaluation of securities available-for-sale | 28 | (7 605) | 40 537 |
| Net changes in revaluation reserve for premises | 28 | - | (304 511) |
| Deferred income tax recognised in equity related to comprehensive income | 28 | 1 521 | 52 795 |
| **Comprehensive income for the year** | | **4 108 615** | **429 125** |
| **Basic earnings per ordinary share (in Russian Roubles per share)** | 33 | **11.76** | **2.26** |
| **Diluted earnings per ordinary share (in Russian Roubles per share)** | 33 | **9.55** | **2.25** |

The notes on pages 6 to 87 are an integral part of these consolidated financial statements.

| *In thousands of Russian Roubles* | Note | Share capital | Share premium | Revaluation reserve for premises | Revaluation reserve for investment securities available-for-sale | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2009** | | **3 564 330** | **9 725 450** | **2 209 624** | **-** | **3 305 345** | **18 804 749** |
| Other comprehensive income (expense) recognised directly in equity | 28 | - | - | (243 609) | 32 430 | - | (211 179) |
| Profit for the year | | - | - | - | - | 640 304 | 640 304 |
| **Total comprehensive income (expense) for the year ended 31 December 2009** | | **-** | **-** | **(243 609)** | **32 430** | **640 304** | **429 125** |
| Shares issued | 27 | 65 211 | 6 018 714 | - | - | - | 6 083 925 |
| Dividends declared | | | | | | | |
| - ordinary shares | 34 | - | - | - | - | (31 037) | (31 037) |
| - preference shares | 34 | - | - | - | - | (2 211) | (2 211) |
| **Balance as at 31 December 2009** | | **3 629 541** | **15 744 164** | **1 966 015** | **32 430** | **3 912 401** | **25 284 551** |
| Other comprehensive income (expense) recognised directly in equity | 28 | - | - | - | (6 084) | - | (6 084) |
| Profit for the year | | - | - | - | - | 4 114 699 | 4 114 699 |
| **Total comprehensive income (expense) for the year ended 31 December 2010** | | **-** | **-** | **-** | **(6 084)** | **4 114 699** | **4 108 615** |
| Dividends declared | | | | | | | |
| - ordinary shares | 34 | - | - | - | - | (31 037) | (31 037) |
| - preference shares | 34 | - | - | - | - | (797 918) | (797 918) |
| **Balance as at 31 December 2010** | | **3 629 541** | **15 744 164** | **1 966 015** | **26 346** | **7 198 145** | **28 564 211** |

The notes on pages 6 to 87 are an integral part of these consolidated financial statements.

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received on loans and correspondent accounts | | 20 824 313 | 23 222 000 |
| Interest received on securities | | 2 623 413 | 1 685 900 |
| Interest received on securities pledged under sale and repurchase agreements | | 199 805 | 164 515 |
| Interest paid on due to banks | | (763 691) | (2 931 606) |
| Interest paid on customer deposits | | (8 857 143) | (10 208 535) |
| Interest paid on other debt securities in issue | | (560 090) | (314 014) |
| Net (payments) receipts from securities trading | | (310 048) | 1 008 034 |
| Net (payments) receipts from trading in foreign currencies | | (515 153) | 701 233 |
| Fees and commissions received | | 2 011 185 | 1 902 673 |
| Fees and commissions paid | | (292 060) | (417 272) |
| Other operating income received | | 78 277 | 236 073 |
| Staff costs paid | | (2 140 883) | (1 865 624) |
| Premises and equipment costs paid | | (206 364) | (188 817) |
| Administrative and operating expenses paid | | (1 733 387) | (1 527 295) |
| Income tax paid | | (814 089) | (426 203) |
| . | | | |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **9 544 085** | **11 041 062** |
| **Changes in operating assets and liabilities** | | | |
| Net increase in mandatory cash balances with the Central Bank of the Russian Federation | | (296 897) | (1 160 894) |
| Net increase in trading securities | | (6 595 534) | (25 707 501) |
| Net decrease in trading securities pledged under sale and repurchase agreements | | 386 184 | 871 471 |
| Net increase in amounts receivable under reverse repurchase agreements | | (4 846 863) | (3 575 382) |
| Net (increase) decrease in due from banks | | (6 683 151) | 13 176 679 |
| Net increase in loans and advances to customers | | (29 739 808) | (21 138 360) |
| Net increase in other financial assets | | (41 623) | (27 266) |
| Net increase in other assets | | (164 573) | (122 923) |
| Net decrease in due to banks | | (4 554 487) | (16 280 154) |
| Net increase in customer accounts | | 17 503 013 | 34 805 697 |
| Net increase in other debt securities in issue | | 5 221 207 | 767 198 |
| Net increase (decrease) in other financial liabilities | | 19 387 | (15 721) |
| Net increase (decrease) in other liabilities | | 89 024 | (10 298) |
| **Net cash used in operating activities** | | **(20 160 036)** | **(7 376 392)** |
| **Cash flows from investing activities** | | | |
| Acquisition of premises and equipment and intangible assets | 17 | (2 012 067) | (3 819 552) |
| Proceeds from disposal of premises and equipment and intangible assets | | 2 305 | 4 718 |
| Net (purchases) sales of investment securities available-for-sale | | (199 595) | 7 863 |
| Proceeds from redemption of investment securities held-to-maturity | | 10 870 | 597 080 |
| Purchase of investment property | 16 | - | (2 000 008) |
| Dividend income received | | 14 198 | 8 205 |
| **Net cash used in investing activities** | | **(2 184 289)** | **(5 201 694)** |

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Issue of preference shares: | | | |
| - share capital | 27 | - | 65 211 |
| - share premium | 27 | - | 6 018 714 |
| Issue of bonds | | 13 000 000 | - |
| Repurchase of bonds | | - | (7 249 974) |
| Proceeds from other borrowed funds | | 4 516 059 | 4 424 168 |
| Repayment of other borrowed funds | | (502 068) | (5 188 588) |
| Interest paid on bonds issued | | (583 603) | (685 952) |
| Interest paid on other borrowed funds | | (1 158 307) | (917 092) |
| Dividends paid | 34 | (828 330) | (32 350) |
| **Net cash received from (used in) financing activities** | | **14 443 751** | **(3 565 863)** |
| **Effects of exchange rate changes on cash and cash equivalents** | | **(338 714)** | **722 096** |
| **Net decrease in cash and cash equivalents** | | **(8 239 289)** | **(15 421 853)** |
| Cash and cash equivalents at the beginning of the year | | 21 419 473 | 36 841 326 |
| **Cash and cash equivalents at the end of the year** | 7 | **13 180 184** | **21 419 473** |

## 1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for OJSC “Bank Saint Petersburg” (the “Bank”) and a controlled BSPB Finance plc., special purpose entity (together referred to as the “Group” or OJSC “Bank Saint Petersburg” Group”).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the privatisation process of the former Leningrad regional office of Zhilsotsbank.

As at 31 December 2010, 29.9% of the ordinary shares of the Bank are controlled by Mr. A.V. Saveliev (2009: 29.9%). The rest of the management of the Bank controls a further 5.9% of the ordinary shares of the Bank (2009: 10.0%). As at 31 December 2010, the “Systemnye Tehnologii” company owns 19.4% of the ordinary shares of the Bank (2009: 19.4%). Mr. A. V. Saveliev purchased 19.0% of “Systemnye Tehnologii”. In addition, Mr. A. V. Saveliev has an option to purchase 81.0% of “Systemnye Tehnologii”. This option was signed in 2007 and can be exercised at any time before 1 April 2011. There is no contractual agreement between any members of the management team and Mr. A. V. Saveliev on joint control of the Bank.

Other shareholders of the Bank are: 8.0% of the shares are owned by RUSSIAN DEALERSHIPS HOLDING (RDH) LIMITED, controlled by Mr. U. I. Pilipenko (2009: 8.0%). The remaining 36.8% (2009: 24.7%) of the shares are widely held. As at 31 December 2009 8.0% of ordinary shares were owned by ISSARDY HOLDINGS LIMITED controlled by Mr. V.G. Reutov (80.1%) and A.V. Saveliev (19.9%).

***Principal activity.*** The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ “On Retail Deposit Insurance in the Russian Federation” dated 23 December 2003. Indemnity of the deposits placed in respect of which an insured event happens, is paid to a depositor in the amount of 100% of total deposits, but limited to RR 700 thousand.

As at 31 December 2010, the Bank has five branches within the Russian Federation: three branches are located in North-West region of Russia, one branch is in Moscow, one branch is in Nizniy Novgorod and thirty outlets (2009: five branches within the Russian Federation: three branches are located in North-West region of Russia, one branch is in Moscow, one branch is in Nizniy Novgorod and thirty one outlets).

BSPB Finance plc., special purpose entity is used by the Bank for its Eurobond issue (see note 22). Close-ended real estate mutual investment fund “Nevskiy - Second Real Estate Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund” are used by the Bank for activities with non-core assets (refer to notes 16 and 19).

***Registered address and place of business.*** The Bank’s registered address and place of business is: 191167, Russian Federation, Saint Petersburg, Nevskiy Prospect, 178, A.

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

## 2 Operating Environment of the Group

***Russian Federation.*** The economy of the Russian Federation displays certain characteristics of developing markets including relatively high inflation and interest rates.

The recent world financial crisis affected the Russian economy and the financial situation in the financial and real sectors of the Russian Federation worsened significantly starting from the second half of 2008. In 2010 the Russian economy started to experience a recovery in economic growth. The GDP real growth rate for 2010 according to the Russian Statistics estimates was 104.0%. The growth of manufacturing in 2010 amounted to 8.2%. Stabilisation of the domestic market, increase in equity investments of enterprises, significant decrease in capital outflow, gradual access to foreign financial markets for Russian companies as well as oil price growth contributed to the recovery of the economy. The economic growth was accompanied by a gradual increase in houshold income, a decrease and stabilisation of the refinancing rate, a strengthening of the Rouble real exchange rate against major foreign currencies as well as a decrease in interest rates.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently (note 38). Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments still contribute to the difficulties experienced by banks operating in the Russian Federation.

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

Management estimates the loan impairment allowance taking into account the current economic situation and perspectives as at the end of reporting period and applies the “incurred loss” model in accordance with the requirements of applicable accounting standards. These standards require recognition of impairment losses arising due to past events and prohibit recognition of impairment losses that can arise due to future events irrespective of the degree of probability of such events. Note 12.

Management cannot foresee all factors that can affect the development of the banking sector and the economy as a whole as well as the impact (if any) they can have on the financial position of the Group in the future. Management believes that it takes all the necessary steps to sustain the stability and development of the Group’s business.

## 3 Basis of Preparation and Significant Accounting Policies

***Basis of Preparation.*** These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by initial recognition of financial instruments at fair value, measurement at fair value of trading securities and financial assets available-for-sale and the revaluation of premises. The principles of accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented in these consolidated financial statements.

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

The Group holds zero interest in the share capital of a fully consolidated special purpose entity BSPB Finance plc. However, the Group obtains all the benefits and bear all the risks from the activities of this company. Refer to note 41.

**3 Basis of Preparation and Significant Accounting Policies (continued)**

The Group holds a 100% interest in a fully consolidated close-ended real estate mutual investment fund "Nevskiy - Second Real Estate Fund" and a 100% interest in a fully consolidated close-ended real estate mutual investment fund "Nevskiy - Fourth Real Estate Fund". Refer to note 41.

Intercompany transactions, balances and unrealized gains arising from intercompany transactions are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

***Key measurement terms.*** Depending on their classification financial instruments are carried at cost, fair value, or amortized cost as described below.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and stock exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or current value of investments are used for determination of the fair value of financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

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

**3 Basis of Preparation and Significant Accounting Policies (continued)**

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

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

***Derecognition of financial assets.*** The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a transfer arrangement while (i) also transferring substantially all the risks and benefits of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and benefits of ownership but not retaining control of the assets. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without imposing additional restrictions on the sale.

***Foreign currency translation.*** The functional currency of the Group's entities is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities at the CBRF official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

As at 31 December 2010, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 and EURO 1 = RR 40.3331 (2009: USD 1 = RR 30.2442 and EURO 1 = RR 43.3883).

***Cash and cash equivalents.*** Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognized in due from banks. Amounts that relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Mandatory cash balances with the CBRF.*** Mandatory cash balances with the CBRF are carried at amortized cost and represent non-interest bearing deposits in the CBRF that are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

***Trading securities.*** Trading securities include financial assets at fair value through profit or loss that are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within the period from one to six months.

**3 Basis of Preparation and Significant Accounting Policies (continued)**

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss as interest income. Dividends are included in other operating income when the Group’s right to receive the dividend payment is established and provided the dividend is likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

***Due from banks.*** Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortized cost.

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

***Impairment of financial assets carried at amortized cost.*** Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and that have an impact on the amount or timing of the estimated future cash flows that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when assessing whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is an objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems
- the borrower experiences significant financial difficulty as evidenced by financial information that the Group obtains
- the borrower considers bankruptcy or a financial reorganisation
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- implementation of the borrower’s investment plans is delayed or
- the Group expects difficulties in servicing the borrower’s debt due to volatility of the borrower’s cash flows caused by its cyclic activity or irregularity of proceeds.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

**3 Basis of Preparation and Significant Accounting Policies (continued)**

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to decrease the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been currently incurred) discounted at the effective interest rate of the asset. The calculation of the discounted value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment allowance recorded in the statement of financial position after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

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

Investment securities available-for-sale are carried at fair value. Certain types of investment securities available-for-sale are carried at cost when the Group cannot measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, when the cumulative gain or loss previously recognised in other comprehensive income is recognized in profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. Accumulated impairment losses calculated as the difference between the acquisition cost and the current fair value less impairment loss for the asset that was initially recognized in profit or loss are transferred from other comprehensive income to profit or loss. Impairment losses on equity instruments are not recovered and subsequent income is recognized in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

***Advances receivable***. Advances receivable are recognised, if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

## 3 Basis of Preparation and Significant Accounting Policies (continued)

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

Securities purchased under agreements to resell (“reverse repo agreements”), which provide the Group with a creditor’s return, are recorded as amounts receivable under reverse repurchase agreements. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the repo agreements using the effective interest method.

***Investment securities held-to-maturity.*** This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturity, which management has the firm intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. Investment securities held-to-maturity are measured at amortised cost.

***Promissory notes purchased.*** Promissory notes purchased are included in due from banks and loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

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

Premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Any increase in the carrying value as a result of revaluation is recognized in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognized in other comprehensive income and reduces the revaluation reserve previously recognized in equity. All other decreases in value are recognized in profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

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

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

## 3 Basis of Preparation and Significant Accounting Policies (continued)

***Depreciation.*** Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Premises: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

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

***Intangible assets.*** All intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

***Investment property.*** Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is recognised at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group receives the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category "Premises and Equipment".

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

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

**3 Basis of Preparation and Significant Accounting Policies (continued)**

Long term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included in the disposal group) are not depreciated or amortised.

Liabilities directly associated with the disposal groups that will be transferred in the disposal transaction are presented separately in the statement of financial position.

***Due to banks.*** Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. The non-derivative financial liability is carried at amortised cost.

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

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

***Other borrowed funds***. Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

***Derivative financial instruments.*** Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not enter into derivative instruments for hedging purposes.

***Income taxes.*** Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

***Uncertain tax positions.*** Uncertain tax positions are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

## 3 Basis of Preparation and Significant Accounting Policies (continued)

***Provisions for liabilities and future expenses.*** Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

***Credit related commitments.*** The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and letters of credit are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. In the case of commitments to provide loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately, such commission income is recognised as future period profit and is included in the loan's carrying amount upon initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date.

***Share premium.*** When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

***Preference shares.*** Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

***Dividends.*** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are approved for issue are disclosed in the subsequent events note. The statutory accounting reports are the basis for payment of dividends and other profit distribution. Russian legislation identifies the basis of profit distribution as the current year net profit.

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

Fee and commission income/expenses attributable to the effective interest rate include fees received or paid in connection with the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

When loans or other debt instruments become doubtful of timely collection, they are written off to recoverable value with subsequent recognition of interest income based on the effective interest rate that was used to discount future cash flows with the purpose of determination of recoverable value.

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

## 3 Basis of Preparation and Significant Accounting Policies (continued)

***Fiduciary assets.*** Assets held by the Group in its own name, but on the account and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is given in note 38. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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

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

***Segment reporting.*** Segment reporting is prepared based on the internal reports regularly reviewed by the chief operating decision maker. Segments with a majority of revenue, financial result or assets equal to at least ten percent of those from all the segments are reported separately.

The Group's operations are neither seasonal nor cyclic by nature.

## 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

***Investment securities held-to-maturity.*** Management determines whether to classify financial assets as held-to-maturity and in particular to demonstrate its intention and ability to hold these assets to maturity. If the Group fails to hold these investments to maturity (except for a particular circumstance – such as sale of insignificant amount of investments shortly before the date of maturity) the Group will have to reclassify all securities of this type into the category of assets available for sale. Such reclassified investments will be measured at fair value, not at amortised cost. If all investment securities held-to-maturity are to be reclassified, their carrying value would decrease by RR 41 050 thousand (2009: RR 28 757 thousand).

## 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the year, the Group makes professional judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the allowance would be approximately RR 84 236 thousand higher or lower (2009: RR 106 021 thousand higher or lower).

***Revaluation of premises.*** The fair values of premises are determined by using valuation methods and are based on their market value. Market values of premises are obtained from the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value is assessed using sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. For details please refer to note 17. To the extent that the assessed fair value of premises differs by 10%, the effect of the revaluation adjustment would be RR 520 352 thousand (before deferred tax) as at 31 December 2010 (2009: RR 425 096 thousand).

***Frequency of revaluation of premises.*** Premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Management uses judgement for determining the significance of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

***Tax legislation.*** The tax legislation of the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Refer to note 38.

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

***Special Purpose Entities.*** Professional judgment is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

## 5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs and interpretations became effective for the Group from 1 January 2010.

***IFRIC 18, Transfers of Assets from Customers*** *(effective for annual periods starting on or after 1 July 2009)*. This interpretation clarifies the accounting of transfers of assets from customers, that is the circumstances of the definition of an asset, recognition of an asset and estimation of its value at initial recognition, identification of separately identified services (one or several services provided in exchange for the transferred asset), recognition of revenues as well as accounting for funds transferred from customers.

## 5 Adoption of New or Revised Standards and Interpretations (continued)

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

***Derivative financial instruments – Changes in IFRIC 9 and IAS 39 issued in March 2009*** clarify that all embedded derivative financial instruments should be revalued and accounted separately if needed in case of reclassification of financial assets from the category of financial instruments at fair value through profit or loss. This amendment did not influence the consolidated financial statements.

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for annual accounting periods beginning on or after 1 January 2011 and which the Group has not early adopted in preparation of these consolidated financial statements.

***Amendment to IAS 24, Related Party Disclosures*** *(issued in November 2009, effective for annual periods beginning on or after 1 January 2011).* IAS 24 was revised in 2009: (a) to simplify the definition of a related party, specify its meaning and eliminate contradictions; (b) to introduce a partial exemption from the basic disclosure requirements for government-related entities.

***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** (*effective for annual periods beginning on or after 1 July 2010*) clarifies accounting methods for the cases when the company reviews the conditions of debt liabilities as a result of which the liability is repaid through issue by the debtor of own equity instruments to the creditor. Gain or loss is recognised within profit or loss and constitutes the difference between the fair value of equity instruments and the carrying value of the debt.

***IFRS 9 Financial Instruments: Classification and Measurement.*** The first phase of IFRS 9 was issued in November 2009 and replaces sections of IAS 39 related to classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The revised IFRS 9 includes classification and evaluation of financial liabilities. Its major differences include:

- Financial assets are subject to classification into two measurement categories: subsequently measured at fair value and subsequently measured at amortised cost. The decision on classification is to be taken at initial recognition. The classification depends on the company's business-model of financial instruments management and on the characteristics of contractual cash flows on the instrument.

- The instrument is subsequently measured at amortised cost only if it is a debt instrument and (i) the company's business-model is aimed at holding the asset for the purpose of receiving contractual cash flows and simultaneously (ii) contractual cash flows on the asset are only payments of the principal amount and interest only (i.e. a financial instrument has only "basic loan characteristics"). All other debt instruments are to be measured at fair value through profit or loss accounts.

## 6 New Accounting Pronouncements (continued)

- All equity instruments are to be subsequently measured at fair value. Equity instruments held-for-sale will be measured and recognised at fair value through the profit or loss account. For other equity investments the decision may be made at initial recognition to recognise unrealised and realised gain or loss on revaluation at fair value in other comprehensive income. In such cases gains and losses arising on revaluation are not transferred to profit or loss. This decision can be made separately for each financial instrument. Dividends are recorded in profit or loss as they represent investment yield.

- Most of the IAS 39 requirements in respect of classifications and evaluation of financial liabilities were transferred to IFRS 9 with no changes. The major difference is the requirement for the company to disclose the effect of changes in own credit risk for financial liabilities recognized at fair value through profit or loss, within other comprehensive income.

Adoption of IFRS 9 is obligatory starting from 1 January 2013. Early adoption is allowed. Currently the Group is analysing the effect of the adoption of this standard, its influence on the Group and the date of adoption of the standard.

***Disclosures – Transfer of financial assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 January 2011)*** requires additional disclosure of the risk that arises due to transfer of financial assets. The amendment includes the requirement to disclose the following information by classes of financial assets transferred to the counterparty that are listed on the statement of financial position: type, value, description of risks and benefits related to the asset. Disclosure allowing the user to understand the size of the financial liability related to the asset as well as the interrelation between the financial asset and the related financial liability is also required. In case the recognition of asset was ceased but the company is still prone to certain risks and can gain certain benefits related to the transferred asset, additional disclosures to understand the amount of such risk are needed. Currently the Group studies the effect of the amended standard on the disclosures and the Group's consolidated financial statements. The Group does not expect this amendment to significantly affect the consolidated financial statements.

Except for cases described above, the new standards and interpretations are not expected to significantly affect the consolidated financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Cash on hand | 4 171 412 | 4 186 146 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 3 118 266 | 5 834 518 |
| Correspondent accounts and overnight placements with banks | | |
| - Russian Federation | 3 679 344 | 4 343 943 |
| - other countries | 1 003 035 | 5 017 238 |
| Settlement accounts with trading systems | 1 208 127 | 2 037 628 |
| **Total cash and cash equivalents** | **13 180 184** | **21 419 473** |

Currency and interest rate analyses of cash and cash equivalents are disclosed in note 36.

## 8 Trading Securities

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Corporate bonds | 22 556 410 | 16 610 633 |
| Municipal bonds | 5 081 650 | 4 329 720 |
| Federal loan bonds (OFZ bonds) | 4 215 755 | 3 983 378 |
| Corporate Eurobonds | 3 037 964 | 2 918 163 |
| Russian Federation Eurobonds | 802 109 | 964 298 |
| **Total debt securities** | **35 693 888** | **28 806 192** |
| Corporate shares | 830 739 | 269 650 |
| **Total trading securities** | **36 524 627** | **29 075 842** |

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and traded in the Russian market. These bonds have maturity dates from 27 January 2011 to 13 October 2020 (2009: from 22 February 2010 to 14 November 2019); coupon rates of 6.5% - 18.5% p.a. (2009: 7.1% - 18.5% p.a.) and yields to maturity from 1.2% to 12.3% p.a. as at 31 December 2010 (2009: from minus 6.1% to 13.5% p.a.), depending on the type of bond issue.

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, St. Petersburg, Moscow Region and Samara Regions (2009: municipal administrations of Moscow, Moscow Region and Samara Regions). These bonds are sold at a discount to nominal value, have maturity dates from 19 April 2011 to 19 November 2015 (2009: from 15 March 2010 to 9 June 2014); coupon rates of 7.6% to 10.0% p.a. (2009: 7.6% to 16.0% p.a.) and yields to maturity from 5.2% to 8.5% p.a. as at 31 December 2010 (2009: from 7.0% to 12.6% p.a.), depending on the type of bond issue.

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 6 July 2011 to 15 July 2015 (2009: from 6 July 2011 to 27 March 2013); coupon rates of 6.2% to 11.9% p.a. (2009: 6.2% to 12.0% p.a.) and yields to maturity from 4.5% to 7.5% p.a. as at 31 December 2010 (31 December 2009: from 7.8% to 8.0% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD issued by Russian companies traded in the international and Russian over-the-counter markets. Corporate Eurobonds have maturity dates from 20 June 2011 to 25 October 2017 (2009: from 11 February 2010 to 1 February 2020); coupon rates of 6.5% to 11.8% p.a. (2009: 6.9% to 11.8% p.a.) and yields to maturity from 1.7% to 8.4% p.a. (2009: from 2.2% to 15.3% p.a.) as at 31 December 2010.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation and traded internationally. These bonds have a maturity date on 31 March 2030 (2009: from 31 March 2010 to 31 March 2030); coupon rate of 7.5% p.a. (2009: 7.5% to 8.3% p.a.); and yield to maturity of 4.8% p.a. as at 31 December 2010 (2009: 0.2% to 5.4% p.a.).

Corporate shares are shares of Russian companies and global depositary receipts on shares of Russian companies.

Trading securities are carried at fair value which also reflects the credit risk of these securities.

## 8 Trading Securities (continued)

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

| *In thousands of Russian Roubles* | **Corporate bonds** | **Municipal bonds** | **Federal loan bonds** | **Corporate Eurobonds** | **Russian Federation Eurobonds** | **Total** |
|---|---|---|---|---|---|---|
| Not overdue or impaired (at fair value) | | | | | | |
| Group A | 13 583 614 | 5 081 630 | 4 215 755 | 475 006 | 802 109 | 24 158 114 |
| Group B | 8 972 790 | 20 | - | 2 562 958 | - | 11 535 768 |
| **Total debt trading securities not overdue or impaired** | **22 556 404** | **5 081 650** | **4 215 755** | **3 037 964** | **802 109** | **35 693 882** |
| Overdue (at fair value) - overdue more than 365 calendar days | 6 | - | - | - | - | 6 |
| **Total overdue debt trading securities** | **6** | **-** | **-** | **-** | **-** | **6** |
| **Total debt trading securities** | **22 556 410** | **5 081 650** | **4 215 755** | **3 037 964** | **802 109** | **35 693 888** |

As at 31 December 2010, 70.2% of Group B comprise securities with rating BB- and above.

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

| *In thousands of Russian Roubles* | **Corporate bonds** | **Municipal bonds** | **Federal loan bonds** | **Corporate Eurobonds** | **Russian Federation Eurobonds** | **Total** |
|---|---|---|---|---|---|---|
| Not overdue or impaired (at fair value) | | | | | | |
| Group A | 12 140 750 | 4 329 698 | 3 983 378 | 1 093 987 | 964 298 | 22 512 111 |
| Group B | 4 469 870 | 22 | - | 1 824 176 | - | 6 294 068 |
| **Total debt trading securities not overdue or impaired** | **16 610 620** | **4 329 720** | **3 983 378** | **2 918 163** | **964 298** | **28 806 179** |
| Overdue (at fair value) - overdue from 181 to 365 calendar days | 13 | - | - | - | - | 13 |
| **Total overdue debt trading securities** | **13** | **-** | **-** | **-** | **-** | **13** |
| **Total debt trading securities** | **16 610 633** | **4 329 720** | **3 983 378** | **2 918 163** | **964 298** | **28 806 192** |

As at 31 December 2009, 76.0% of Group B comprise securities with rating BB- and above.

## 8 Trading Securities (continued)

Debt trading securities are divided by credit quality types and parameters into the following groups:

Group A – debt financial instruments with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B – other debt instruments.

The Bank is licensed by the RF Federal Agency for Financial Markets for trading in securities.

Currency and maturity analyses of trading securities are disclosed in note 36.

In 2008 the Group reclassified certain financial assets from trading securities to investment securities held-to-maturity, loans and advances to customers and due from banks. Note 11, 12, 14.

Management believes that the decrease in market prices that occurred in the third quarter of 2008 can be considered a rare event, as it does not reflect the overall volatility on the market that was observed in past periods. The Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category as at 30 September 2008.

The carrying value and fair value of all financial assets reclassified from trading securities are as follows:

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying value*** | **Fair value** | **Carrying value*** | **Fair value** |
| Loans and advances to customers | 2 138 699 | 2 154 186 | 3 532 768 | 3 409 962 |
| Due from banks | 824 361 | 834 585 | 1 257 792 | 1 289 476 |
| Investment securities held-to-maturity | 188 665 | 147 615 | 200 458 | 171 701 |
| **Total** | **3 151 725** | **3 136 386** | **4 991 018** | **4 871 139** |

** Carrying value is shown before allowance for impairment.*

Income and expense on financial assets through profit or loss related to the period prior to reclassification, to the period after reclassification and income and expense (after the date of reclassification) which would have been recognised through profit or loss if the reclassification had not been made are as follows:

| *In thousands of Russian Roubles* | **Income (expenses), recognised in 2008 prior to the date of reclassification** | **Income (expenses), recognised after the date of reclassification** | | | **Income (expenses), which would have been recognised, if the reclassification had not been made (after the date of reclassification)** | | |
|---|---|---|---|---|---|---|---|
| | | **2008** | **2009** | **2010** | **2008** | **2009** | **2010** |
| Interest income | 246 789 | 116 249 | 645 239 | 399 123 | 208 736 | 662 281 | 433 355 |
| Net (losses) gains on operations with securities | (513 154) | 10 347 | (132 003) | (67 344) | (530 815) | (153 278) | (92 407) |
| Provision for loan impairment | - | (160 743) | (68 056) | (52 375) | - | - | - |
| Impairment of investment securities held-to-maturity | - | (19 840) | (19 550) | (19 027) | - | - | - |
| **Total effect on profit** | **(266 365)** | **(53 987)** | **425 630** | **260 377** | **(322 079)** | **509 003** | **340 948** |

## 9 Trading Securities Pledged Under Sale and Repurchase Agreements

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Corporate shares | 158 312 | 124 748 |
| Corporate bonds | 96 044 | - |
| Federal loan bonds (OFZ bonds) | - | 515 792 |
| **Total trading securities pledged under sale and repurchase agreements** | **254 356** | **640 540** |

Trading securities pledged under sale and repurchase agreements include corporate shares and corporate bonds (2009: Federal loan bonds (OFZ bonds) and corporate shares).

Corporate shares are shares of Russian companies. The terms of the corresponding repurchase agreements are from 12 to 13 calendar days (2009: from 12 to 13 calendar days) with an effective rate from 1.0% to 2.5% p.a. (2009: from 4.2% to 6.4% p.a.).

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and traded in the Russian market. These bonds have their maturity date on 6 March 2014; coupon rate of 10.0% p.a. and yield to maturity 12.3% p.a. as at 31 December 2010. The term of the corresponding repurchase agreements is 13 calendar days with an effective rate of 3.1% p.a. (2009: no corporate bonds).

As of 31 December 2009 trading securities pledged under sale and repurchase agreements included Federal loan bonds (OFZ). Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 6 July 2011; a coupon rate of 10.6% p.a. and yield to maturity of 7.9% p.a. as at 31 December 2009. The term of the corresponding repurchase agreements is 12 calendar days with an effective rate of 4.2% p.a.

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 31 December 2010 by their credit quality is as follows:

| *In thousands of Russian Roubles* | Corporate bonds | Total |
|---|---|---|
| Group A | 96 044 | **96 044** |
| **Total debt trading securities pledged under sale and repurchase agreements** | **96 044** | **96 044** |

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 31 December 2009 by their credit quality is as follows:

| *In thousands of Russian Roubles* | Federal loan bonds (OFZ bonds) | Total |
|---|---|---|
| Group A | 515 792 | **515 792** |
| **Total debt trading securities pledged under sale and repurchase agreements** | **515 792** | **515 792** |

For definition of Group A refer to note 8.

## 9 Trading Securities Pledged Under Sale and Repurchase Agreements (continued)

As at 31 December 2010 there are no sale and repurchase agreements with credit institutions included in due to banks. (2009: RR 500 058 thousand). Refer to note 20.

As at 31 December 2010 included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 222 708 thousand (2009: RR 99 245 thousand). Refer to note 21.

Currency and maturity analyses of trading securities pledged under sale and repurchase agreements are disclosed in note 36.

## 10 Amounts Receivable Under Reverse Repurchase Agreements

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Amounts receivable under reverse repurchase agreements with customers | 4 355 475 | 2 229 032 |
| Amounts receivable under reverse repurchase agreements with banks | 4 068 063 | 1 347 267 |
| **Total amounts receivable under reverse repurchase agreements** | **8 423 538** | **3 576 299** |

As at 31 December 2010 amounts receivable under reverse repurchase agreements represent agreements with customers and banks that are secured by municipal bonds, corporate bonds and corporate shares. As at 31 December 2010 the fair value of securities that serve as collateral under reverse repurchase agreements is RR 9 691 604 thousand (2009: RR 3 352 416 thousand).

Corporate shares with a fair value of RR 146 686 thousand received as collateral under these agreements are pledged under reverse repurchase agreements.

Currency and maturity analyses of amounts receivable under reverse repurchase agreements is disclosed in note 36.

## 11 Due from Banks

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Term placements with banks | 12 398 491 | 5 870 730 |
| Allowance for impairment | (566) | (3 375) |
| **Total due from banks** | **12 397 925** | **5 867 355** |

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

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| **Allowance for impairment as at 1 January** | **3 375** | **27 546** |
| Recovery of provision for impairment during the year | (2 809) | (24 171) |
| **Allowance for impairment as at 31 December** | **566** | **3 375** |

As at 31 December 2010, due from banks in the amount of RR 277 thousand (2009: RR 2 036 thousand) are impaired.

As at 31 December 2010, the carrying value of securities reclassified to due from banks amounts to RR 824 361 thousand before the allowance for impairment (2009: RR 1 257 792 thousand). Refer to note 8.

## 11 Due from Banks (continued)

The Bank uses a system of limits for granting loans to banks, as shown in note 36. The current interbank loan portfolio is an instrument of short-term placement of temporarily available cash.

Management believes that the Group is not exposed to significant credit risk in relation to current amounts due from banks. When making lending decisions, the loans to banks are assessed based on a range of factors. After the loan is granted the Group monitors the borrowers' financial positions for impairment. For the purpose of credit quality evaluation all loans to banks are classified as "prime" unless they have any signs of impairment and any overdue amounts. As at 31 December 2010 foreign and 20 largest Russian banks comprise 94.7% of total due from banks (2009: 91.3%).

Loans to banks are not secured.

Currency, maturity and interest rate analyses of due from banks are disclosed in note 36.

## 12 Loans and Advances to Customers

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| **Corporate loans** | | |
| - loans to finance working capital | 122 694 810 | 108 831 347 |
| - investment loans | 55 872 254 | 47 609 610 |
| - loans to entities financed by the government | 9 626 801 | 3 021 198 |
| **Loans to individuals** | | |
| - mortgage loans | 7 700 090 | 8 611 732 |
| - car loans | 687 179 | 1 072 441 |
| - consumer loans to VIP clients | 4 135 360 | 3 737 107 |
| - other loans to individuals | 1 537 787 | 1 226 802 |
| Allowance for impairment | (19 435 942) | (15 909 748) |
| **Total loans and advances to customers** | **182 818 339** | **158 200 489** |

As at 31 December 2010 the carrying value of securities reclassified to loans and advances to customers in 2008 amounts to RR 2 138 699 thousand before impairment (2009: RR 3 532 768 thousand).

## 12 Loans and Advances to Customers (continued)

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

| | **Corporate loans** | | | **Loans to individuals** | | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Loans to finance working capital | Investment loans | Loans to entities financed by the government | Mortgage loans | Car loans | Consumer loans to VIP clients | Other loans to individuals | **Total** |
| **Allowance for impairment at 31 December 2009** | **11 222 146** | **3 662 879** | **26 113** | **396 820** | **111 295** | **447 655** | **42 840** | **15 909 748** |
| Provision for impairment during the year | 3 305 432 | 874 838 | 71 953 | 51 172 | (145) | 115 095 | 69 720 | **4 488 065** |
| Amounts written off | (929 369) | (31 028) | - | - | (60) | - | (1 414) | **(961 871)** |
| **Allowance for impairment at 31 December 2010** | **13 598 209** | **4 506 689** | **98 066** | **447 992** | **111 090** | **562 750** | **111 146** | **19 435 942** |

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

| | **Corporate loans** | | | **Loans to individuals** | | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Loans to finance working capital | Investment loans | Loans to entities financed by the government | Mortgage loans | Car loans | Consumer loans to VIP clients | Other loans to individuals | **Total** |
| **Allowance for impairment at 31 December 2008** | **3 089 152** | **2 159 911** | **113 365** | **251 174** | **79 791** | **95 760** | **52 749** | **5 841 902** |
| Provision for impairment during the year | 8 529 961 | 1 502 968 | (87 252) | 145 646 | 31 504 | 351 895 | 61 052 | **10 535 774** |
| Amounts written off | (396 967) | - | - | - | - | - | (70 961) | **(467 928)** |
| **Allowance for impairment at 31 December 2009** | **11 222 146** | **3 662 879** | **26 113** | **396 820** | **111 295** | **447 655** | **42 840** | **15 909 748** |

## 12 Loans and Advances to Customers (continued)

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Heavy machinery and ship-building | 28 780 469 | 14.2 | 31 004 948 | 17.8 |
| Trade | 25 753 396 | 12.7 | 25 246 314 | 14.5 |
| Construction | 24 501 570 | 12.1 | 21 149 810 | 12.1 |
| Real estate | 21 576 798 | 10.7 | 18 508 914 | 10.6 |
| Leasing and financial services | 17 356 272 | 8.6 | 14 495 663 | 8.3 |
| Extraction and transportation of oil and gas | 14 876 175 | 7.4 | 8 496 896 | 4.9 |
| Individuals | 14 060 416 | 7.0 | 14 648 082 | 8.4 |
| Production and food industry | 11 827 141 | 5.8 | 10 983 231 | 6.3 |
| Organisations financed by the government | 9 626 801 | 4.8 | 3 021 198 | 1.7 |
| Transport | 7 697 385 | 3.8 | 5 682 991 | 3.3 |
| Sports and health and entertainment organisations | 6 046 779 | 3.0 | 5 031 747 | 2.9 |
| Chemical industry | 4 569 214 | 2.3 | 3 784 420 | 2.2 |
| Energy | 3 596 635 | 1.8 | 1 350 055 | 0.8 |
| Telecommunications | 2 793 273 | 1.4 | 1 626 836 | 0.9 |
| Other | 9 191 957 | 4.4 | 9 079 132 | 5.3 |
| **Total loans and advances to customers (before allowance for impairment)** | **202 254 281** | **100.0** | **174 110 237** | **100.0** |

As at 31 December 2010, the 20 largest groups of borrowers have aggregated loan amounts of RR 73 038 830 thousand (2009: RR 61 266 801 thousand), or 36.1% (2009: 35.2%) of the loan portfolio before impairment.

Most loans to customers are secured by collateral. Collateral for loans can comprise deposits with the Bank, promissory notes issued by the Bank, real estate, premises and equipment and other collateral.

Mortgage loans are secured by the underlying real estate.

Car loans are secured by the underlying car.

Impaired and overdue loans of RR 19 214 972 thousand (2009: RR 22 008 730 thousand) are secured by collateral with a value of RR 37 281 910 thousand (2009: RR 41 852 465 thousand). For the remaining impaired and overdue loans of RR 2 952 231 thousand (2009: RR 3 225 500 thousand) there is no collateral or it is impracticable to determine the fair value of collateral.

## 12 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment as well as their credit quality analysis as at 31 December 2010 are as follows:

| *In thousands of Russian Roubles* | Gross loans and advances to customers | Allowance for impairment | Net loans and advances to customers | Allowance for impairment to current loans, % |
|---|---|---|---|---|
| **Loans and advances to legal entities:** | | | | |
| Loans collectively assessed for impairment, but not individually impaired | | | | |
| Standard loans not past due | 157 600 550 | (8 534 653) | 149 065 897 | 5.42 |
| Watch list loans not past due | 9 658 626 | (744 660) | 8 913 966 | 7.71 |
| Individually assessed loans, for which specific indications of impairment have been identified | | | | |
| Not past due | 11 892 926 | (3 147 115) | 8 745 811 | 26.46 |
| Overdue: | | | | |
| - less than 5 calendar days | 30 628 | (1 847) | 28 781 | 6.03 |
| - 31 to 60 calendar days | 154 685 | (9 679) | 145 006 | 6.26 |
| - 91 to 180 calendar days | 328 517 | (65 305) | 263 212 | 19.88 |
| - 181 to 365 calendar days | 1 608 734 | (980 228) | 628 506 | 60.93 |
| - more than 365 calendar days | 4 448 976 | (2 249 254) | 2 199 722 | 50.56 |
| Uncollectible loans | 2 470 223 | (2 470 223) | - | 100.00 |
| **Total loans and advances to legal entities** | **188 193 865** | **(18 202 964)** | **169 990 901** | **9.67** |
| **Loans and advances to individuals:** | | | | |
| - mortgage loans | 7 700 090 | (447 992) | 7 252 098 | 5.82 |
| - car loans | 687 179 | (111 090) | 576 089 | 16.17 |
| - consumer loans to VIP clients | 4 135 360 | (562 750) | 3 572 610 | 13.61 |
| - other loans to individuals | 1 537 787 | (111 146) | 1 426 641 | 7.23 |
| **Total loans and advances to individuals** | **14 060 416** | **(1 232 978)** | **12 827 438** | **8.77** |
| **Total loans and advances to customers** | **202 254 281** | **(19 435 942)** | **182 818 339** | **9.61** |

## 12 Loans and Advances to Customers (continued)

| *In thousands of Russian Roubles* | Mortgage loans | Car loans | Consumer loans to VIP clients | Other loans to individuals | Total loans and advances to individuals |
|---|---|---|---|---|---|
| **Loans to individuals** | | | | | |
| Standard loans not past due | 7 222 934 | 605 482 | 3 540 740 | 1 458 746 | 12 827 902 |
| Overdue: | | | | | |
| - less than 5 calendar days overdue | 9 602 | 81 | - | 19 867 | 29 550 |
| - 6 to 30 calendar days | 29 949 | 2 252 | - | 1 442 | 33 643 |
| - 31 to 60 calendar days | 18 678 | 795 | - | 1 546 | 21 019 |
| - 61 to 90 calendar days | 65 517 | 2 046 | - | 919 | 68 482 |
| - 91 to 180 calendar days | 39 842 | 5 743 | 5 422 | 1 669 | 52 676 |
| - 181 to 365 calendar days | 72 494 | 8 929 | 94 983 | 15 882 | 192 288 |
| - more than 365 calendar days | 241 074 | 61 851 | 494 215 | 37 716 | 834 856 |
| **Total loans and advances to individuals (before allowance for impairment)** | **7 700 090** | **687 179** | **4 135 360** | **1 537 787** | **14 060 416** |
| **Allowance for impairment** | **(447 992)** | **(111 090)** | **(562 750)** | **(111 146)** | **(1 232 978)** |
| **Total loans and advances to individuals (after allowance for impairment)** | **7 252 098** | **576 089** | **3 572 610** | **1 426 641** | **12 827 438** |

## 12 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment as well as their credit quality analysis as at 31 December 2009 are as follows:

| *In thousands of Russian Roubles* | Gross loans and advances to customers | Allowance for impairment | Net loans and advances to customers | Allowance for impairment to current loans, % |
|---|---|---|---|---|
| **Loans and advances to legal entities:** | | | | |
| Loans collectively assessed for impairment, but not individually impaired | | | | |
| Standard loans not past due | 128 096 458 | (5 338 874) | 122 757 584 | 4.17 |
| Watch list loans not past due | 7 606 405 | (625 206) | 6 981 199 | 8.22 |
| Individually assessed loans, for which specific indications of impairment have been identified | | | | |
| Not past due | 12 423 746 | (3 010 721) | 9 413 025 | 24.23 |
| Overdue: | | | | |
| - less than 5 calendar days | 1 023 182 | (43 325) | 979 857 | 4.23 |
| - 6 to 30 calendar days | 175 583 | (11 392) | 164 191 | 6.49 |
| - 31 to 60 calendar days | 51 300 | (3 451) | 47 849 | 6.73 |
| - 61 to 90 calendar days | 53 799 | (7 483) | 46 316 | 13.91 |
| - 91 to 180 calendar days | 176 358 | (45 640) | 130 718 | 25.88 |
| - 181 to 365 calendar days | 6 792 714 | (2 762 436) | 4 030 278 | 40.67 |
| Uncollectible loans | 3 062 610 | (3 062 610) | - | 100.00 |
| **Total loans and advances to legal entities** | **159 462 155** | **(14 911 138)** | **144 551 017** | **9.35** |
| **Loans and advances to individuals:** | | | | |
| - mortgage loans | 8 611 732 | (396 820) | 8 214 912 | 4.61 |
| - car loans | 1 072 441 | (111 295) | 961 146 | 10.38 |
| - consumer loans to VIP clients | 3 737 107 | (447 655) | 3 289 452 | 11.98 |
| - other loans to individuals | 1 226 802 | (42 840) | 1 183 962 | 3.49 |
| **Total loans and advances to individuals** | **14 648 082** | **(998 610)** | **13 649 472** | **6.82** |
| **Total loans and advances to customers** | **174 110 237** | **(15 909 748)** | **158 200 489** | **9.14** |

## 12 Loans and Advances to Customers (continued)

| *In thousands of Russian Roubles* | Mortgage loans | Car loans | Consumer loans to VIP clients | Other loans to individuals | Total loans and advances to individuals |
|---|---|---|---|---|---|
| **Loans to individuals** | | | | | |
| Standard loans not past due | 7 970 049 | 953 238 | 3 114 054 | 1 135 803 | 13 173 144 |
| Overdue: | | | | | |
| - less than 5 calendar days overdue | 13 486 | 7 068 | - | 22 599 | 43 153 |
| - 6 to 30 calendar days | 196 769 | 20 920 | - | 5 961 | 223 650 |
| - 31 to 60 calendar days | 21 787 | 8 632 | - | 2 721 | 33 140 |
| - 61 to 90 calendar days | 25 779 | 6 012 | - | 3 833 | 35 624 |
| - 91 to 180 calendar days | 165 643 | 12 118 | 37 000 | 23 753 | 238 514 |
| - 181 to 365 calendar days | 127 736 | 34 156 | 586 053 | 21 194 | 769 139 |
| - more than 365 calendar days | 90 483 | 30 297 | - | 10 938 | 131 718 |
| **Total loans and advances to individuals (before allowance for impairment)** | **8 611 732** | **1 072 441** | **3 737 107** | **1 226 802** | **14 648 082** |
| **Allowance for impairment** | **(396 820)** | **(111 295)** | **(447 655)** | **(42 840)** | **(998 610)** |
| **Total loans and advances to individuals (after allowance for impairment)** | **8 214 912** | **961 146** | **3 289 452** | **1 183 962** | **13 649 472** |

Management estimates loan impairment for individually assessed loans issued to legal entities, for which specific indications of impairment have been identified based on an analysis of the expected future cash flows based primarily on collateral. The principal collateral taken into account in the estimation of future cash flows comprises real estate. Valuations for real estate are discounted by 30 - 50 percent to reflect current market conditions.

For portfolios of loans for which no indications of impairment are identified, in determining the impairment allowance the Bank adjusts historic loss rates to factor in the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management’s estimate of the losses in the portfolio as at 31 December 2010 and 31 December 2009.

The Bank estimates loan impairment for loans to individuals based on its past historical loss experience adjusted for current economic conditions.

During the year ended 31 December 2010 the Bank renegotiated commercial loans that would otherwise be past due or impaired of RR 9 255 852 thousand (2009: RR 9 883 268 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. This category includes loans, the terms of which have been changed, but the analysis of the financial and economic activities and other information indicates that the borrower should be able to repay the loan in full. This amount does not include those loans for which prolongation was included in the initial conditions of the credit agreement. Renegotiated loans are included in standard loans not past due unless the borrower fails to comply with the renegotiated terms.

Moreover during the year ended 31 December 2010 the Bank renegotiated commercial loans that are currently impaired (there were individual signs of impairment identified for these loans) of RR 6 791 588 thousand (2009: RR 6 991 328 thousand). This amount does not include those loans for which prolongation was included in the initial conditions of credit agreement.

The Bank foreclosed on a production building serving as collateral for one defaulted loan in 2010. The production building is classified as investment property.

## 12 Loans and Advances to Customers (continued)

During 2009 the Group did not obtain any assets by taking control of collateral securing corporate loans.

Loans and advances to customers are classified as "Standard loans not past due" when they do not have any overdue payments as at reporting date and management does not have any information indicating that the borrower is not able to repay the loan in full and in time.

Loans and advances to customers are classified as "Watch list loans not past due" when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

Interest income on overdue and impaired loans during 2010 amounts to RR 732 166 thousand (2009: RR 1 961 820 thousand).

Currency and maturity and interest rate analyses of loans and advances to customers are disclosed in note 36. The information on related party balances is disclosed in note 40.

## 13 Investment Securities Available-for-Sale

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Corporate shares | 280 491 | 88 245 |
| **Total investment securities available-for-sale** | **280 491** | **88 245** |

Corporate shares are shares of Russian companies.

Investment securities available-for-sale include securities carried at cost. The fair value of some of these investment securities can not be reliably estimated since they are neither listed on the market nor traded. Management believes that the difference between the fair value and carrying values of the securities available-for-sale is not material. The Group will sell these securities in case of favorable market movements.

Currency and maturity analyses of investment securities available-for-sale are disclosed in note 36.

## 14 Investment Securities Held-to-Maturity

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Corporate bonds | 188 665 | 200 458 |
| Allowance for impairment | (19 027) | (19 550) |
| **Total investment securities held-to-maturity** | **169 638** | **180 908** |

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and traded in the Russian market. These bonds have maturity dates from 29 September 2011 to 2 December 2011 (31 December 2009: 21 March 2010 to 2 December 2011); coupon rates of 12.3% - 13.0% p.a. (31 December 2009: 12.2% - 16.5% p.a.) and yields to maturity from 12.6% to 13.0% p.a. as at 31 December 2010 (31 December 2009: from 12.6% to 17.3% p.a.) depending on the type of bond issue.

## 14 Investment Securities Held-to-Maturity (continued)

Movements in the investment securities held-to-maturity portfolio are as follows:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Carrying value as of 1 January** | **200 458** | **797 431** |
| Redemption of securities | (11 858) | (607 758) |
| Accrued interest income | 16 337 | 26 206 |
| Interest received | (16 272) | (15 421) |
| **Carrying value as of 31 December** | **188 665** | **200 458** |

An analysis of movements in the allowance for impairment of investment securities held-to-maturity during 2010 and 2009 is as follows:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Allowance for impairment at 1 January** | **19 550** | **19 840** |
| Recovery of impairment | (523) | (290) |
| **Allowance for impairment at 31 December** | **19 027** | **19 550** |

The Group analyses and monitors impairment indicators in respect of these securities and where necessary an allowance for impairment is created. The Group holds overdue securities held-to-maturity of one issuer.

Analysis by credit quality of investment securities held-to-maturity at 31 December 2010 is as follows:

| *In thousands of Russian Roubles* | Corporate bonds |
|---|---|
| Not past due or impaired debt securities | |
| - Group B | 136 396 |
| Debt securities individually impaired | |
| - Overdue more than 365 calendar days | 52 269 |
| **Total debt investment securities held-to-maturity before allowance for impairment** | **188 665** |

Analysis by credit quality of investment securities held-to-maturity at 31 December 2009 is as follows:

| *In thousands of Russian Roubles* | Corporate bonds |
|---|---|
| Not past due or impaired debt securities | |
| - Group B | 148 189 |
| Debt securities individually impaired | |
| - Overdue from 181 to 365 calendar days | 52 269 |
| **Total debt investment securities held-to-maturity before allowance for impairment** | **200 458** |

Currency and maturity analyses of investment securities held-to-maturity are disclosed in note 36. Interest rate analysis of investment securities held-to-maturity is disclosed in note 36.

## 15 Other Financial Assets

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Plastic cards receivables | 144 608 | 105 651 |
| Fair value of derivative financial instruments | 142 978 | 26 363 |
| Settlements on operations with securities | 18 199 | 17 000 |
| **Total other financial assets** | **305 785** | **149 014** |

Other financial assets do not include individually impaired and overdue assets. In 2010 and 2009 the Group created no impairment allowance for other financial assets.

Currency and maturity analyses of other financial assets are disclosed in note 36.

## 16 Investment Property

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Land | 2 000 008 | 2 000 008 |
| Premises | 1 956 812 | - |
| **Total investment property** | **3 956 820** | **2 000 008** |

Investment property includes land acquired by the Group to benefit from appreciation of the invested capital and premises and a property complex.

In the 4th quarter 2010 the Group obtained control of collateral securing defaulted a loan issued to a legal entity as a result of which the property right for the premises was registered.

The property complex is represented by the terminal in the North-West region. See note 19.

Changes in investment property during the year are as follows:

| *In thousands of Russian Roubles* | Note. | **2010** | **2009** |
|---|---|---|---|
| **Balance as at 1 January** | | **2 000 008** | - |
| Receipts | | 32 626 | 2 000 008 |
| Transfers from other categories | 19 | 1 924 186 | - |
| **Balance as at 31 December** | | **3 956 820** | **2 000 008** |

Fair value of investment property is RR 3 957 656 thousand.

Market values of investment property are obtained from the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has experience in valuation of investment property of similar location and category. The market value is assessed using sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale.

Currency and maturity analyses of investment property are disclosed in note 36.

## 17 Premises, Equipment and Intangible Assets

| *In thousands of Russian Roubles* | Note | Premises | Office and computer equipment | Construction in progress | Intangible assets | Total |
|---|---|---|---|---|---|---|
| Cost as at 1 January 2009 | | 4 269 353 | 1 251 859 | 1 923 453 | 6 521 | 7 451 186 |
| Accumulated depreciation and amortisation | | - | (498 721) | - | (5 547) | (504 268) |
| **Net book amount as at 1 January 2009** | | **4 269 353** | **753 138** | **1 923 453** | **974** | **6 946 918** |
| Additions | | 42 822 | 150 896 | 3 625 834 | - | 3 819 552 |
| Transfers between categories | | 48 978 | - | (48 978) | - | - |
| Disposals | | (2 542) | (3 260) | - | - | (5 802) |
| Depreciation and amortisation charge | 31 | (111 051) | (232 178) | - | (218) | (343 447) |
| Revaluation | | (304 511) | - | - | - | (304 511) |
| **Net book amount as at 31 December 2009** | | **3 943 049** | **668 596** | **5 500 309** | **756** | **10 112 710** |
| Cost as at 31 December 2009 | | 3 943 049 | 1 376 049 | 5 500 309 | 6 521 | 10 825 928 |
| Accumulated depreciation and amortisation | | - | (707 453) | - | (5 765) | (713 218) |
| **Net book amount as at 31 December 2009** | | **3 943 049** | **668 596** | **5 500 309** | **756** | **10 112 710** |
| Additions | | 641 392 | 299 947 | 1 070 728 | - | 2 012 067 |
| Transfers between categories | | 728 132 | 47 748 | (775 880) | - | - |
| Disposals | | - | (2 288) | - | - | (2 288) |
| Depreciation and amortisation charge | 31 | (109 049) | (250 413) | - | (274) | (359 736) |
| **Net book amount as at 31 December 2010** | | **5 203 524** | **763 590** | **5 795 157** | **482** | **11 762 753** |
| Cost as at 31 December 2010 | | 5 312 573 | 1 692 120 | 5 795 157 | 6 521 | 12 806 371 |
| Accumulated depreciation and amortisation | | (109 049) | (928 530) | - | (6 039) | (1 043 618) |

Construction in progress mainly consists of construction of head office and refurbishment of branch and outlet premises. Upon completion, assets are transferred to premises and equipment.

Management, based on analysis of the commercial property market, determined that no significant changes in the fair value of the real estate occurred in 2010 in comparison with 2009. Revaluation of premises by independent appraiser as at 31 December 2010 was not performed.

As at 31 December 2010 the carrying value includes revaluation of premises in the total amount of RR 2 457 517 thousand (2009: RR 2 457 517 thousand). The Group has recorded a deferred tax liability of RR 491 502 thousand related to the amount of the revaluation reserve.

If premises were recorded at cost less accumulated depreciation, their carrying value as at 31 December 2010 would amount to RR 2 019 056 thousand (2009: RR 1 591 038 thousand).

## 18 Other Assets

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Advances and receivables | 314 765 | 112 809 |
| Deferred expenses | 240 391 | 176 030 |
| Receivables from the clients on commission payment | 26 338 | - |
| Receivables on rent | 8 385 | - |
| Prepaid taxes other than on income | 8 140 | 48 706 |
| Other | 45 896 | 140 514 |
| **Total other assets** | **643 915** | **478 059** |

Advances and receivables relate to the purchase of new computer software and equipment, as well as prepayments for repair works on existing premises.

Currency and maturity analyses of other assets are disclosed in note 36.

## 19 Long-Term Assets Held-for-Sale

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Property complex | - | 2 137 985 |
| **Total long-term assets held-for-sale** | **-** | **2 137 985** |

During the fourth quarter of 2008 a borrower defaulted on its obligations to the Group. As a result the parties mutually agreed that the Group would take ownership of the collateral securing the loans. Following the completion of the necessary legal process, during December 2008 the Group took ownership of the property complex.

The property complex comprises a terminal in the North-West region.

In the first quarter 2010 the management decided to create a provision for impairment of the property in amount of RR 213 799 thousand.

In December 2010 the use of the property complex was reconsidered. As of 31 December 2010 management decided to reclassify the property complex into investment property.

Currency and maturity analysis of the long-term assets held-for-sale are disclosed in note 36.

## 20 Due to Banks

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Term placements of banks | 10 045 393 | 15 450 978 |
| Amounts payable under sale and repurchase agreements | 868 | 500 058 |
| Correspondent accounts of banks | 1 280 132 | 50 808 |
| **Total due to banks** | **11 326 393** | **16 001 844** |

As at 31 December 2010 there are no deposits placed by the Central Bank of Russia (2009: RR 8 717 142 thousand).

## 20 Due to Banks (continued)

As at 31 December 2010 there are no sale and repurchase agreements with credit institutions included in due to banks (2009: included in due to banks are sale and repurchase agreements with credit institutions in the amount of RR 500 058 thousand; securities pledged under these sale and repurchase agreements are Federal loan bonds (OFZ bonds) with a fair value of RR 515 792 thousand). Refer to note 9.

As at 31 December 2010 included in due to banks are sale and repurchase agreements with credit institutions with securities received under purchase and sale agreements in the amount of RR 868 thousand. (2009: there were no sale and repurchase agreements with credit institutions with securities received under purchase and sale agreements included in due to banks).

Currency, maturity and interest rate analyses of due to banks are disclosed in note 36.

## 21 Customer Accounts

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **State and public organisations** | | |
| - Current/settlement accounts | 1 698 396 | 1 133 719 |
| - Term deposits | - | 3 013 377 |
| **Other legal entities** | | |
| - Current/settlement accounts | 43 019 597 | 34 111 267 |
| - Term deposits | 74 237 328 | 75 896 998 |
| - Sale and repurchase agreements | 426 735 | 1 104 665 |
| **Individuals** | | |
| - Current/settlement accounts | 14 086 230 | 11 318 855 |
| - Term deposits | 58 339 390 | 49 411 403 |
| **Total customer accounts** | **191 807 676** | **175 990 284** |

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Amount | % | Amount | % |
| Individuals | 72 425 620 | 37.8 | 60 730 258 | 34.5 |
| Financial services | 38 088 760 | 19.9 | 32 721 435 | 18.6 |
| Construction | 17 867 846 | 9.3 | 16 631 120 | 9.5 |
| Production | 15 063 676 | 7.9 | 16 154 239 | 9.2 |
| Trade | 14 679 943 | 7.7 | 15 717 421 | 8.9 |
| Real estate | 9 528 065 | 5.0 | 6 562 649 | 3.7 |
| Art, science and education | 6 911 062 | 3.6 | 5 330 379 | 3.0 |
| Transport | 6 782 193 | 3.5 | 7 075 844 | 4.0 |
| Public utilities | 3 474 745 | 1.8 | 2 659 522 | 1.5 |
| Cities and municipalities | 1 648 882 | 0.9 | 4 372 827 | 2.5 |
| Medical institutions | 812 839 | 0.4 | 298 149 | 0.2 |
| Energy | 706 108 | 0.4 | 1 047 464 | 0.6 |
| Communications | 202 596 | 0.1 | 124 644 | 0.1 |
| Other | 3 615 341 | 1.7 | 6 564 333 | 3.7 |
| **Total customer accounts** | **191 807 676** | **100.0** | **175 990 284** | **100.0** |

## 21 Customer Accounts (continued)

As at 31 December 2010, included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 222 708 thousand (2009: included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 99 245 thousand). Securities pledged under these sale and repurchase agreements are corporate bonds with the fair value of 96 044 thousand and corporate shares with the fair value of RR 158 312 thousand (2009: securities pledged under these sale and repurchase agreements are shares with the fair value of RR 124 748 thousand. Refer to note 9.

As at 31 December 2010, included in customer accounts are sale and repurchase agreements with legal entities on securities received under sale and repurchase agreements with legal entities in the amount of RR 204 027 thousand (2009: included in customer accounts are sale and repurchase agreements with legal entities on securities received under sale and repurchase agreements with legal entities in the amount of RR 1 005 420 thousand).

As at 31 December 2010, included in customer accounts are deposits in the amount of RR 2 842 721 thousand held as collateral for irrevocable commitments under import letters of credit (2009: RR 2 459 020 thousand).

Currency and maturity and interest rate analyses of customer accounts are disclosed in note 36. The information on related party balances is disclosed in note 40.

## 22 Bonds Issued

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Bonds | 13 140 130 | - |
| Subordinated Eurobonds | 3 141 864 | 3 113 581 |
| **Total bonds issued** | **16 281 994** | **3 113 581** |

On 16 December 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 3 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the placement rate is set for four coupon periods. As at 31 December 2010, the carrying value of these bonds is RR 3 002 752 thousand with a coupon rate of 8.5% p.a. (2009: no Russian Rouble denominated interest-bearing bonds).

On 27 September 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the placement rate is set for three coupon periods. As at 31 December 2010, the carrying value of these bonds is RR 5 078 837 thousand with a coupon rate of 7.5% p.a. (2009: no Russian Rouble denominated interest-bearing bonds).

On 13 April 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the placement rate is set for three coupon periods. As at 31 December 2010, the carrying value of these bonds is RR 5 058 541 thousand with a coupon rate of 8.1% p.a. (2009: no Russian Rouble denominated interest-bearing bonds).

In July 2007 the Group placed 1 000 interest-bearing US Dollar-denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2010, the carrying value of these bonds is USD 103 090 thousand, the equivalent of RR 3 141 864 thousand (2009: USD 102 948 thousand, the equivalent of RR 3 113 581 thousand). These subordinated Eurobonds have a maturity of 25 July 2017 with an early redemption option at nominal value on 25 July 2012, nominal coupon rate of 10.5% p.a. and effective interest rate of 11.1% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors.

Currency and maturity and interest rate analyses of bonds issued are disclosed in note 36.

## 23 Other Debt Securities in Issue

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Promissory notes | 10 354 136 | 5 144 762 |
| Deposit certificates | 11 094 | 6 012 |
| **Total other debt securities in issue** | **10 365 230** | **5 150 774** |

Currency and maturity and interest rate analyses of other debt securities in issue are disclosed in note 36.

## 24 Other Borrowed Funds

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Subordinated loans | 5 340 358 | 5 430 428 |
| Syndicated loans | 2 416 993 | 750 823 |
| EBRD | 2 155 308 | 547 398 |
| VTB Bank | 1 260 327 | 602 961 |
| KFW IPEX-Bank Gmbh | 762 614 | 1 103 685 |
| Nordic Investment Bank | 581 540 | 771 350 |
| Eurasian Development Bank | 304 586 | - |
| Amsterdam Trade Bank N.V. | 299 382 | - |
| **Total other borrowed funds** | **13 121 108** | **9 206 645** |

In August 2009 the Group attracted a subordinated loan from Vnesheconombank in the amount of RR 1 466 000 thousand with an interest rate of 8.0% p.a. and maturity in 2014. In August 2010 the interest rate was decreased to 6.5% p.a. As at 31 December 2010, the carrying value of this loan was RR1 465 504 thousand (2009: RR 1 465 261 thousand).

In June 2009 the Group attracted a subordinated loan from the European Bank for Reconstruction and Development (EBRD) in the amount of USD 75 000 thousand. The loan is granted for the period of 10 years and 6 months, with the option of bullet repayment in 2020, with an interest rate during the first five years of 13.4% p.a. As at 31 December 2010, the carrying value of this loan is USD 78 585 thousand, the equivalent of RR 2 395 032 thousand (2009: USD 78 740 thousand, the equivalent of RR 2 373 250 thousand).

In December 2008 the Group attracted a subordinated loan in the amount of EUR 36 690 thousand maturing in December 2014. As at 31 December 2010, the carrying value of this subordinated loan is EUR 36 690 thousand, the equivalent of RR 1 479 822 thousand (2009: EUR 36 690 thousand, the equivalent of RR 1 591 917 thousand). The subordinated loan has a fixed interest rate of 14.5% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated loans are subordinated to the claims of all other creditors and depositors.

On 26 June 2008 the Group attracted a syndicated loan in the amount of USD 100 000 thousand arranged by the EBRD in 2 tranches. The first tranche of USD 25 000 thousand has a maturity date of 23 June 2012 and interest rate of LIBOR + 3.45% p.a. The second tranche of USD 75 000 thousand was repaid on 23 December 2009 with interest rate being LIBOR + 2.75% p.a. The participants of this syndicated loan are 14 non-resident banks. As at 31 December 2010 the carrying value of this loan is USD 24 896 thousand, the equivalent of RR 758 749 thousand (2009: USD 24 825 thousand, the equivalent of RR 750 823 thousand). As at 31 December 2010, the interest rate on the first tranche was 3.907% p.a.

In August 2010 the Group attracted a syndicated loan in the amount of USD 55 000 thousand from a group of banks to finance trade contracts of the Group’s clients. This loan was arranged by Commerzbank Aktiengesellschaft and VTB Bank (Deutschland) AG. The loan matures in August 2011, the interest rate is LIBOR + 2.8% p.a. As at 31 December 2010 the carrying value of this loan is USD 54 410 thousand, the equivalent of RR 1 658 244 thousand.

## 24 Other Borrowed Funds (continued)

On 25 October 2006, 26 February 2007 and 27 June 2007 the Group attracted three tranches of a loan provided by the EBRD in the amount of USD 10 000 thousand each, which according to schedule shall be repaid before November 2011. This loan was issued for the purposes of funding small and medium businesses. Starting from November 2008 the Group started scheduled repayment of the loan and as at 31 December 2010 USD 24 000 thousand of principal amount was repaid. As at 31 December 2010, the carrying value of this loan is USD 6 032 thousand, the equivalent of RR 183 835 thousand (2009: USD 18 099 thousand, the equivalent of RR 547 398 thousand). The interest rate on the loan is LIBOR + 2.8% p.a. As at 31 December 2010, the interest rate on the loan is 3.2% p.a.

On 14 December 2010 the Group attracted a loan from the EBRD in the amount of USD 65 000 thousand, which according to schedule shall be repaid before March 2014. This loan was issued for the purposes of funding small and medium businesses. The interest rate on the loan is 5.55% p.a. As at 31 December 2010, the carrying value of this loan is USD 64 687 thousand, the equivalent of RR 1 971 473 thousand.

On 21 January 2010 the Group attracted a loan from VTB Bank (France) in the amount of USD 20 000 thousand to finance trade contracts of the Group's clients. The loan with the interest rate of LIBOR + 6% p.a. matures on 24 January 2011. As at 31 December 2010, the carrying value of this loan is USD 21 135 thousand, the equivalent of RR 649 610 thousand. As at 31 December 2010 the interest rate is 6.88% p.a.

On 15 December 2010 the Group attracted a loan from VTB Bank (Deutschland) AG to finance trade contracts of the Group's clients in the amount of USD 20 000 thousand and interest rate of LIBOR + 4.25% p.a. maturing on 16 January 2013. As at 31 December 2010, the carrying value of this loan is USD 20 039 thousand, the equivalent of RR 610 717 thousand. As at 31 December 2010 the interest rate is 4.598% p.a.

In November 2010 the Group repaid a loan attracted on 27 May 2009 from VTB Bank (Deutschland) AG in the amount of USD 20 000 thousand and interest rate of LIBOR + 7% p.a. maturing on 26 November 2010 to finance trade contracts of the Group's clients (2009: USD 19 936 thousand, the equivalent of RR 602 961 thousand).

On 16 July 2008 the Group attracted a loan from KFW IPEX-Bank Gmbh in the amount of USD 35 000 thousand with maturity in June 2013. The interest rate on this loan is LIBOR + 6.12% and is fixed at 9.987% p.a. for the whole loan period. The Group started the scheduled redemption and as at 31 December 2010 USD 10 000 thousand of the principal debt was redeemed. As at 31 December 2010, the carrying value of this loan is USD 25 023 thousand, the equivalent of RR 762 614 thousand (2009: USD 36 492 thousand, the equivalent of RR 1 103 685 thousand).

On 6 September 2007 and 20 November 2007 the Group attracted four tranches of a credit facility provided by Nordic Investment Bank. The Group used the amount to fund certain projects. The Group started the scheduled redemption of the loan and as at 31 December 2010 USD 9 602 thousand of the principal debt was redeemed. As at 31 December 2010, the carrying value of this loan is USD 19 081 thousand, the equivalent of RR 581 540 thousand (2009: USD 25 503 thousand, the equivalent of RR 771 350 thousand). The loan maturity date of this credit facility is on 3 October 2015. The interest rate on the loan ranges from LIBOR + 2.6% p.a. to LIBOR + 2.95% p.a., depending on maturity dates of the tranches. As at 31 December 2010 the interest rate on the loan was from 3.1% to 3.4% p.a.

On 23 December 2010 the Group attracted a loan from the Eurasian Development Bank (EDB) in the amount of USD 10 000 thousand to finance trade contracts of the Group's clients. The maturity of the loan is on 23 December 2011. The loan has an interest rate of 4.75% p.a. As at 31 December 2010, the carrying value of this loan was USD 9 994 thousand, the equivalent of RR 304 586 thousand.

## 24 Other Borrowed Funds (continued)

On 17 December 2010 the Group attracted a loan from Amsterdam Trade Bank N.V. to finance trade contracts of the Group’s clients in the amount of USD 10 000 thousand and interest rate of LIBOR + 2.8% p.a. maturing on 16 December 2011. As at 31 December 2010, the carrying value of this loan is USD 9 823 thousand, the equivalent of RR 299 382 thousand. As at 31 December 2010 the interest rate is 3.104% p.a.

The Group shall observe certain covenants attached to syndicated loans, subordinated loans and funds from EBRD, KFW IPEX-Bank Gmbh, Nordic Investment Bank, EDB, VTB Bank (Deutschland) AG, VTB Bank (France). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2010 and 31 December 2009, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 36. The information on related party balances is disclosed in note 40.

## 25 Other Financial Liabilities

Other financial liabilities comprise the following:

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| Fair value of derivative financial instruments | | 342 450 | 237 991 |
| Allowance for credit related commitments | 38 | 85 743 | 146 461 |
| Plastic card payables | | 23 399 | 11 465 |
| Fair value of guarantees and import letters of credit | | 22 637 | 18 637 |
| **Total other financial liabilities** | | **474 229** | **414 554** |

Analysis of movements in the allowance for credit related commitments during 2010 and 2009 is as follows:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Allowance at 1 January** | **146 461** | **22** |
| (Recovery of impairment) impairment of credit related commitments during the year | (60 718) | 146 439 |
| **Allowance at 31 December** | **85 743** | **146 461** |

Currency and maturity analyses of other financial liabilities are disclosed in note 36.

## 26 Other Liabilities

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| Commitments to employees | | 259 270 | 237 480 |
| Taxes payable other than on income | | 78 326 | 58 343 |
| Dividends payable | 34 | 4 149 | 3 524 |
| Payables | | 3 124 | 1 015 |
| Other | | 186 766 | 128 202 |
| **Total other liabilities** | | **531 635** | **428 564** |

Currency and maturity analyses of other liabilities are disclosed in note 36.

## 27 Share Capital

| *In thousands of Russian Roubles* | Number of outstanding ordinary shares (thousand) | Number of outstanding preference shares (thousand) | Ordinary shares | Preference shares | Share premium | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2009** | **282 150** | **20 100** | **3 386 879** | **177 451** | **9 725 450** | **13 289 780** |
| New preference shares issued | - | 65 211 | - | 65 211 | 6 018 714 | **6 083 925** |
| **As at 31 December 2009** | **282 150** | **85 311** | **3 386 879** | **242 662** | **15 744 164** | **19 373 705** |
| New shares issued | - | - | - | - | - | **-** |
| **As at 31 December 2010** | **282 150** | **85 311** | **3 386 879** | **242 662** | **15 744 164** | **19 373 705** |

As at 31 December 2010 the nominal registered amount of issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 367 461 thousand (2009: RR 367 461 thousand). As at 31 December 2010, all of the outstanding shares are authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2009: RR 1 per share). Each share carries one vote.

As at 31 December 2010, the Group has two types of preference shares:

- preference shares with a nominal value of RR 1 (one) in the amount of 20 100 000 (twenty million one hundred thousand)

- type A preference shares with a nominal value of RR 1 (one) in the amount of 65 211 000 (sixty five million two hundred eleven thousand).

All preference shares carry no voting rights and are non-redeemable.

Preference share dividends are set at 11.0% p.a. and rank above type A preference and ordinary shares.

Dividend per one type A preference share is Rouble denominated and is set at 13.5% of the placement price of one type A preference share fixed in US dollars. The Rouble equivalent is calculated using the exchange rate set by the CBRF as at the date the Supervisory Board accepts recommendations in respect of the amount of dividends on type A preference shares.

One type A preference share with a nominal value of RR 1(one) is convertible into one ordinary share with a nominal value of RR 1 (one) on 15 May 2013.

If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares of all types are not cumulative.

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

## 28 Other Comprehensive Income (Loss) Recognized in Equity

The analysis of other comprehensive income by separate items of each component of equity is as follows:

| | | Attributable to equity holders of the Bank | | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Note | Revaluation reserve for premises | Revaluation reserve for investment securities available-for-sale | Total comprehensive income (loss) |
| **Year ended 31 December 2009** | | | | |
| Income from revaluation of investment securities available-for-sale | | - | 40 537 | **40 537** |
| Changes in revaluation reserve for premises | | (304 511) | - | **(304 511)** |
| Deferred income tax recognised directly in other comprehensive income | 32 | 60 902 | (8 107) | **52 795** |
| **Total other comprehensive income (loss)** | | **(243 609)** | **32 430** | **(211 179)** |
| **Year ended 31 December 2010** | | | | |
| Income from revaluation of investment securities available-for-sale | | - | (7 605) | **(7 605)** |
| Deferred income tax recognised directly in other comprehensive income | 32 | - | 1 521 | **1 521** |
| **Total other comprehensive loss** | | **-** | **(6 084)** | **(6 084)** |

## 29 Interest Income and Expense

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 21 189 034 | 23 228 426 |
| Trading securities | 2 636 753 | 1 460 901 |
| Sale and repurchase agreements | 200 181 | 165 432 |
| Due from banks | 162 970 | 619 434 |
| Correspondent accounts with banks | 49 796 | 15 340 |
| Investment securities held-to-maturity | 21 033 | 94 972 |
| Investment securities available-for-sale | - | 13 437 |
| **Total interest income** | **24 259 767** | **25 597 942** |
| **Interest expense** | | |
| Term deposits of legal entities | 4 766 923 | 5 904 242 |
| Term deposits of individuals | 4 469 733 | 4 347 795 |
| Other borrowed funds | 956 554 | 1 010 881 |
| Bonds issued | 729 430 | 644 188 |
| Due to banks | 612 901 | 2 847 774 |
| Other debt securities in issue | 555 830 | 314 960 |
| Current/settlement accounts | 143 968 | 106 690 |
| **Total interest expense** | **12 235 339** | **15 176 530** |
| **Net interest income** | **12 024 428** | **10 421 412** |

## 30 Fee and Commission Income and Expense

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Fee and commission income** | | |
| Settlement transactions | 793 874 | 725 778 |
| Plastic cards and cheque settlements | 489 897 | 401 207 |
| Guarantees and letters of credit issued | 371 405 | 405 743 |
| Cash transactions | 204 611 | 213 540 |
| Cash collections | 97 816 | 82 611 |
| Foreign exchange transactions | 22 704 | 39 377 |
| Custody operations | 19 033 | 17 850 |
| Underwriting transactions | 1 135 | 4 645 |
| Other | 6 710 | 16 019 |
| **Total fee and commission income** | **2 007 185** | **1 906 770** |
| **Fee and commission expense** | | |
| Plastic cards and cheque settlements | 94 459 | 71 018 |
| Guarantees and letters of credit | 85 351 | 231 095 |
| Settlement transactions | 56 612 | 53 327 |
| Securities | 20 595 | 24 612 |
| Foreign exchange transactions | 6 548 | 10 890 |
| Banknote transactions | 4 914 | 12 100 |
| Other | 23 581 | 14 230 |
| **Total fee and commission expense** | **292 060** | **417 272** |
| **Net fee and commission income** | **1 715 125** | **1 489 498** |

Information on related party transactions is disclosed in note 40.

## 31 Administrative and Other Operating Expenses

| *In thousands of Russian Roubles* | Note | 2010 | 2009 |
|---|---|---|---|
| Staff costs | | 2 154 180 | 1 706 192 |
| Depreciation and amortisation of premises, equipment and intangible assets | 17 | 359 736 | 343 447 |
| Taxes other than on income | | 258 874 | 251 182 |
| Rent expenses | | 258 016 | 275 120 |
| Contributions to deposits insurance system | | 255 068 | 257 860 |
| Other costs, related to premises and equipment | | 206 347 | 189 901 |
| Security expenses | | 160 194 | 140 392 |
| Transportation costs | | 154 110 | 132 517 |
| Postal, cable and telecommunication expenses | | 88 879 | 83 289 |
| Advertising and marketing services | | 43 441 | 36 604 |
| Professional services | | 19 311 | 15 513 |
| Charity expenses | | 10 392 | 11 301 |
| Other administrative expenses | | 481 604 | 329 941 |
| **Total administrative and other operating expenses** | | **4 450 152** | **3 773 259** |

## 32 Income Taxes

Income tax expense comprises the following:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Current tax | 934 769 | 440 721 |
| Deferred tax | 87 503 | (319 928) |
| **Income tax expense for the year** | **1 022 272** | **120 793** |

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

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Profit in accordance with IFRS before tax** | **5 136 971** | **761 097** |
| Tax charge at statutory rate (2010: 20%; 2009: 20%) | 1 027 394 | 152 219 |
| - Non deductible expenses | 62 389 | 4 240 |
| - Income tax recovery in the current reporting period and related to the prior reporting period | (51 968) | (1 025) |
| - Income on government securities taxed at different rates | (15 543) | (34 641) |
| **Income tax expense for the year** | **1 022 272** | **120 793** |

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for IFRS financial reporting purposes and their income tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%), except for income on state securities which is taxed at 15% (2009: 15%).

## 32 Income Taxes (continued)

| *In thousands of Russian Roubles* | 31 December 2009 | Charged to profit or loss | Charged directly to equity | 31 December 2010 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Provision for loan impairment | 458 737 | (451 335) | - | 7 402 |
| Accrued income/expense | 271 776 | 112 844 | - | 384 620 |
| Valuation of trading and other securities at fair value | - | 138 798 | 1 521 | 140 319 |
| Valuation of bonds issued at amortised cost | 17 832 | 29 029 | - | 46 861 |
| Valuation of other borrowed funds at amortised cost | 28 908 | (13 316) | - | 15 592 |
| Valuation of investment securities held-to-maturity at amortised cost | 2 403 | (67) | - | 2 336 |
| Valuation of due from banks at amortised cost | 12 638 | (7 802) | - | 4 836 |
| Other | 257 173 | 10 560 | - | 267 733 |
| **Total deferred tax assets** | **1 049 467** | **(181 289)** | **1 521** | **869 699** |
| Less offsetting with deferred tax liabilities | (743 869) | 95 307 | (1 521) | (650 083) |
| **Recognised deferred tax asset** | **305 598** | **(85 982)** | **-** | **219 616** |
| **Tax effect of taxable temporary differences** | | | | |
| Premises and equipment | (620 242) | (22 681) | - | (642 923) |
| Valuation of trading and other securities at fair value | (120 433) | 120 433 | - | - |
| Other | (3 194) | (3 966) | - | (7 160) |
| **Total deferred tax liabilities** | **(743 869)** | **93 786** | **-** | **(650 083)** |
| Less offsetting with deferred tax assets | 743 869 | (95 307) | 1 521 | 650 083 |
| **Recognised deferred tax liability** | **-** | **(1 521)** | **1 521** | **-** |

## 32 Income Taxes (continued)

| *In thousands of Russian Roubles* | **31 December 2008** | **Charged to profit or loss** | **Charged directly to equity** | **31 December 2009** |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Provision for loan impairment | 310 836 | 147 901 | - | 458 737 |
| Accrued income/expense | 73 611 | 198 165 | - | 271 776 |
| Valuation of trading and other securities at fair value | 88 087 | (79 980) | (8 107) | - |
| Valuation of bonds issued at amortised cost | 29 248 | (11 416) | - | 17 832 |
| Valuation of other borrowed funds at amortised cost | 9 458 | 19 450 | - | 28 908 |
| Valuation of investment securities held-to-maturity at amortised cost | 5 873 | (3 470) | - | 2 403 |
| Valuation of due from banks at amortised cost | 2 426 | 10 212 | - | 12 638 |
| Other | 65 337 | 191 836 | - | 257 173 |
| **Total deferred tax assets** | **584 876** | **472 698** | **(8 107)** | **1 049 467** |
| Less offsetting with deferred tax liabilities | (584 876) | (167 100) | 8 107 | (743 869) |
| **Recognised deferred tax asset** | **-** | **305 598** | **-** | **305 598** |
| **Tax effect of taxable temporary differences** | | | | |
| Premises and equipment | (631 424) | (49 720) | 60 902 | (620 242) |
| Valuation of trading and other securities at fair value | - | (120 433) | - | (120 433) |
| Other | (20 577) | 17 383 | - | (3 194) |
| **Total deferred tax liabilities** | **(652 001)** | **(152 770)** | **60 902** | **(743 869)** |
| Less offsetting with deferred tax assets | 584 876 | 167 100 | (8 107) | 743 869 |
| **Recognised deferred tax liability** | **(67 125)** | **14 330** | **52 795** | **-** |

## 33 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year less treasury stock.

The Group has potentially dilutive type A preference shares. Refer to note 27.

Basic earnings per share are calculated as follows:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Profit attributable to shareholders | 4 114 699 | 640 304 |
| Less preference dividends | (797 918) | (2 211) |
| **Profit attributable to ordinary shareholders of the Bank** | **3 316 781** | **638 093** |
| Weighted average number of ordinary shares in issue (thousands) | 282 150 | 282 150 |
| **Basic earnings per share (expressed in RR per share)** | **11.76** | **2.26** |

Diluted earnings per share are calculated as follows:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| Profit attributable to shareholders | 4 114 699 | 640 304 |
| Less preference dividends | (797 918) | (2 211) |
| **Profit attributable to ordinary shareholders of the Bank** | **3 316 781** | **638 093** |
| Average weighted diluted number of shares (thousands) | 347 361 | 283 937 |
| **Diluted earnings per share (expressed in RR per share)** | **9.55** | **2.25** |

## 34 Dividends

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | Ordinary | Preference | Ordinary | Preference |
| **Dividends payable as at 1 January** | **3 524** | **-** | **2 626** | **-** |
| Dividends declared during the year | 31 037 | 797 918 | 31 037 | 2 211 |
| Dividends paid during the year | (30 412) | (797 918) | (30 139) | (2 211) |
| **Dividends payable as at 31 December** | **4 149** | **-** | **3 524** | **-** |
| **Dividends per share declared during the year (RR per share)** | **0.11** | **9.35** | **0.11** | **0.11** |

All dividends are declared and paid in Russian Roubles.

## 35 Segment Analysis

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, 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. A person or a group of people responsible for distribution of resources and evaluation of the bank's business results can be: the chief operating decision maker. The Supervisory Board performs the responsibilities of the chief operating decision maker.

***Description of products and services that constitute sources of revenues of the reporting segments***

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

- Corporate banking – settlement and current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – private banking services, private customer current accounts, deposits, retail investment products, custody, credit and debit cards, consumer loans, mortgages and other loans to individuals VIP clients.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments are reflected in the performance of each business segment.

***Factors used by management to define reporting segments***

The Group's segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

***Evaluation of profit or loss, assets and liabilities of operating segments***

The chief operating decision maker analyses the financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) provision for loan impairment are recognized based on Russian legislation, and not on the basis of the model of "incurred losses" specified in IAS 39

(v) fee and commission income on lending operations is recognized immediately and not in the future periods using the effective interest rate method

(vi) liabilities on unutilized leaves are not taken into account.

## 35 Segment Analysis (continued)

The chief operating decision maker evaluates the business segment results based on the amount of profit before taxes paid.

### *Information on profit or loss, assets and liabilities of reporting segments*

Segment information for the main reporting business segments for the years ended 31 December 2010 and 31 December 2009 is set out below (in accordance with the management information).

| *In thousands of Russian Roubles* | **Corporate banking** | **Operations on financial markets** | **Retail banking** | **Unallocated** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| External revenues | 20 601 428 | 3 598 398 | 2 082 210 | - | - | **26 282 036** |
| Revenues from other segments | 7 910 140 | 20 656 013 | 5 236 284 | - | (33 802 437) | **-** |
| **Total revenues** | **28 511 568** | **24 254 411** | **7 318 494** | **-** | **(33 802 437)** | **26 282 036** |
| **Total revenues comprise:** | | | | | | |
| - Interest income | 26 947 394 | 24 166 218 | 6 666 103 | - | (33 802 437) | 23 977 278 |
| - Fee and commission income | 1 513 180 | 20 032 | 647 711 | - | - | 2 180 923 |
| - Other operating income | 50 994 | 68 161 | 4 680 | - | - | 123 835 |
| **Segment results** | **(3 586 788)** | **8 724 405** | **(288 620)** | **-** | **-** | **4 848 997** |
| Unallocated costs | - | - | - | (2 231 413) | - | (2 231 413) |
| **Profit before tax** | | | | | | **2 617 584** |
| Income tax expense | - | - | - | (773 445) | - | (773 445) |
| **(Loss) profit** | **(3 586 788)** | **8 724 405** | **(288 620)** | **(3 004 858)** | **-** | **1 844 139** |
| **Segment assets** | **167 089 040** | **69 561 524** | **19 292 152** | **35 178 176** | **-** | **291 120 892** |
| **Other segment items** | | | | | | |
| Depreciation and amortization charge | (67 302) | (18 291) | (53 434) | (137 527) | - | (276 554) |
| (Provision for loan impairment) Recovery of provision | (7 003 847) | 13 391 | (443 526) | - | - | (7 433 982) |

## 35 Segment Analysis (continued)

| *In thousands of Russian Roubles* | Corporate banking | Operations on financial markets | Retail banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| External revenues | 22 697 862 | 2 506 615 | 2 388 562 | - | - | **27 593 039** |
| Revenues from other segments | 9 044 148 | 23 791 307 | 6 306 732 | - | (39 142 187) | **-** |
| **Total revenues** | **31 742 010** | **26 297 922** | **8 695 294** | **-** | **(39 142 187)** | **27 593 039** |
| **Total revenues comprise:** | | | | | | |
| - Interest income | 30 163 556 | 26 156 458 | 8 143 383 | - | (39 142 187) | 25 321 210 |
| - Fee and commission income | 1 489 859 | 25 319 | 542 979 | - | - | 2 058 157 |
| - Other operating income | 88 595 | 116 145 | 8 932 | - | - | 213 672 |
| **Segment results** | **(3 921 549)** | **6 102 864** | **1 022 910** | **-** | **-** | **3 204 225** |
| Unallocated costs | - | - | - | (1 736 577) | - | (1 736 577) |
| **Profit before tax** | | | | | | **1 467 648** |
| Income tax expense | - | - | - | (426 203) | - | (426 203) |
| **(Loss) profit** | **(3 921 549)** | **6 102 864** | **1 022 910** | **(2 162 780)** | **-** | **1 041 445** |
| **Segment assets** | **147 541 387** | **62 940 121** | **13 782 889** | **28 353 974** | **-** | **252 618 371** |
| **Other segment items** | | | | | | |
| Depreciation and amortization charge | (66 899) | (50 947) | (18 875) | (149 349) | - | (286 070) |
| Provision for loan impairment | (9 533 161) | (510 601) | (57 371) | - | - | (10 101 133) |

## 35 Segment Analysis (continued)

A reconciliation of segment information with IFRS assets as at 31 December 2010 and 31 December 2009 is set out below:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Total segment assets** | **291 120 892** | **252 618 371** |
| Adjustment of allowance for impairment | (19 669 334) | (15 939 637) |
| Adjustments of income / expense accruals | 211 391 | 285 860 |
| Premises, equipment and intangible assets depreciation and fair value adjustment | (737 896) | (606 762) |
| Fair value and amortized cost adjustments | 435 371 | 655 542 |
| Income tax adjustments | 219 616 | 305 598 |
| Elimination of assets additionally recognized in management accounting | (192 310) | (2 932 541) |
| Other adjustments | 1 220 969 | 1 219 909 |
| **Total assets under IFRS** | **272 608 699** | **235 606 340** |

A reconciliation of segment information with IFRS profit before tax for the years ended 31 December 2010 and 31 December 2009 is set out below:

| *In thousands of Russian Roubles* | 2010 | 2009 |
|---|---|---|
| **Total segment profit before tax** | **2 617 584** | **1 467 648** |
| Adjustment of provision for loan impairment | 3 016 069 | (638 612) |
| Adjustments of income / expense accruals | (103 966) | (321 351) |
| Premises, equipment and intangible assets depreciation, amortisation and fair value adjustment | 116 387 | (17 406) |
| Fair value and amortized cost adjustments | (520 265) | 108 346 |
| Other adjustments | 11 162 | 162 472 |
| **Total profit before tax under IFRS** | **5 136 971** | **761 097** |

***Geographical information.*** The major part of the Group’s activity is concentrated in the North-West region of Russian Federation. Activity is also carried out in the Moscow and Privolzhsky regions.

There are no customers (groups of related customers) with income from operations which exceed 10% of total income from operations with the external parties of the Group.

## 36 Financial Risk Management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks.

The primary objectives of the financial risk management function are to establish and ensure compliance with risk limits and other risk restrictions. Geographical risk management includes making decisions about opening new branches and outlets and setting limits for operations with counterparties – residents of countries with different levels of economic development with due consideration of geographical risk factors. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management includes establishment, implementation and monitoring of financial risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, economic performance of clients (principally – depositors and borrowers) and regulatory changes.

The main bodies performing the financial risk management functions are the Supervisory Board, Management Board, Asset and Liability Management Committee, Big Credit Committee, and the Corporate and Retail Credit Committee.

At the end of 2010 a new development strategy for the following three years was finalized according to which the Bank plans to improve the quality of business processes and increase the efficiency of client servicing by means of more precise segmentation. The new governance model constitutes an important part of the strategy. In December 2010 changes in the Bank’s organizational structure were initialized. These changes concern reorganization of the functions of the financial risk management departments.

The Supervisory Board is responsible for consideration of risk at the strategic level, i.e. it determines the level of risk the Bank may accept to achieve the desired level of profit. Accordingly, the Supervisory Board establishes benchmarks which determine the Bank’s risk limits (in particular, the maximum amount of concentration of assets by industry, etc.). The Supervisory Board reviews on a monthly basis the reports submitted by management on implementation of the development plan together with the report on implementation of business indicators of the corporate plan for the current year. Reports on lending operations, which contain information on the credit risk, the main financial risk, are also reviewed by the Supervisory Board on a monthly basis. The Audit Committee attached to the Supervisory Board evaluates the efficiency of and prepares proposals to improve actual internal control procedures and risk management procedures based on the analysis of reports submitted by Internal Control Department and Banking Risks Department. The Supervisory Board approves the Risk Management Policy, the compliance with which is supervised by reviews and approvals of quarterly risk management reports. Quarterly reports are prepared by the Banking Risks Department and contain a description of the risk position, both at the consolidated level and exposure to specific risks, as well as suggestions concerning further development of the financial risk management system.

The Management Board is responsible for overall organization of the financial risk management system. The Management Board makes decisions on the risks that may be accepted by the Group or on arrangements to maintain the Group as a going concern in case of emergency when the decision-making process is beyond the scope of the Asset and Liability Management Committee and Big Credit Committee.

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk). The Asset and Liability Management Committee holds weekly meetings.

**36 Financial Risk Management (continued)**

The Asset and Liability Management Committee adopts resolutions for management of the statement of financial position structure and the related liquidity risks, and on determining and changing market risk limits and interest rate risk limits. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency. The Asset and Liability Management Committee participates in geographical risk management and supports business development outside of Saint Petersburg. It approves decisions on opening new branches and establishes the operating model for regional offices located in Saint Petersburg and in the regional branches.

The Technical Policy Committee reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

The Banking Risks Department is responsible for the compliance with the Risk Management Policy, monitoring exposure levels, initiating the development of methods of assessment of current risk levels, management procedures for these risks, compliance by divisions with existing procedures and limits restricting the level of these risks. The Banking Risks Department coordinates the management of operational and legal risks and manages financial risks (except for interest risk).

The Management Board, Big Credit Committee, Corporate and Retail Credit Committee, and Small Credit Committees of the branch subdivisions are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy annually (a document containing guidelines on principles and procedures of credit risk management in the Bank and determining authority of the Bank's Big Credit Committee, Corporate and Retail Credit Committee, and Small Credit Committees) annually. The Big Credit Committee adopts resolutions on credit risk-related transactions of the largest corporate customers. Corporate and Retail Credit Committee and Small Credit Committees of the branches adopt resolutions on credit risk-related transactions of the corporate and retail customers.

Current management of credit risk is mostly performed by its specialized subdivision, the Credit Division (from December 2010 – Credit Risk Division), exercising operational control over credit risk levels.

The management of the bad debts is separate from the business subdivision of the Bank – Division on Security and Settlement of Debts.

***Credit risk.*** The Group is exposed to credit risk which is the risk that a borrower will be unable to pay principal debt and interest in full when due under the credit agreement.

The Group considers credit risk to include both assets exposed to credit risk and all financial assets recognized in the consolidated statement of financial position except for assets deposited in the CBRF.

The overall approach to credit risk management is defined in the Credit Policy. The Credit Policy reflects the general approach to credit risk management, credit risk management policy, the respective functions of the subdivisions, particular aspects of credit risk management for one borrower or a group of related borrowers, and the industry limits in lending operations.

***Risk management tools***

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- establishing limits and control over compliance with these limits for separate borrowers and groups of related borrowers
- assessment of the borrowers' financial positions at the moment of the loan application and during ongoing loan monitoring

**36 Financial Risk Management (continued)**

- evaluation of the market value of the collateral for a loan and evaluation of financial position of guarantors
- control over availability and integrity of the pledge, both preliminary (before the pledge agreement is concluded) and subsequent control within the agreement term
- control over timely performance of the borrowers' obligations to the Bank
- defining the credit quality category of the loan, which conforms to the credit risk level.

For the loan portfolio in general:

- development of uniform procedures and methods of issue of loans and subsequent monitoring of the borrowers, as well as timely obtaining of information on the borrowers
- establishment and control over compliance with the limits on large credit exposures on group of borrowers, concentration of credit risk in certain industry sectors, volume of possible losses on the loan portfolio
- control over compliance by subdivisions with resolutions adopted by the Bank's competent authorities and internal documents (such as credit policy, internal limits, etc).

For Credit Committees:

- establishment and control over compliance with the scope limits of Big Credit Committee and Small Credit Committees specified in the Credit Policy.

***Reporting forms***

Management controls credit risks and the loan portfolio quality based on the following *reporting forms*:

Daily reports which form the basis for management decisions and are submitted to the Credit Risk Department Director and the Deputy Chairman of the Management Board responsible for banking risks:

- changes in the categories of loans in the loan portfolio
- calculation of actual debt per one borrower and a group of related borrowers.

Weekly and monthly reports submitted for the purposes of meetings of the Corporate and Retail Committee, Big Credit Committee, Asset and Liability Management Committee, Management Board and Supervisory Board:

- calculation of covenants (industry risks, credit exposure of large customers, loans granted to related borrowers, calculation of cumulative loans granted to the 20 largest borrowers)
- analysis of the loans issued by branches and outlets
- movement of loans (analysed by the loans issued, rolled-over, overdue or repaid)
- performance of the branches/outlets in terms of the amount of the loans granted, industries concentration, etc
- performance in terms of credit products issued to individuals and legal entities.

## 36 Financial Risk Management (continued)

***Decision to grant loans***

For credit risk management purposes the Bank adopts a collegial decision-making system for granting loans (except for standard loans granted to individuals under the adopted programs). The branches and the head office have Small Credit Committees, which grant loans within the established limits. The limits of authority of the Small Credit Committees in branches and outlets are determined on the basis of their credit performance in the previous year, the structure and quality of their loan portfolios and qualifications of the employees by subdivision. The specific limits are determined in the Credit Policy.

Decisions on loans beyond the limits of authority of Small Credit Committees (preliminary approval of granting the loan with the Small Credit Committee is obligatory) is taken by the Corporate and Retail Committee if the client is not related to the largest corporate clients or by the Big Credit Committee if the client relates to the largest corporate clients. Decisions on loans beyond the limits of authority of the Big Credit Committee is taken by the Management Board (preliminary approval of granting the relevant loan with the Small Credit Committee and the Big Credit Committee is obligatory).

The loans to the borrowers related to the Group are granted with prior consent of the Supervisory Board.

***Limits for credit risk management purposes***

1. Limits for separate borrowers and a group of related borrowers.

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of global financial institutions that are the Group's creditors.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Bank takes into account all information available. When establishing an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower in a group of related borrowers, the needs of the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan. The Group has established the following priority of collateral based on evaluation of its liquidity and ability to cover the credit risks:

- deposits with the Bank and promissory notes issued by the Bank
- real estate
- guarantees and sureties of legal entities
- fixed assets
- other assets.

2. Overall loan portfolio limits.

- the cumulative credit risk exposure to a separate borrower or a group of related borrowers should not exceed 15% of capital (estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I))
- the amount of loans and advances to borrowers related to the Bank should not exceed 20% of capital (estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I)
- the cumulative amount of loans, bank guarantees and sureties provided to its shareholders (having the right to 5 and more percent of voting stock) should not exceed 10% of capital estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I)

**36 Financial Risk Management (continued)**

- the ratio of loans overdue more than 60 days and restructured loans less provision for loan impairment should not exceed 25% of Bank’s Tier I capital estimated in compliance with the recommendations provided by the Basel Committee on Banking Supervision (Basel I)

- the ratio of the maximum aggregate risk in the real estate and construction sector to the cumulative loan portfolio should be less than 23%

- the ratio of the maximum risk in any economic sector to the cumulative loan portfolio should not exceed 20%.

The Credit Policy is consistent for unrecognised financial instruments and recognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products supporting the use of unrecognised financial instruments for lending (guarantees, unsecured letters of credit, credit facilities, (etc.) within established limits.

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies when conducting transactions on the interbank lending market and performing purchase and sale of financial assets, including term currency operations when the counterparty bears the credit risk in settlements. The respective limits are established for each credit institution and financial company on the basis of a credit quality analysis performed by the competent collegial bodies (Big Credit Committee within its scope and the Management Board). The limits established for resident banks are subject to review at least each quarter. The limits established for non-resident banks are subject to review at least semi-annually.

In 2008-2009 the governing bodies of the Bank used a number of measures aimed to reduce exposure to credit risks of the Bank. The Credit policy in 2010 was rather conservative – first of all in the collateral policy, requirements to the clients within the scope of retail standard loan programs and the restriction of the authority of the Small Credit Committees of branches and outlets for approval and change of terms of loan agreements.

Taking into account adherence of the Bank to conservative optimism in estimation of the macroeconomic situation and enhancement of the competition on the banking market in December 2010 changes to the Credit policy were adopted. These changes reduce the requirements for the loan collateral, increase the authority of the Small Credit Committees of branches and outlets for approval and change of terms of loan agreements. These measures are intended to decentralize the decision making process and to reduce the time to evaluate loan applications and enhance client service. The Bank accepts all the measures that allow liberalization of the Credit policy should not have an effect on the quality of the loan portfolio.

***Geographical risk.*** Geographical risk is almost fully defined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities are concentrated in the Russian Federation.

Saint Petersburg is a large megapolis with a diversified economy that does not depend on the economic position of a group of interrelated large enterprises. This is why the historic business concentration on providing services to individuals and legal entities in Saint Petersburg, in the current economic situation, is an advantage for the Group.

***Market risks.*** The Group is exposed to the market risks arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as.

- currency risk - risk of losses due to exchange rate fluctuations

- interest rate risk - risk of losses due to fluctuations of market interest rates

- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

**36 Financial Risk Management (continued)**

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level. The Banking Risks Department reports to management on a regular basis. The review of the main risks is communicated to management and the Asset and Liability Management Committee and the Management Board within the overall Risk Management Report.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of limits on transactions, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed) and monitoring their further compliance.

Despite significant recovery of financial markets after the crisis of the end of 2008 and the beginning of 2009 the Bank followed its conservative policy in managing other price (equity) risk. The Bank maintains a small portfolio of shares.

***Currency risk.*** Currency risk is the risk of changes in income or carrying value of financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee (the Banking Risks Department prepares estimates for these limits). The Operational Department (back-office) currently monitors compliance with the limits set.

For currency management purposes the Group also uses the system of mandatory limits established by the CBRF, including limits on open positions in a foreign currency (up to 10% of the equity estimated in compliance with the CBRF) and the limit on the open position in all foreign currencies (up to 20% of the equity estimated in compliance with the CBRF).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euros).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

## 36 Financial Risk Management (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2010. The Group does not use this currency risk analysis for management purposes.

| *In thousands of Russian Roubles* | RR | US Dollars | Euro | Other | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 9 579 345 | 1 502 276 | 2 044 312 | 54 251 | 13 180 184 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 1 670 712 | - | - | - | 1 670 712 |
| Trading securities | 32 682 802 | 3 841 825 | - | - | 36 524 627 |
| Trading securities pledged under sale and repurchase agreements | 254 356 | - | - | - | 254 356 |
| Amounts receivable under reverse repurchase agreements | 8 423 538 | - | - | - | 8 423 538 |
| Due from banks | 2 895 120 | 1 919 334 | 7 583 471 | - | 12 397 925 |
| Loans and advances to customers | 143 760 048 | 27 743 656 | 11 314 635 | - | 182 818 339 |
| Investment securities available-for-sale | 247 559 | 32 932 | - | - | 280 491 |
| Investment securities held-to-maturity | 169 638 | - | - | - | 169 638 |
| Other financial assets | 258 025 | 22 462 | 25 298 | - | 305 785 |
| Deferred tax asset | 219 616 | - | - | - | 219 616 |
| Investment property | 3 956 820 | - | - | - | 3 956 820 |
| Premises, equipment and intangible assets | 11 762 753 | - | - | - | 11 762 753 |
| Other assets | 627 621 | 1 146 | 15 025 | 123 | 643 915 |
| **TOTAL ASSETS** | **216 507 953** | **35 063 631** | **20 982 741** | **54 374** | **272 608 699** |
| **LIABILITIES** | | | | | |
| Due to banks | 5 834 469 | 5 474 179 | 17 745 | - | 11 326 393 |
| Customer accounts | 147 644 995 | 22 082 590 | 21 926 059 | 154 032 | 191 807 676 |
| Bonds issued | 13 140 130 | 3 141 864 | - | - | 16 281 994 |
| Other debt securities in issue | 9 138 153 | 966 548 | 260 529 | - | 10 365 230 |
| Other borrowed funds | 1 465 504 | 10 175 782 | 1 479 822 | - | 13 121 108 |
| Other financial liabilities | 382 779 | 34 636 | 56 814 | - | 474 229 |
| Income tax liability | 136 223 | - | - | - | 136 223 |
| Other liabilities | 497 569 | 33 976 | 90 | - | 531 635 |
| **TOTAL LIABILITIES** | **178 239 822** | **41 909 575** | **23 741 059** | **154 032** | **244 044 488** |
| Add fair value of currency derivatives | 199 472 | - | - | - | 199 472 |
| **Net recognised position, excluding currency derivative financial instruments** | **38 467 603** | **(6 845 944)** | **(2 758 318)** | **(99 658)** | **28 763 683** |
| **Currency derivatives** | **(8 642 445)** | **6 105 635** | **1 954 937** | **382 401** | **(199 472)** |
| **Net recognised position, including currency derivative financial instruments** | **29 825 158** | **(740 309)** | **(803 381)** | **282 743** | **28 564 211** |

## 36 Financial Risk Management (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2009. The Group does not use this currency risk analysis for management purposes.

| *In thousands of Russian Roubles* | RR | US Dollars | Euro | Other | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 13 896 148 | 3 108 820 | 4 370 726 | 43 779 | 21 419 473 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 1 373 815 | - | - | - | 1 373 815 |
| Trading securities | 25 154 197 | 3 921 645 | - | - | 29 075 842 |
| Trading securities pledged under sale and repurchase agreements | 640 540 | - | - | - | 640 540 |
| Amounts receivable under reverse repurchase agreements | 3 576 299 | - | - | - | 3 576 299 |
| Due from banks | 2 760 159 | 3 039 806 | 67 390 | - | 5 867 355 |
| Loans and advances to customers | 109 756 217 | 34 799 791 | 13 644 481 | - | 158 200 489 |
| Investment securities available-for-sale | 47 708 | 40 537 | - | - | 88 245 |
| Investment securities held-to-maturity | 180 908 | - | - | - | 180 908 |
| Other financial assets | 121 096 | 9 949 | 17 969 | - | 149 014 |
| Deferred tax asset | 305 598 | - | - | - | 305 598 |
| Investment property | 2 000 008 | - | - | - | 2 000 008 |
| Premises, equipment and intangible assets | 10 112 710 | - | - | - | 10 112 710 |
| Other assets | 462 026 | 2 783 | 9 307 | 3 943 | 478 059 |
| Long-term assets held-for-sale | 2 137 985 | - | - | - | 2 137 985 |
| **TOTAL ASSETS** | **172 525 414** | **44 923 331** | **18 109 873** | **47 722** | **235 606 340** |
| **LIABILITIES** | | | | | |
| Due to banks | 14 019 477 | 1 104 369 | 877 998 | - | 16 001 844 |
| Customer accounts | 125 531 195 | 21 336 423 | 29 105 363 | 17 303 | 175 990 284 |
| Bonds issued | - | 3 113 581 | - | - | 3 113 581 |
| Other debt securities in issue | 4 138 626 | 860 094 | 152 054 | - | 5 150 774 |
| Other borrowed funds | 1 465 261 | 6 149 467 | 1 591 917 | - | 9 206 645 |
| Other financial liabilities | 258 535 | 1 524 | 154 495 | - | 414 554 |
| Income tax liability | 15 543 | - | - | - | 15 543 |
| Other liabilities | 428 402 | 82 | 80 | - | 428 564 |
| **TOTAL LIABILITIES** | **145 857 039** | **32 565 540** | **31 881 907** | **17 303** | **210 321 789** |
| Add fair value of currency derivatives | **211 628** | **-** | **-** | **-** | **211 628** |
| **Net recognised position, excluding currency derivative financial instruments** | **26 880 003** | **12 357 791** | **(13 772 034)** | **30 419** | **25 496 179** |
| **Currency derivatives** | **2 905 436** | **(16 736 088)** | **13 619 024** | **-** | **(211 628)** |
| **Net recognised position, including currency derivative financial instruments** | **29 785 439** | **(4 378 297)** | **(153 010)** | **30 419** | **25 284 551** |

## 36 Financial Risk Management (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2010:

| *In thousands of Russian Roubles* | Monetary financial assets | Monetary financial liabilities | Derivative financial instruments | Net currency position |
|---|---|---|---|---|
| Russian Roubles | 198 862 845 | 177 606 030 | (8 642 445) | 12 614 370 |
| US Dollars | 35 062 485 | 41 875 599 | 6 105 635 | (707 479) |
| Euros | 20 967 716 | 23 740 969 | 1 954 937 | (818 316) |
| Other | 54 251 | 154 032 | 382 401 | 282 620 |
| **Total** | **254 947 297** | **243 376 630** | **(199 472)** | **11 371 195** |

The table below summarises the foreign currency exchange rate risk for monetary financial instruments as at 31 December 2009:

| *In thousands of Russian Roubles* | Monetary financial assets | Monetary financial liabilities | Derivative financial instruments | Net currency position |
|---|---|---|---|---|
| Russian Roubles | 157 189 729 | 145 413 094 | 2 905 436 | 14 682 071 |
| US Dollars | 44 920 548 | 32 565 458 | (16 736 088) | (4 380 998) |
| Euros | 18 100 566 | 31 881 827 | 13 619 024 | (162 237) |
| Other | 43 779 | 17 303 | - | 26 476 |
| **Total** | **220 254 622** | **209 877 682** | **(211 628)** | **10 165 312** |

The currency derivatives position in each column represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents fair value of the currency derivative financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 31 December 2009 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

| *In thousands of Russian Roubles* | As at 31 December 2010 |
|---|---|
| 5% appreciation of USD against RR | (28 299) |
| 5% depreciation of USD against RR | 28 299 |
| 5% appreciation of Euro against RR | (32 733) |
| 5% depreciation of Euro against RR | 32 733 |

| *In thousands of Russian Roubles* | As at 31 December 2009 |
|---|---|
| 5% appreciation of USD against RR | (175 240) |
| 5% depreciation of USD against RR | 175 240 |
| 5% appreciation of Euro against RR | (6 490) |
| 5% depreciation of Euro against RR | 6 490 |

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group.

**36 Financial Risk Management (continued)**

In 2010 management took a number of measures in order to improve the currency risk management system, including:

- the major internal policy determining the currency risk management procedure was amended
- in April 2010 the Asset and Liability Management Committee set tougher internal limits on the amount of open currency positions than those set by the CBRF, including open currency position limits in principal currencies and limits on the amount of positions on forward currency contracts (forward currency positions).

***Interest rate risk.*** The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins may reduce and profit may decrease.

The table below summarises the effective interest rates by currency for major debt instruments. The analysis is prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| *In % p.a.* | **RR** | **USD** | **Euro** | **Other** | **RR** | **USD** | **Euro** | **Other** |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | 0.43 | 0.00 | 0.00 | 0.00 | 1.39 | 0.00 | 0.00 | 0.00 |
| Debt trading securities | 6.86 | 4.78 | - | - | 7.56 | 6.44 | - | - |
| Trading securities pledged under sale and repurchase agreements | 12.26 | - | - | - | 7.94 | - | - | - |
| Due from banks | 3.39 | 1.11 | 0.74 | - | 8.78 | 0.22 | - | - |
| Loans and advances to customers | 10.68 | 9.42 | 8.70 | - | 15.52 | 11.71 | 11.77 | - |
| Investment securities held-to-maturity | 12.70 | - | - | - | 13.07 | - | - | - |
| **LIABILITIES** | | | | | | | | |
| Due to banks | 1.69 | 0.46 | 2.45 | - | 5.87 | 0.36 | - | - |
| Customer accounts | | | | | | | | |
| - current and settlement accounts | 0.67 | 0.63 | 0.33 | 0.04 | 0.57 | 0.14 | 0.11 | 0.10 |
| - term deposits | | | | | | | | |
| - individuals | 8.52 | 5.99 | 5.35 | - | 10.88 | 8.66 | 7.26 | - |
| - legal entities | 6.60 | 3.96 | 3.13 | 2.11 | 10.19 | 7.04 | 5.09 | - |
| Bonds issued | 8.32 | 11.15 | - | - | - | 11.14 | - | - |
| Other debt securities in issue | 6.53 | 5.62 | 4.11 | - | 10.38 | 8.02 | 2.48 | - |
| Other borrowed funds | 6.70 | 7.55 | 14.50 | - | 8.29 | 10.42 | 14.50 | - |

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

Interest rate risk management represents management of assets and liabilities to maximize profit and reduce losses from possible fluctuations in interest rates and the statement of financial position structure. Interest rate risk management is an important part of overall risk management and significantly affects the financial performance.

Interest rate risk management is performed centrally by the following bodies:

- Management Board – definition of the basic financial activity parameters, principles of interest rate risk management, approval of structure of limits and restrictions for interest rate risk, monitoring the efficiency of interest rate risk management system
- Asset and Liability Management Committee – approval and control over the structure of the assets and liabilities, management of interest rates and portfolio of securities, approval of methods (procedures) of the interest rate risk evaluation

**36 Financial Risk Management (continued)**

- Treasury Department – evaluation of the exposure to the interest rate risks; current management of the statement of financial position structure, short-term asset management, definition of interest rate risk levels acceptable for the Group and making interest rate risk management proposals to the Asset and Liability Management Committee.

In case the existing interest rate movement forecast predicts an unfavorable position for the Group, that is a significant reduction of net interest margin, the Asset and Liability Management Committee makes decisions to regulate the interest rate risk level including the following:

- changes in base interest rates to manage the structure of assets and liabilities
- operations on the financial market aimed to change the interest rate risk position, including:
    - alteration of the securities portfolio structure, including structure and duration of securities portfolio
    - borrowings in the financial markets
    - futures transactions with financial instruments
- other measures that allow for changes the amount of instruments with floating rates in the structure of assets and liabilities.

Management uses a GAP report as the major analytical form for interest rate risk.

The analysis is carried out by major currencies – Russian roubles, US dollars, Euros. All the items are distributed according to the following revaluation intervals:

- less than 8 months (average period length is 6 months)
- from 8 to 16 months (average period length is 1 year)
- from 16 to 32 months (average period length is 2 years)
- from 32 to 64 months (average period length is 4 years)
- from 64 to 128 months (average period length is 8 years)
- more than 128 months (average period length is 16 years, conventionally).

For the purposes of interest rate risk evaluation the Group utilizes Interest Rate Risk Management Report that additionally takes into account items of floating capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate revaluation interval of two years.

The analysis of the exposure to interest rate risk is carried out based on the forecast of unfavourable change in present value of assets and liabilities under the condition of changes in market yields by 5% (2009: 10%).

The Group considers the ratio of total capital used to cover the interest rate risk to capital, at a level not more than 30%.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

## 36 Financial Risk Management (continued)

Apart from the indices mentioned above the Group calculates the potential effect of interest GAPs, that is a change in the present value of assets and liabilities in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

The major trends that affected the measures of interest rate risk management in 2010 are:

- decrease in RR interest rates that continued throughout 2010 and only in the second half of December 2010 there appeared expectations of market growth or at least the end of interest rate decline in the first half of 2011. This manifested itself in moderate profitability growth on the stock market mainly for long-term assets, but did not affect on the business unit rates. For the purposes of interest rate risk management on the RR statement of financial position, negative GAPs were built up for the terms less than 1 year in 2010, that is interest rate repricing periods for assets increased. In view of decreasing interest rates the established statement of financial position structure resulted in additional income due to quicker speed of revaluation of liabilities compared to that of assets.

- Interest rates on US dollar-denominated and euro-denominated resources continued the decline that started on 31 December 2009 and stabilized in the second half of 2010. Due to the expected cancellation of economical support programs in 2011-2012 in the USA and Europe that would likely result in an increase in USD and EUR interest rates, measures were taken to avoid positive GAPs with terms of more than 1 year on the foreign currency statement of financial position. These measures decrease the risk of losses in case of growth in foreign currency interest rates.

Analysis of sensitivity of the fair value of debt securities, which form part of the trading portfolio, and other securities at fair value through profit or loss based on a possible change in the interest rates during the next reporting year, assuming that all other variables remain unchanged is as follows.

As at 31 December 2010:

| *In thousands of Russian Roubles* | |
|---|---|
| 100 bp parallel rise | |
| Trading securities | (415 573) |
| Trading securities pledged under sale and repurchase agreements | (421) |
| **Total** | **(415 994)** |
| 100 bp parallel fall | |
| Trading securities | 415 573 |
| Trading securities pledged under sale and repurchase agreements | 421 |
| **Total** | **415 994** |

**36 Financial Risk Management (continued)**

As at 31 December 2009:

| *In thousands of Russian Roubles* | |
|---|---|
| 100 bp parallel rise | |
| Trading securities | (301 186) |
| Trading securities pledged under sale and repurchase agreements | (4 682) |
| **Total** | **(305 868)** |
| 100 bp parallel fall | |
| Trading securities | 301 186 |
| Trading securities pledged under sale and repurchase agreements | 4 682 |
| **Total** | **305 868** |

***Other price (equity) risk.*** The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations.

The Department of Financial Markets Operations manages the open equity positions and the corresponding derivative financial instruments within the limits set by the Asset and Liability Management Committee.

The Asset and Liability Management Committee sets the following limits for restricting possible losses related to the effects of equity risk: cumulative limit for the amount of open equity positions, individual limits for the amount of open equity position for each issuer, "stop-loss" limit.

If the risk becomes material the mitigation arrangements are determined by the Management Board.

The limits are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments.

The Operational Department (back-office) currently monitors compliance with equity limits on a daily basis.

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

| *In thousands of Russian Roubles* | **As at 31 December 2010** |
|---|---|
| 5% increase in securities prices (including pledged under sale and repurchase agreements) | 39 562 |
| 5% decrease in securities prices (including pledged under sale and repurchase agreements) | (39 562) |

| *In thousands of Russian Roubles* | **As at 31 December 2009** |
|---|---|
| 5% increase in securities prices | 16 744 |
| 5% decrease in securities prices | (16 744) |

## 36 Financial Risk Management (continued)

***Liquidity risk.*** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of customers.

The Group seeks to maintain a diversified and stable structure of funding sources, which comprise primarily issued debt securities, long-term and short-term deposits of banks, corporate and retail customer deposits and current accounts. The Group invests the funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicates that these customer accounts provide a long-term and stable source of funding.

The Group has established a multi-level liquidity management system. On a daily basis the Treasury Department controls the liquidity position. The Asset and Liability Management Committee makes decisions taking into account a weekly liquidity forecast. In some cases decisions on liquidity may be made by the Management and Supervisory Boards which also control the general liquidity of the Group.

Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in activity, management may demand higher amounts of liquidity, if required.

The basis for managing short-term liquidity (less than 3 months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank. The length of the period of possible funds withdrawal, during which the Bank will have to provide continuous operations and possible decrease of rates of clients’ funds, are occasionally reviewed by the Asset and Liability Management Committee and the Management Board taking into consideration macroeconomic situation, possible risks significant for the Bank and sustainability of the client base.

Management applies the following main instruments for liquidity management:

- In the short term the most effective way to manage liquidity is to manage the volume and structure of liquid assets. Management maintains a portfolio of liquid assets (including trading securities) which can be used for prompt and loss-free repayment of debt

- In certain cases management may impose restrictions on some transactions to regulate the statement of financial position structure. The limits are set when other instruments of liquidity management are insufficient to maintain liquidity

- Raising long-term funds. During 2010 and 2009, the Group raised significant amounts on the global long-term debt and equity markets. Refer to notes 22 and 24.

**36 Financial Risk Management (continued)**

The liquidity management policy includes the following:

- daily forecasts of cash flows by currencies and calculation of the cash-flow related amount of current liquidity reserves
- management of concentration and structure of borrowed funds
- development of liquidity maintenance plans
- diversification of funding sources
- control over compliance of the statement of financial position performance with statutory liquidity requirements
- setting interest rates for raising/granting funds by instruments and periods.

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis and includes daily estimates of the level of liquid assets necessary to settle obligations to customers and counterparties in full as they fall due. It is implemented based on statistical and chronological analysis of the balances on customers’ current accounts, forecasted customer deposits in correspondent accounts, movement of funds on accounts and analysis and processing of the information on obligations and requirements under term contracts in short-term periods. This analytical data serves as a basis for management of the liquidity position and replenishment of the payment cycle and its customers with funds from liquid assets.

Short-term (for the period of up to 3 months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible clients’ funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over 3 months) liquidity monitoring is based on analysis liquidity gaps. The Group has developed an analytical form to evaluate the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity. For example, for current accounts of customers the Group uses the statistical data on sustainability, and for securities it uses possible periods of selling portfolios without losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Management analyses the net liquidity gap and cumulative liquidity gap.

The following tables are based on the above principles and show distribution of assets and liabilities as at 31 December 2010 and 31 December 2009 by expected maturity periods. This table is prepared for management purposes on the basis of accounting data prepared under Russian Accounting Standards.

As at 31 December 2010:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| Assets | 71 698 722 | 40 344 148 | 56 039 713 | 123 143 307 | 291 225 890 |
| Liabilities and equity | 68 133 360 | 83 752 049 | 41 911 745 | 97 428 736 | 291 225 890 |
| Net liquidity gap | 3 565 362 | (43 407 901) | 14 127 968 | 25 714 571 | |
| Cumulative liquidity gap | 3 565 362 | (39 842 539) | (25 714 571) | - | |

## 36 Financial Risk Management (continued)

As at 31 December 2009:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| Assets | 61 984 811 | 68 616 410 | 57 868 198 | 64 105 896 | 252 575 315 |
| Liabilities and equity | 70 704 768 | 76 801 841 | 40 796 279 | 64 272 427 | 252 575 315 |
| Net liquidity gap | (8 719 957) | (8 185 431) | 17 071 919 | (166 531) | |
| Cumulative liquidity gap | (8 719 957) | (16 905 388) | 166 531 | - | |

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBRF on maintaining sufficient liquidity ratios. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory equity and liabilities maturing after one year.

According to management's view based on daily calculations of the Treasury Department, within 2010 and 2009 the Bank complied with the liquidity ratios established by the CBRF.

## 36 Financial Risk Management (continued)

Below is the IFRS liquidity position at 31 December 2010. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Demand and less than 1 month".

| *In thousands of Russian Roubles* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 13 180 184 | - | - | - | - | 13 180 184 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 1 670 712 | - | - | - | - | 1 670 712 |
| Trading securities | 36 524 627 | - | - | - | - | 36 524 627 |
| Trading securities pledged under sale and repurchase agreements | 254 356 | - | - | - | - | 254 356 |
| Amounts receivable under reverse repurchase agreements | 8 423 538 | - | - | - | - | 8 423 538 |
| Due from banks | 11 573 852 | 501 537 | 156 619 | 165 917 | - | 12 397 925 |
| Loans and advances to customers | 3 308 649 | 30 999 971 | 50 454 324 | 88 819 708 | 9 235 687 | 182 818 339 |
| Investment securities available-for-sale | - | - | - | - | 280 491 | 280 491 |
| Investment securities held-to-maturity | 33 974 | - | 135 664 | - | - | 169 638 |
| Other financial assets | 175 145 | 99 316 | 31 324 | - | - | 305 785 |
| Deferred tax asset | | - | - | 219 616 | - | 219 616 |
| Investment property | - | - | - | - | 3 956 820 | 3 956 820 |
| Premises, equipment and intangible assets | - | - | - | - | 11 762 753 | 11 762 753 |
| Other assets | 194 236 | 180 968 | 30 137 | 111 192 | 127 382 | 643 915 |
| **TOTAL ASSETS** | **75 339 273** | **31 781 792** | **50 808 068** | **89 316 433** | **25 363 133** | **272 608 699** |
| **LIABILITIES** | | | | | | |
| Due to banks | 10 986 238 | 275 023 | 65 132 | - | - | 11 326 393 |
| Customer accounts | 79 461 781 | 70 701 429 | 33 496 305 | 8 102 786 | 45 375 | 191 807 676 |
| Bonds issued | - | - | - | 13 140 130 | 3 141 864 | 16 281 994 |
| Other debt securities in issue | 1 023 371 | 6 126 244 | 2 781 533 | 434 082 | - | 10 365 230 |
| Other borrowed funds | 649 610 | 359 280 | 2 560 214 | 7 156 972 | 2 395 032 | 13 121 108 |
| Other financial liabilities | 176 968 | 112 800 | 121 016 | 58 638 | 4 807 | 474 229 |
| Income tax liability | - | 136 223 | - | - | - | 136 223 |
| Other liabilities | 264 574 | 265 648 | 1 413 | - | - | 531 635 |
| **TOTAL LIABILITIES** | **92 562 542** | **77 976 647** | **39 025 613** | **28 892 608** | **5 587 078** | **244 044 488** |
| **Net liquidity gap** | **(17 223 269)** | **(46 194 855)** | **11 782 455** | **60 423 825** | **19 776 055** | **28 564 211** |
| **Cumulative liquidity gap as at 31 December 2010** | **(17 223 269)** | **(63 418 124)** | **(51 635 669)** | **8 788 156** | **28 564 211** | |

**36 Financial Risk Management (continued)**

Below is the IFRS liquidity position at 31 December 2009. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments at fair value through profit or loss, which are shown in the category “Demand and less than 1 month”.

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **From 1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 21 419 473 | - | - | - | - | 21 419 473 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 1 373 815 | - | - | - | - | 1 373 815 |
| Trading securities | 29 075 842 | - | - | - | - | 29 075 842 |
| Trading securities pledged under sale and repurchase agreements | 640 540 | - | - | - | - | 640 540 |
| Amounts receivable under reverse repurchase agreements | 3 576 299 | - | - | - | - | 3 576 299 |
| Due from banks | 4 618 671 | 964 225 | 217 069 | 67 390 | - | 5 867 355 |
| Loans and advances to customers | 5 528 442 | 56 608 225 | 55 802 863 | 32 486 328 | 7 774 631 | 158 200 489 |
| Investment securities available-for-sale | - | - | - | - | 88 245 | 88 245 |
| Investment securities held-to-maturity | 33 976 | 11 335 | - | 135 597 | - | 180 908 |
| Other financial assets | 145 235 | 346 | - | 3 433 | - | 149 014 |
| Deferred tax asset | - | - | - | 305 598 | - | 305 598 |
| Investment property | - | - | - | - | 2 000 008 | 2 000 008 |
| Premises, equipment and intangible assets | - | - | - | - | 10 112 710 | 10 112 710 |
| Other assets | 85 888 | 91 197 | 78 296 | 112 562 | 110 116 | 478 059 |
| Long-term assets held-for-sale | - | - | 2 137 985 | - | - | 2 137 985 |
| **TOTAL ASSETS** | **66 498 181** | **57 675 328** | **58 236 213** | **33 110 908** | **20 085 710** | **235 606 340** |
| **LIABILITIES** | | | | | | |
| Due to banks | 9 534 764 | 1 038 825 | 5 428 255 | - | - | 16 001 844 |
| Customer accounts | 71 359 160 | 74 887 879 | 24 573 505 | 5 128 521 | 41 219 | 175 990 284 |
| Bonds issued | - | - | - | - | 3 113 581 | 3 113 581 |
| Other debt securities in issue | 1 475 951 | 2 845 430 | 648 095 | 181 298 | - | 5 150 774 |
| Other borrowed funds | - | 430 488 | 1 033 612 | 5 281 389 | 2 461 156 | 9 206 645 |
| Other financial liabilities | 206 543 | 1 661 | 28 622 | 172 530 | 5 198 | 414 554 |
| Income tax liability | - | 15 543 | - | - | - | 15 543 |
| Other liabilities | 162 838 | 263 518 | 1 655 | 553 | - | 428 564 |
| **TOTAL LIABILITIES** | **82 739 256** | **79 483 344** | **31 713 744** | **10 764 291** | **5 621 154** | **210 321 789** |
| **Net liquidity gap** | **(16 241 075)** | **(21 808 016)** | **26 522 469** | **22 346 617** | **14 464 556** | **25 284 551** |
| **Cumulative liquidity gap as at 31 December 2009** | **(16 241 075)** | **(38 049 091)** | **(11 526 622)** | **10 819 995** | **25 284 551** | |

Management believes that available undrawn credit lines and stability of customer accounts will fully cover the liquidity gap in the tables above.

## 36 Financial Risk Management (continued)

The main differences between liquidity tables prepared under IFRS by contractual maturity and the tables prepared for management purposes are as follows:

1. The total assets differ because the impairment allowance on loans and advances to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for IFRS purposes loans and advances to customers is reduced by the allowance;
2. For management purposes the Group shows mandatory cash balances with the CBRF as an asset, with maturity dates proportional to maturity dates of resources that formed them since the Group may not use these resources to cover the creditors’ demands;
3. The Bank applies internal methods to determine the maturity of current accounts and deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for Group management purposes;
4. The Bank also applies internal methods to account for trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of liabilities as at 31 December 2010 and 31 December 2009 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

As at 31 December 2010:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **From 1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Due to banks | 10 990 726 | 279 299 | 66 530 | - | - | 11 336 555 |
| Customer accounts | 79 805 561 | 73 874 576 | 36 129 709 | 8 616 999 | 74 973 | 198 501 818 |
| Bonds issued | 160 004 | 516 090 | 676 094 | 16 142 440 | 3 687 705 | 21 182 333 |
| Other debt securities in issue | 1 164 243 | 6 392 756 | 2 928 694 | 456 070 | - | 10 941 763 |
| Other borrowed funds | 824 664 | 592 638 | 3 042 906 | 9 682 979 | 3 685 095 | 17 828 282 |
| Other financial liabilities | 365 515 | - | - | - | - | 365 515 |
| Derivative financial instruments | | | | | | |
| - inflow | 49 374 633 | - | - | - | - | 49 374 633 |
| - outflow | (49 557 808) | - | - | - | - | (49 557 808) |
| **Total future undiscounted cash flows** | **93 127 538** | **81 655 359** | **42 843 933** | **34 898 488** | **7 447 773** | **259 973 091** |

## 36 Financial Risk Management (continued)

As at 31 December 2009:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **From 1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Due to banks | 9 571 186 | 1 067 358 | 5 877 695 | - | - | 16 516 239 |
| Customer accounts | 71 767 137 | 77 248 864 | 26 548 720 | 5 446 630 | 74 402 | 181 085 753 |
| Bonds issued | 159 039 | 257 | 159 296 | 1 274 369 | 3 979 941 | 5 572 902 |
| Other debt securities in issue | 1 512 978 | 2 924 654 | 688 085 | 191 193 | - | 5 316 910 |
| Other borrowed funds | 224 968 | 670 521 | 1 452 062 | 8 099 584 | 4 179 481 | 14 626 616 |
| Other financial liabilities | 249 456 | - | - | - | - | 249 456 |
| Derivative financial instruments | | | | | | |
| - inflow | 30 367 613 | - | - | - | - | 30 367 613 |
| - outflow | (30 549 546) | - | - | - | - | (30 549 546) |
| **Total undiscounted future cash flows to settle financial liabilities** | **83 302 831** | **81 911 654** | **34 725 858** | **15 011 776** | **8 233 824** | **223 185 943** |
| Irrevocable undrawn credit lines | 400 000 | - | - | - | - | 400 000 |
| **Total future undiscounted cash flows** | **83 702 831** | **81 911 654** | **34 725 858** | **15 011 776** | **8 233 824** | **223 585 943** |

## 37 Management of Capital

The objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation (CBRF), (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), compliance with capital requirements and capital adequacy ratio in accordance with financial covenants set in the agreements signed by the Group for the purposes of attraction of resources.

(i) Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital adequacy ratio") of at least 10%. Regulatory capital and capital adequacy is based on reports prepared under Russian statutory accounting standards and comprises:

| *In thousands of Russian Roubles* | **31 December 2010** | **31 December 2009** |
|---|---|---|
| Total capital | 34 459 224 | 33 087 796 |
| Total regulatory capital adequacy ratio | 13.2% | 15.1% |

Compliance with the capital adequacy ratio set by the CBRF is monitored monthly with reports containing its calculation reviewed and signed by the Deputy Chairman of the Management Board and Chief Accountant, as well as daily with calculations of the Treasury Department.

Management believes that during 2010 and 2009 the capital adequacy ratio was not below the minimum requirement.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Bank's Strategic Development Plan and divided into long-term and short-term capital management.

**37 Management of Capital (continued)**

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved by the following collegial management bodies in order of the established priority: the Asset and Liability Management Committee, Management Board, Supervisory Board.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan of increasing of assets. In some cases the management uses administrative measures to influence the statement of financial position structure through interest rate policy, and in exceptional cases through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

(iii) According to the loan agreements with its creditors the Bank has a commitment to maintain the minimum total capital adequacy ratio of at least 10%, which is calculated under the requirements of Basel I (refer to note 24).

This ratio is calculated on a quarterly basis; the forecasted amount of capital and capital adequacy ratio are defined in the Strategic Development Plan which takes into account compliance with the capital adequacy requirements.

Below is the capital and capital adequacy ratio calculated in accordance with Basel I:

| *In thousands of Russian Roubles* | **31 December 2010** | **31 December 2009** |
|---|---|---|
| **Capital** | **35 868 303** | **33 217 124** |
| ***Tier 1*** | **26 571 850** | **23 286 106** |
| Paid-in share capital | 3 629 541 | 3 629 541 |
| Reserves and profit | 22 942 309 | 19 656 565 |
| *Including:* | | |
| - Share premium | 15 744 164 | 15 744 164 |
| - Retained earnings | 7 198 145 | 3 912 401 |
| ***Tier 2*** | **9 296 453** | **9 931 018** |
| Revaluation reserve for premises | 1 966 015 | 1 966 015 |
| Revaluation reserve for investment securities available-for-sale | 26 346 | 32 430 |
| Subordinated loans | 7 304 092 | 7 932 573 |
| **Risk weighted assets** | **276 778 300** | **218 610 707** |
| Risk weighted statement of financial position | 206 925 243 | 177 034 175 |
| Risk weighted trading assets | 42 980 688 | 32 061 413 |
| Risk weighted unrecognized exposures | 26 872 369 | 9 515 119 |
| **Total capital adequacy ratio** | **12.96%** | **15.19%** |
| **Total tier 1 capital** | **9.60%** | **10.65%** |

## 37 Management of Capital (continued)

The Group was in compliance with the minimum capital adequacy ratio agreed on with the creditors of the Bank during 2010 and 2009.

The Group reconsidered target values for capital for 2010 in light of growing the loan portfolio. The Group believes that the majority of risks in the loan portfolio are reflected in the allowance and significant increase in the allowance is not expected. The Group believes that the available capital will allow compliance with all the capital requirements given the expected rate of loan portfolio growth and aggregate volume of risk assets. Hence, the Group did not take additional measures to build up capital in 2010.

## 38 Contingencies, Commitments and Derivative Financial Instruments

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

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

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2010 and 31 December 2009 no provision for potential tax liabilities was recorded.

***Capital expenditure commitments.*** At 31 December 2010 the Group had contractual capital expenditure commitments in respect of reconstruction and purchase of premises totalling RR 105 078 thousand (2009: RR 615 009 thousand). In 2010 the Group allocated the necessary resources in respect of these commitments. Management believes that future cash flows will be sufficient to cover these and any similar commitments.

In addition during 2007, management decided to construct new premises for the Head Office scheduled to be completed in 2011. Under the current Bank's estimate the total committed capital expenditure on construction of the new Head Office building amounts to approximately RR 5 678 370 thousand (2009: RR 5 188 000 thousand). The remaining committed capital expenditure on construction of the new Head Office building amounts to approximately RR 490 370 thousand (2009: RR 825 000 thousand).

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

| *In thousands of Russian Roubles* | **2010** | **2009** |
|---|---|---|
| Less than 1 year | 229 177 | 45 088 |
| 1 to 5 years | 29 501 | 87 756 |
| **Total operating lease commitments** | **258 678** | **132 844** |

## 38 Contingencies, Commitments and Derivative Financial Instruments (continued)

***Compliance with covenants.*** The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

*General conditions in relation to activity,* such as business conduct and reasonable prudence, conformity with legal requirements of the country, in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

*Restrictive covenants,* including constraints (without lender’s consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

*Financial covenants*, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, the share of overdue balances in the credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the expenditure patterns;

*Reporting requirements,* obliging the Group to provide its audited financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

***Credit related commitments.*** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of cerdit, 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 letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to credit risk as at the yearend in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

| *In thousands of Russian Roubles* | **Note** | **2010** | **2009** |
|---|---|---|---|
| Revocable undrawn credit lines | | 22 673 870 | 7 565 587 |
| Guarantees issued | | 25 205 323 | 8 036 632 |
| Import letters of credit | | 7 491 491 | 6 361 702 |
| Irrevocable undrawn credit lines | | - | 400 000 |
| Allowance for credit losses | 25 | (85 743) | (146 461) |
| **Total credit related commitments** | | **55 284 941** | **22 217 460** |

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being disbursed.

## 38 Contingencies, Commitments and Derivative Financial Instruments (continued)

As at 31 December 2010, customer accounts include deposits amounting to RR 2 842 721 thousand representing security for irrevocable liabilities on import letters of credit (2009: RR 2 459 020 thousand). Refer to note 21.

**Fiduciary assets.** These assets are not included in the consolidated statement of financial position as they are not the Group's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover is provided for these fiduciary assets. The fiduciary assets fall into the following categories:

| *In thousands of Russian Roubles* | **2010 Nominal value** | **2009 Nominal value** |
|---|---|---|
| Corporate shares held in custody of: | | |
| - Depository Clearing Company | 101 | 106 |
| - National Depository Centre | 1 289 | 1 438 |
| - other registrars and depositories | 1 049 786 | 1 053 512 |
| - registers of share issuers | 789 129 | 760 714 |
| Municipal bonds held in custody of St. Petersburg Settlement and Depository Centre | 58 | 58 |

***Derivative financial instruments.*** Contracts on currency derivative financial instruments entered into by the Group have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The table below shows fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards and futures contracts, and interest rate forward contracts. The table reflects contracts with settlement dates after the relevant reporting period. The amounts under these contracts are shown in detail – before the netting of any counterparty positions (and payments). The contracts on foreign exchange derivatives are short term in nature. The contracts on interest rate derivatives are long term in nature.

| | **2010** | | **2009** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Net asset forwards** | **Net liability forwards** | **Net asset forwards** | **Net liability forwards** |
| **Foreign exchange forwards, options: fair values, at the reporting date, of** | | | | |
| - USD receivable on settlement (+) | 8 986 742 | 18 702 276 | 6 535 962 | 4 333 510 |
| - USD payable on settlement (-) | (9 790 930) | (12 965 894) | (1 430 117) | (17 285 325) |
| - Euros receivable on settlement (+) | 1 206 864 | 4 858 016 | 667 147 | 9 011 886 |
| - Euros payable on settlement (-) | (3 045 149) | (1 064 794) | (1 006 609) | (902 477) |
| - RR receivable on settlement (+) | 8 736 364 | 8 021 834 | 771 541 | 8 990 265 |
| - RR payable on settlement (-) | (4 916 583) | (19 285 868) | (5 514 994) | (4 342 845) |
| -Other currency receivable settlement (+) | 382 401 | - | - | - |
| **Total on foreign exchange forwards, options** | **1 559 709** | **(1 734 430)** | **22 930** | **(194 986)** |

## 38 Contingencies, Commitments and Derivative Financial Instruments (continued)

| *In thousands of Russian Roubles* | 2010 Net asset futures | 2010 Net liability futures | 2009 Net asset futures | 2009 Net liability futures |
|---|---|---|---|---|
| **Foreign exchange futures: fair values, at the reporting date, of** | | | | |
| - USD receivable on settlement (+) | 1 706 706 | 21 287 67 | 5 968 897 | 11 504 68 |
| - USD payable on settlement (-) | (19 205 651) | (2 590 53 | (10 837 095) | (15 487 03 |
| - Euros receivable on settlement (+) | 1 411 659 | | - | 5 849 |
| - Euros payable on settlement (-) | - | (1 411 65 | - | |
| - RR receivable on settlement (+) | 19 205 651 | 4 002 1 | 10 837 095 | 15 487 0 |
| - RR payable on settlement (-) | (3 118 365) | (21 287 674 | (5 968 897) | (17 353 76 |
| **Total on foreign exchange futures** | **-** | **-** | **-** | **-** |

| *In thousands of Russian Roubles* | 2010 Net asset forwards | 2010 Net liability forwards | | 2009 Net asset forwards | 2009 Net liability forwards |
|---|---|---|---|---|---|
| **Interest rate forwards: fair values, at the reporting date, of** | | | | | |
| - USD receivable on settlement (+) | - | 10 949 | | 19 671 | 12 484 |
| - USD payable on settlement (-) | - | (35 700) | | (16 238) | (55 489) |
| **Total on interest rate forwards** | **-** | **(24 751)** | **-** | **3 433** | **(43 005)** |
| **Net fair value of derivative financial instruments** | **1 559 709** | **(1 759 181)** | | **26 363** | **(237 991)** |

Currency and other derivative financial instruments are usually subject to trade on over-the-counter markets with professional participants based on standardized contracts. The total fair value of derivative financial instruments can vary significantly with time.

## 39 Fair Value of Financial Instruments

***Methods and assumptions used in calculation of the fair value.***

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

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

The fair value of instruments with floating interest rates usually equals their carrying value. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using interest rates for new instruments with similar credit risk and maturity date.

## 39 Fair Value of Financial Instruments (continued)

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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

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

As at 31 December 2010 and 31 December 2009 the Group has no financial instruments, the fair value of which was calculated based on non-market inputs except for financial instruments available-for-sale.

Management uses professional judgment for allocation of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as Level 3.

## 39 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognized at fair value by evaluation categories as at 31 December 2010 and 31 December 2009:

| *In thousands of Russian Roubles* | 2010 Quoted market prices | 2010 Valuation techniques based on market observable inputs | 2009 Quoted market prices | 2009 Valuation techniques based on market observable inputs |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| ***Trading securities*** | | | | |
| - Corporate bonds | 22 556 410 | - | 16 610 633 | - |
| - Municipal bonds | 5 081 650 | - | 4 329 720 | - |
| - Federal loan bonds (OFZ bonds) | 4 215 755 | - | 3 983 378 | - |
| - Corporate Eurobonds | 3 037 964 | - | 2 918 163 | - |
| - Corporate shares | 830 739 | - | 269 650 | - |
| - Russian Federation Eurobonds | 802 109 | - | 964 298 | - |
| ***Trading securities pledged under sale and repurchase agreements*** | | | | |
| - Corporate shares | 158 312 | - | 124 748 | - |
| - Corporate bonds | 96 044 | - | - | - |
| - Federal loan bonds (OFZ bonds) | - | - | 515 792 | - |
| **TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE** | **36 778 983** | **-** | **29 716 382** | **-** |
| **FINANCIAL LIABILITIES** | | | | |
| ***Other financial liabilities*** | | | | |
| - Net fair value of derivative financial instruments | - | 199 472 | - | 211 628 |
| - Financial guarantees and letters of credit | - | 22 637 | - | 18 637 |
| **TOTAL FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE** | **-** | **222 109** | **-** | **230 265** |

As at 31 December 2010 the Group has financial instruments available-for-sale for which fair value is based on valuation techniques involving the use of non-market observable inputs in amount of RR 280 491 thousand (2009: RR 88 245 thousand)

## 39 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial instruments as at 31 December 2010:

| *In thousands of Russian Roubles* | **Trading financial assets** | **Loans and receivables** | **Available-for-sale financial assets** | **Financial assets held-to-maturity** | **Total carrying value of financial assets** | **Fair value of financial assets** |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| ***Cash and cash equivalents*** | | | | | | |
| - Cash on hand | - | 4 171 412 | - | - | 4 171 412 | 4 171 412 |
| - Balances with the CBRF | - | 3 118 266 | - | - | 3 118 266 | 3 118 266 |
| - Correspondent accounts and overnight placements | - | 4 682 379 | - | - | 4 682 379 | 4 682 379 |
| - Settlement accounts with trading systems | - | 1 208 127 | - | - | 1 208 127 | 1 208 127 |
| ***Mandatory cash balances with the Central Bank of the Russian Federation*** | - | 1 670 712 | - | - | 1 670 712 | 1 670 712 |
| ***Trading securities*** | | | | | | |
| - Corporate bonds | 22 556 410 | - | - | - | 22 556 410 | 22 556 410 |
| - Municipal bonds | 5 081 650 | - | - | - | 5 081 650 | 5 081 650 |
| - Federal loan bonds (OFZ bonds) | 4 215 755 | - | - | - | 4 215 755 | 4 215 755 |
| - Corporate Eurobonds | 3 037 964 | - | - | - | 3 037 964 | 3 037 964 |
| - Russian Federation Eurobonds | 802 109 | - | - | - | 802 109 | 802 109 |
| - Corporate shares | 830 739 | - | - | - | 830 739 | 830 739 |
| ***Trading securities pledged under sale and repurchase agreements*** | 254 356 | - | - | - | 254 356 | 254 356 |
| ***Amounts receivable under reverse repurchase agreements*** | - | 8 423 538 | - | - | 8 423 538 | 8 423 538 |
| ***Due from banks*** | | | | | | |
| - Term placements with banks | - | 12 397 925 | - | - | 12 397 925 | 12 408 439 |
| ***Loans and advances to customers*** | | | | | | |
| Corporate loans | | | | | | |
| - loans to finance working capital | - | 109 096 601 | - | - | 109 096 601 | 109 674 778 |
| - investment loans | - | 51 365 565 | - | - | 51 365 565 | 51 075 141 |
| - loans to entities financed from budget | - | 9 528 735 | - | - | 9 528 735 | 9 329 623 |
| Loans to individuals | | | | | | |
| - mortgage loans | - | 7 252 098 | - | - | 7 252 098 | 7 733 242 |
| - car loans | - | 576 089 | - | - | 576 089 | 662 605 |
| - consumer loans to VIP clients | - | 3 572 610 | - | - | 3 572 610 | 3 754 644 |
| - other consumer loans | - | 1 426 641 | - | - | 1 426 641 | 1 537 804 |
| ***Investment securities available-for-sale*** | - | - | 280 491 | - | 280 491 | 280 491 |
| ***Investment securities held-to-maturity*** | - | | - | 169 638 | 169 638 | 147 615 |
| ***Other financial assets*** | - | 305 785 | - | - | 305 785 | 305 785 |
| **TOTAL FINANCIAL ASSETS** | **36 778 983** | **218 796 483** | **280 491** | **169 638** | **256 025 595** | **256 963 584** |

## 39 Fair Value of Financial Instruments (continued)

| *In thousands of Russian Roubles* | **Financial liabilities carried at amortised cost** | **Carrying value of financial liabilities** | **Fair value of financial liabilities** |
|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | |
| ***Due to banks*** | | | |
| - Term placements of other banks | 10 045 956 | 10 045 956 | 10 045 956 |
| - Amounts payable under sale and repurchase agreements | 868 | 868 | 868 |
| - Correspondent accounts of other banks | 1 279 569 | 1 279 569 | 1 279 569 |
| ***Customer accounts*** | | | |
| State and public organisations | | | |
| - Current/settlement accounts | 1 698 396 | 1 698 396 | 1 698 396 |
| - Term deposits | - | - | - |
| Other legal entities | | | |
| - Current/settlement accounts | 43 019 597 | 43 019 597 | 43 021 146 |
| - Term deposits | 74 237 328 | 74 237 328 | 74 782 088 |
| - Amounts payable under sale and repurchase agreements | 426 735 | 426 735 | 426 735 |
| Individuals | | | |
| - Current/demand accounts | 14 086 230 | 14 086 230 | 14 086 230 |
| - Term deposits | 58 339 390 | 58 339 390 | 59 429 943 |
| ***Bonds issued*** | | | |
| - Bonds | 13 140 130 | 13 140 130 | 13 024 800 |
| - Subordinated Eurobonds | 3 141 864 | 3 141 864 | 3 181 179 |
| **Other debt securities in issue** | | | |
| - Promissory notes | 10 354 136 | 10 354 136 | 10 141 528 |
| - Deposit certificates | 11 094 | 11 094 | 10 869 |
| ***Other borrowed funds*** | | | |
| - Subordinated loans | 5 340 358 | 5 340 358 | 5 340 358 |
| - Syndicated loans | 2 416 993 | 2 416 993 | 2 398 781 |
| - Funds attracted from EBRD | 2 155 308 | 2 155 308 | 1 997 963 |
| - Funds attracted from VTB Bank | 1 260 327 | 1 260 327 | 1 196 445 |
| - Funds attracted from Kreditanstalt fur Wiederaufbau Frankfurt am Main | 762 614 | 762 614 | 740 182 |
| - Funds attracted from Nordic Investment Bank | 581 540 | 581 540 | 561 104 |
| - Funds attracted from Eurasian Development Bank | 304 586 | 304 586 | 290 817 |
| - Funds attracted from Amsterdam Trade Bank N.V. | 299 382 | 299 382 | 299 358 |
| ***Other financial liabilities*** | 474 229 | 474 229 | 474 229 |
| **TOTAL FINANCIAL LIABILITIES** | **243 376 630** | **243 376 630** | **244 428 545** |

## 39 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial instruments by classes and a reconciliation of classes of financial instruments as at 31 December 2009:

| *In thousands of Russian Roubles* | **Trading financial assets** | **Loans and receivables** | **Available-for-sale financial assets** | **Financial assets held-to-maturity** | **Total carrying value of financial assets** | **Fair value of financial assets** |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| ***Cash and cash equivalents*** | | | | | | |
| - Cash on hand | - | 4 186 146 | - | - | 4 186 146 | 4 186 146 |
| - Balances with the CBRF | - | 5 834 518 | - | - | 5 834 518 | 5 834 518 |
| - Correspondent accounts and overnight placements | - | 9 361 181 | - | - | 9 361 181 | 9 361 181 |
| - Settlement accounts with trading systems | - | 2 037 628 | - | - | 2 037 628 | 2 037 628 |
| ***Mandatory cash balances with the Central Bank of the Russian Federation*** | - | 1 373 815 | - | - | 1 373 815 | 1 373 815 |
| ***Trading securities*** | | | | | | |
| - Corporate bonds | 16 610 633 | - | - | - | 16 610 633 | 16 610 633 |
| - Municipal bonds | 4 329 720 | - | - | - | 4 329 720 | 4 329 720 |
| - Federal loan bonds (OFZ bonds) | 3 983 378 | - | - | - | 3 983 378 | 3 983 378 |
| - Corporate Eurobonds | 2 918 163 | - | - | - | 2 918 163 | 2 918 163 |
| - Russian Federation Eurobonds | 964 298 | - | - | - | 964 298 | 964 298 |
| - Corporate shares | 269 650 | - | - | - | 269 650 | 269 650 |
| ***Trading securities pledged under sale and repurchase agreements*** | 640 540 | - | - | - | 640 540 | 640 540 |
| ***Amounts receivable under reverse repurchase agreements*** | - | 3 576 299 | - | - | 3 576 299 | 3 352 416 |
| ***Due from banks*** | | | | | | |
| - Term placements with banks | - | 5 867 355 | - | - | 5 867 355 | 5 900 378 |
| ***Loans and advances to customers*** | | | | | | |
| Corporate loans | | | | | | |
| - loans to finance working capital | - | 97 609 201 | - | - | 97 609 201 | 99 159 335 |
| - investment loans | - | 43 946 731 | - | - | 43 946 731 | 44 650 781 |
| - loans to entities financed from budget | - | 2 995 085 | - | - | 2 995 085 | 3 043 323 |
| Loans to individuals | - | | - | - | | |
| - mortgage loans | - | 8 214 912 | - | - | 8 214 912 | 8 596 812 |
| - car loans | - | 961 146 | - | - | 961 146 | 1 046 373 |
| - consumer loans to VIP clients | - | 3 289 452 | - | - | 3 289 452 | 3 352 224 |
| - other consumer loans | - | 1 183 962 | - | - | 1 183 962 | 1 227 257 |
| ***Investment securities available-for-sale*** | - | - | 88 245 | - | 88 245 | 88 245 |
| ***Investment securities held-to-maturity*** | - | - | - | 180 908 | 180 908 | 171 701 |
| ***Other financial assets*** | | 149 014 | | | 149 014 | 149 014 |
| **TOTAL FINANCIAL ASSETS** | **29 716 382** | **190 586 445** | **88 245** | **180 908** | **220 571 980** | **223 247 529** |

## 39 Fair Value of Financial Instruments (continued)

| *In thousands of Russian Roubles* | Financial liabilities carried at amortised cost | Carrying value of financial liabilities | Fair value of financial liabilities |
|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | |
| ***Due to banks*** | | | |
| - Term placements of other banks | 15 450 978 | 15 450 978 | 15 450 978 |
| - Amounts payable under sale and repurchase agreements | 500 058 | 500 058 | 500 058 |
| - Correspondent accounts of other banks | 50 808 | 50 808 | 50 808 |
| ***Customer accounts*** | | | |
| State and public organisations | | | |
| - Current/demand accounts | 1 133 719 | 1 133 719 | 1 133 719 |
| - Term deposits | 3 013 377 | 3 013 377 | 3 020 328 |
| Other legal entities | | | |
| - Current/settlement accounts | 34 111 267 | 34 111 267 | 34 111 267 |
| - Term deposits | 75 896 998 | 75 896 998 | 76 802 143 |
| - Amounts payable under sale and repurchase agreements | 1 104 665 | 1 104 665 | 1 104 665 |
| Individuals | | | |
| - Current/settlement accounts | 11 318 855 | 11 318 855 | 11 318 855 |
| - Term deposits | 49 411 403 | 49 411 403 | 50 778 705 |
| ***Bonds issued*** | | | |
| - Subordinated Eurobonds | 3 113 581 | 3 113 581 | 2 444 471 |
| **Other debt securities in issue** | | | |
| - Promissory notes | 5 144 762 | 5 144 762 | 5 180 369 |
| - Deposit certificates | 6 012 | 6 012 | 6 082 |
| ***Other borrowed funds*** | | | |
| - Subordinated loans | 5 430 428 | 5 430 428 | 5 404 697 |
| - Syndicated loans | 750 823 | 750 823 | 723 404 |
| - Funds attracted from EBRD | 547 398 | 547 398 | 535 231 |
| - Funds attracted from Nordic Investment Bank | 771 350 | 771 350 | 735 907 |
| - Funds attracted from Kreditanstalt fur Wiederaufbau Frankfurt am Main | 1 103 685 | 1 103 685 | 1 001 895 |
| - Funds attracted from VTB Bank (Deutchland) | 602 961 | 602 961 | 596 003 |
| ***Other financial liabilities*** | 414 554 | 414 554 | 414 554 |
| **TOTAL FINANCIAL LIABILITIES** | **209 877 682** | **209 877 682** | **211 314 139** |

## 40 Related Party Transactions

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

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

As at 31 December 2010, the outstanding balances with related parties are as follows:

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Loans and advances to customers (contractual interest rates: 9.5% – 23.3% p.a.) | - | 68 721 | 595 842 |
| Impairment allowance for loans and advances to customers | - | (2 928) | (28 238) |
| Customer accounts (contractual interest rates: 1.8% - 13.3% p.a.) | 191 289 | 317 994 | 2 569 230 |
| Other borrowed funds (contractual interest rate: 14.5% p.a.) | - | - | 1 544 754 |

Other borrowed funds include subordinated debt. Refer to note 24.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and management, for the year 2010 are as follows:

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Interest income | 8 | 12 329 | 137 897 |
| Interest expense | (17 712) | (24 836) | (247 360) |
| (Provision) recovery of provision for loan impairment | - | (1 509) | 10 540 |
| Fee and commission income | 206 | 517 | 29 867 |

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

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Amounts lent to related parties during the period | 4 049 | 89 041 | 262 703 |
| Amounts repaid by related parties during the period | 4 049 | 90 619 | 957 612 |

## 40 Related Party Transactions (continued)

As at 31 December 2009, the outstanding balances with related parties are as follows:

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Loans and advances to customers (contractual interest rates: 9.0% – 23.3%p.a.) | - | 70 299 | 1 290 751 |
| Impairment allowance for loans and advances to customers | - | (1 419) | (38 778) |
| Customer accounts (contractual interest rates: 5.5% - 15.0% p.a.) | 51 356 | 317 938 | 1 203 310 |
| Other borrowed funds (contractual interest rate: 14.5% p.a.) | - | - | 1 591 917 |

Other borrowed funds are represented by the subordinated loan. Note 24.

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and management, for the year 2009 are as follows:

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Interest income | 9 | 14 272 | 155 330 |
| Interest expense | (151 742) | (27 267) | (164 567) |
| Recovery of provision (provision) for loan impairment | 1 | 1 531 | (31 550) |
| Fee and commission income | 1 062 | 678 | 17 976 |

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

| *In thousands of Russian Roubles* | **Shareholders** | **Management** | **Other related parties** |
|---|---|---|---|
| Amounts lent to related parties during the period | 879 | 78 232 | 1 306 909 |
| Amounts repaid by related parties during the period | 934 | 123 907 | 209 227 |

In 2010, total remuneration of members of the Supervisory Board and management, including pension contributions and discretionary bonuses, amounts to RR 267 012 thousand (2009: RR 365 275 thousand).

## 41 Consolidation of Special Purpose Entities

As at 31 December 2010 and 31 December 2009, the Group consolidated the special purpose entity BSPB Finance plc. This special purpose entity was established in 2006 to facilitate the Eurobonds issue.

As at 31 December 2010 and 31 December 2009, the Group exercised its control over the activity of the special purpose entity, as all financial and operational activities of this special purpose entity were conducted on behalf of the Group and according to the Group’s specific business needs. The Group has rights to obtain the majority of the benefits of the special purpose entity and therefore is exposed to risks incident to its activities.

As at 31 December 2010 and 31 December 2009, the Group consolidated the close-ended real estate mutual investment fund “Nevskiy - Second Real Estate Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund”. These entities are meant for management of investment property projects.

## 42 Subsequent Events

On 22 February 2011 the Group attracted a loan from VTB Bank France SA in the amount of USD 20 000 thousand at an interest rate of LIBOR + 4.25% p.a. for two years. The loan was attracted for the purposes of financing of foreign trade operations.