

Bank “Prime Finance” PLC

Consolidated Financial Statements
For the Year Ended 31 December 2010

BANK “PRIME FINANCE” PLC

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BANK "PRIME FINANCE" PLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Bank as at 31 December 2010, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Bank, and which enable them to ensure that the consolidated financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 10 June 2011 by the Bank's Management Board.

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

10 June 2011




E.L. Avramenko
Chief Accountant

10 June 2011

INDEPENDENT AUDITORS' REPORT

To Shareholders and Management Board of Bank "Prime Finance" Public Limited Company:

We have audited the accompanying consolidated financial statements of Bank "Prime Finance" Public Limited Company and its subsidiary ("Bank"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

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

Deloitte & Touche

15 June 2011

BANK "PRIME FINANCE" PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousands of Russian Rubles)


	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	4, 20	70,210	62,563
Interest expense	4, 20	(4,661)	(1,543)
NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		65,549	61,020
(Provision)/recovery of provision for impairment losses on interest bearing assets	5	(2,079)	1,799
NET INTEREST INCOME		63,470	62,819
Net gain on foreign exchange operations	6	11,197	24,874
Fee and commission income	7	21,867	26,930
Fee and commission expense	7	(2,359)	(2,720)
Other income		630	1,301
Recovery of other provisions	5	663	7,529
NET NON-INTEREST INCOME		31,998	57,914
OPERATING INCOME		95,468	120,733
OPERATING EXPENSES	8, 20	(70,613)	(63,739)
PROFIT BEFORE INCOME TAX		24,855	56,994
Income tax expense	9	(5,151)	(6,741)
NET PROFIT		19,704	50,253
Attributable to:			
Owners of the parent Bank		20,532	50,878
Minority interest		(828)	(625)
		19,704	50,253

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

10 June 2011




E.L. Avramenko
Chief Accountant

10 June 2011

The notes on pages 9-41 form an integral part of these financial statements.

BANK "PRIME FINANCE" PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010 (in thousands of Russian Rubles)

	Notes	31 December 2010	31 December 2009
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	10	231,083	205,996
Due from banks	11	29,333	62,313
Loans to customers	12, 20	375,347	341,222
Fixed assets	13	8,387	5,564
Current income tax assets		4,481	325
Deferred income tax assets	9	-	2,036
Other assets	14	7,302	10,649
TOTAL ASSETS		655,933	628,105
LIABILITIES AND EQUITY			
LIABILITIES:			
Customer accounts	15, 20	469,140	464,793
Other borrowed funds	16, 20	2,117	1,983
Deferred income tax liabilities	9	2,094	133
Other liabilities	17	7,254	5,572
Total liabilities		480,605	472,481
EQUITY:			
Share capital	18	81,547	81,547
Retained earnings		93,560	73,028
Total equity attributable to owners of the parent Bank		175,107	154,575
Minority interest		221	1,049
Total equity		175,328	155,624
TOTAL LIABILITIES AND EQUITY		655,933	628,105

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

10 June 2011


E.L. Avramenko
Chief Accountant

10 June 2011

The notes on pages 9-41 form an integral part of these financial statements.

BANK "PRIME FINANCE" PLC


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousands of Russian Rubles)

	Share capital	Retained earnings	Total equity attributable to owners of the parent	Minority interest	Total equity
31 December 2008	81,547	21,438	102,985	-	102,985
Subsidiary incorporation	-	-	-	1,200	1,200
Discounting interest-free loan, received from Bank's shareholder less deferred income tax of RUR 297 thousand	-	712	712	474	1,186
Net profit/(loss)	-	50,878	50,878	(625)	50,253
31 December 2009	81,547	73,028	154,575	1,049	155,624
Net profit/(loss)	-	20,532	20,532	(828)	19,704
31 December 2010	81,547	93,560	175,107	221	175,328

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

10 June 2011


E.L. Avramenko
Chief Accountant

10 June 2011

The notes on pages 9-41 form an integral part of these financial statements.

BANK "PRIME FINANCE" PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousands of Russian Rubles)

Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	24,855	56,994
Adjustments for:		
Provision/(recovery of provision) for impairment losses on interest bearing assets	2,079	(1,799)
Recovery of provision for impairment losses on other transactions	(663)	(7,529)
Unrealised loss on foreign exchange operations	442	300
Depreciation of fixed assets	951	1,759
Change in other accruals, net	7,822	(1,194)
Change in interest accruals, net	(659)	303
	<u>34,827</u>	<u>48,834</u>
Cash inflow from operating activities before changes in operating assets and liabilities		
	<u>34,827</u>	<u>48,834</u>
Changes in operating assets and liabilities (Increase)/decrease in operating assets:		
Minimum reserve deposit with the Central Bank of Russian Federation	1,398	(3,539)
Due from banks	-	(302)
Loans to customers	(34,928)	(48,959)
Other assets	(4,162)	(1,176)
Increase in operating liabilities:		
Customer accounts	3,652	22,338
Other liabilities	2,032	1,323
	<u>2,819</u>	<u>18,519</u>
Cash inflow from operating activities before taxation		
Income tax paid	(5,310)	(7,125)
	<u>(2,491)</u>	<u>11,394</u>
Net cash (outflow)/inflow from operating activities		
	<u>(2,491)</u>	<u>11,394</u>

BANK "PRIME FINANCE" PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(3,774)	(5,311)
Net cash outflow from investing activities		(3,774)	(5,311)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from/ (repayment of) borrowed funds		(100)	3,300
Net cash (outflow)/inflow from financing activities		(100)	3,300
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(133)	498
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,498)	9,881
CASH AND CASH EQUIVALENTS, beginning of year	10	263,774	253,893
CASH AND CASH EQUIVALENTS, end of year	10	257,276	263,774

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to RUR 3,732 thousand and RUR 68,622 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to RUR 682 thousand and RUR 62,007 thousand, respectively.

On behalf of the Management Board:


M.S. Tabunov
Chairman of the Management Board

10 June 2011


E.L. Avramenko
Chief Accountant

10 June 2011

The notes on pages 9-41 form an integral part of these financial statements.

BANK "PRIME FINANCE" PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousands of Russian Rubles, unless otherwise indicated)

1. ORGANIZATION

Bank "Prime Finance" PLC (hereinafter – the "Bank") is a public limited company which was incorporated in the Russian Federation in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2758. The Bank's primary business consists of commercial banking activities, trading in foreign currencies, lending, issuance of guarantees, attracting deposits of legal entities and individuals.

At the general shareholders' meeting held on 17 March 2009 it was decided to change the name of the Bank from Joint Stock Commercial Bank "Maritime Trade Industrial Bank" to Bank "Prime Finance" Public Limited Company. New revision of the Bank's charter was registered by Licensing Department on 10 June 2009.

The registered office of the Bank is located at 5-a Krasnoutilovskaya St., Saint-Petersburg.

As of 31 December 2010 and 2009 the Bank had 1 branch operating in the Russian Federation.

In 2008 the shareholders of the Bank decide to set up the subsidiary company Joint Stock Company "Prime Leasing". Founders are the Bank and Chairman of the Management Board Mr. Tabunov, holding 60% and 40% of the shares, respectively. This company was registered on 24 September 2008. Share capital is RUR 3,000 thousand. As of 31 December 2008 share capital was 50% paid. On 6 March 2009 share capital was paid in full. The first business operation occurred on 24 April 2009. Financial statements of Joint Stock Company "Prime Leasing" for 2010 and 2009 year were consolidated into the Bank's financial statements.

As of 31 December 2010 and 2009, the Bank's shares were owned by the following shareholders:

Shareholder	31 December 2010, %	31 December 2009, %
Tabunov Mikhail Sergeyeovich	95.05%	74.71%
Varshavsky Leonid Anatolyevich	4.41%	4.41%
CJSC SENTRA FAIRFIELD	0.54%	0.54%
Brener Vladimir Yevgenyevich	-	15.69%
Mukanayev Anatoliy Nailiyevich	-	4.65%
Total	100.00%	100.00%
Ultimate shareholders:		
Tabunov Mikhail Sergeyeovich	95.05%	74.71%
Varshavsky Leonid Anatolyevich	4.41%	4.41%
Brener Vladimir Yevgenyevich	-	15.69%
Mukanayev Anatoliy Nailiyevich	-	4.65%
Other	0.54%	0.54%
Total	100.00%	100.00%

These financial statements were authorized for issue by the Management Board of the Bank on 10 June 2011.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Bank in the Russian Federation in corporate segment. The management believes that the going concern assumption is appropriate for the Bank due to the sufficient capital adequacy ratio which has been further strengthened with the receiving profit for 2010 year in amount RUR 19,704 thousand.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUR"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis.

The Bank and its subsidiary maintain its accounting records in accordance with Russian law. These consolidated financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Bank does not offset the transferred asset and the associated liability.

The functional currency of these financial statements is the Russian Ruble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used into line with those used by the Bank.

All significant intra-group transactions, balances, income and expenses between Bank and JSC "Prime Leasing" are eliminated on consolidation.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBR and advances to other credit institutions, except for guarantee deposits for plastic cards operations with original maturity within 90 days.

The minimum reserve deposits with the CBR are subject to restrictions over its availability and therefore are not included in cash and cash equivalents.

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses (if any).

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Allowance for impairment losses

The Bank accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Bank can incur losses greater than recorded impairment.

Fixed Assets

Fixed assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Fixed assets acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Vehicles	20%
Computer and office equipment	10-25%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of fixed assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current income tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred income tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Customer accounts, other borrowed funds

Customer accounts are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings, using the effective interest method.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued

Financial guarantee contracts issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Such financial guarantee contracts issued are initially recognized at fair value. Subsequently they are measured at the higher of:

- The amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- The amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts issued.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Russian Federation (hereinafter -"RF") legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation which transfers them to pension funds selected by employees. The Bank does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the RF. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Rates of exchange

The exchange rates used by the Bank in the preparation of the consolidated financial statements as at year-end are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
RUR/1 US Dollar	30.4769	30.2442
RUR/1 Euro	40.3331	43.3883

Accounting for the effects of hyperinflation

In accordance with IAS 29, the economy of RF was treated as hyperinflationary until the end of 2002. Since 1 January 2003 economy of RF ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, was used to form the beginning balances as at 1 January 2003.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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 group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at 31 December 2010 and 2009 the financial assets totaled RUR 636,425 thousand and RUR 617,702 thousand, respectively, and allowance for impairment losses amounted to RUR 39,595 thousand and RUR 38,179 thousand, respectively.

New and revised IFRSs affecting presentation and disclosure only

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Disclosures in these consolidated financial statements have been modified to reflect the above clarification.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

New and revised IFRSs affecting the reported financial performance and/or financial position

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Bank will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 <i>Transfers of Assets from Customers</i>	The Interpretation addresses the accounting by recipients for transfers of property and equipment from 'customers' and concludes that when the item of property and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 <i>Revenue</i> .
Improvements to IFRSs issued in 2009	Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier, the application of <i>Improvements to IFRSs</i> issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ¹
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets ²
IFRS 9 (as amended in 2010)	Financial Instruments ³
IAS 24 (revised in 2009)	Related Party Disclosures ⁴
Amendments to IAS 32	Classification of Rights Issues ⁵
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement ⁴
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ¹

Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1)⁶

¹ Effective for annual periods beginning on or after July 1, 2010.

² Effective for annual periods beginning on or after July 1, 2011.

³ Effective for annual periods beginning on or after January 1, 2013.

⁴ Effective for annual periods beginning on or after January 1, 2011.

⁵ Effective for annual periods beginning on or after February 1, 2010.

⁶ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The management anticipate that IFRS 9 that will be adopted in the Bank's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's disclosures regarding transfers of trade receivables previously affected. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Bank because the Bank is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Bank has not entered into any arrangements that would fall within the scope of the amendments. However, if the Bank does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Bank has not entered into transactions of this nature. However, if the Bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. NET INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on impaired financial assets	35,492	43,600
Interest income on unimpaired financial assets	<u>34,718</u>	<u>18,963</u>
Total interest income	<u>70,210</u>	<u>62,563</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	69,089	58,579
Interest on due from banks	<u>1,121</u>	<u>3,984</u>
Total interest income on financial assets recorded at amortized cost	<u>70,210</u>	<u>62,563</u>
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost		
Total interest expense	<u>4,661</u>	<u>1,543</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on deposits by customers	3,876	1,377
Interest on debt securities issued	497	-
Interest on other borrowed funds	234	166
Interest on deposits by banks	<u>54</u>	<u>-</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>4,661</u>	<u>1,543</u>
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing financial assets	<u><u>65,549</u></u>	<u><u>61,020</u></u>

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
31 December 2008	37,611
Recovery of provisions	<u>(1,799)</u>
31 December 2009	35,812
Additional provisions recognized	<u>2,079</u>
31 December 2010	<u><u>37,891</u></u>

The movements in other allowances were as follows:

	Other assets
31 December 2008	9,896
Recovery of provisions	<u>(7,529)</u>
31 December 2009	2,367
Recovery of provisions	<u>(663)</u>
31 December 2010	<u><u>1,704</u></u>

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Dealing, net	12,275	25,703
Translation differences, net	(1,078)	(829)
Total net gain on foreign exchange operations	11,197	24,874

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and commission income:		
Settlements	6,316	10,013
Cash operations	4,817	3,095
Opening and maintaining current accounts	3,873	3,705
Foreign currency control	3,687	5,830
Guarantees	1,173	-
Payment for activation and usage of system "Internet-Bank"	1,161	1,584
Foreign exchange operations	488	2,011
Other	352	692
Total fee and commission income	21,867	26,930
Fee and commission expense:		
Settlements	2,129	2,161
Foreign exchange operations	223	318
Cash collection	-	212
Other	7	29
Total fee and commission expense	2,359	2,720

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs and bonuses	24,258	24,159
Operating rent	10,711	11,189
Security	7,099	3,489
Unified social tax	6,213	5,657
Telecommunications	4,492	3,037
Taxes, other than income tax	3,496	2,761
Professional services	3,083	2,690
Software expenses	2,229	2,091
Stationery	1,850	2,981
Fixed assets maintenance	1,468	1,828
MasterCard membership fee	1,156	-
Depreciation of fixed assets	951	1,759
Business trip expenses	853	32
Advertising and marketing expenses	452	630
Training	321	197
Payments to the Deposit Insurance Fund	101	313
Penalties, late payment interest and duties	12	33
Other expenses	1,868	893
Total operating expenses	70,613	63,739

9. INCOME TAXES

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of RF where the Bank and its subsidiary operate, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at 31 December 2010 and 2009 comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Deductible temporary differences:		
Loans to customers	-	3,349
Fixed assets	-	791
Tax losses carried forward	1,950	1,024
Other assets	3,703	3,744
Other liabilities	2,942	3,148
Total deductible temporary differences	<u>8,595</u>	<u>12,056</u>
Taxable temporary differences:		
Loans to customers	15,880	-
Fixed assets	154	-
Due from banks	-	200
Other borrowed funds	1,083	1,317
Total taxable temporary differences	<u>17,117</u>	<u>1,517</u>
Net (taxable)/deductible temporary differences	(8,522)	10,539
Deferred tax asset at the statutory tax rate (20%)	390	2,241
Deferred tax liabilities at the statutory tax rate (20%)	(2,094)	(133)
Deferred tax asset not recognized	(390)	(205)
Net deferred tax asset	<u>-</u>	<u>2,036</u>
Net deferred tax liability	<u>(2,094)</u>	<u>(133)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2010 and 2009 are explained as follows:

	<u>Year ended 31 December 2010</u>	<u>Year ended 31 December 2009</u>
Profit before income tax	24,855	56,994
Tax at the statutory tax rate (20%)	4,971	11,399
Change in deferred tax asset not recognized	185	(4,816)
Tax effect of permanent differences	(5)	158
Income tax expense	<u>5,151</u>	<u>6,741</u>
Current income tax expense	1,154	8,941
Change in deferred income tax balances	3,997	(2,200)
Income tax expense	<u>5,151</u>	<u>6,741</u>

	Year ended 31 December 2010	Year ended 31 December 2009
Deferred income tax assets/(liabilities)		
As at 1 January – deferred tax liabilities	(133)	-
As at 1 January – deferred tax assets	2,036	-
Change in deferred income tax balances recognized in Bank's capital	-	(297)
Change in deferred income tax balances recognized in consolidated profit or loss	(3,997)	2,200
As at 31 December – deferred tax liabilities	(2,094)	(133)
As at 31 December – deferred tax assets	-	2,036

10. CASH AND BALANCES WITH THE CENTRAL BANK OF RUSSIAN FEDERATION

	31 December 2010	31 December 2009
Cash	14,218	37,225
Balances with the CBR	216,865	168,771
Total cash and balances with the CBR	231,083	205,996

The balances with the Central Bank of the Russian Federation as at 31 December 2010 and 2009 include RUR 2,835 thousand and RUR 4,233 thousand, respectively, which represent the minimum reserve deposits required by the CBR. The Bank is required to maintain minimum reserve deposits with the CBR at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2010	31 December 2009
Cash and balances with the CBR	231,083	205,996
Due from banks	29,333	62,313
	260,416	268,309
Less minimum reserve deposits with the CBR	(2,835)	(4,233)
Less guarantee deposits for plastic cards	(305)	(302)
Total cash and cash equivalents	257,276	263,774

11. DUE FROM BANKS

Due from banks comprise:

	31 December 2010	31 December 2009
Correspondent accounts with banks	18,498	20,415
Correspondent accounts with financial organizations	10,835	1,898
Time deposits with banks	-	40,000
Total due from banks	29,333	62,313

As at 31 December 2009 the Bank had due from one bank in amount of RUR 20,000 thousand, which individually exceeded 10% of the Bank's equity.

As at 31 December 2010 and 2009 included in balances due from banks are guarantee deposits placed by the Bank in JSC "Uralsib" for its operations with plastic cards totaling RUR 305 thousand and RUR 302 thousand.

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Loans to customers	402,458	374,488
Receivables under factoring transactions	10,780	2,546
	<u>413,238</u>	<u>377,034</u>
Less allowance for impairment losses	(37,891)	(35,812)
Total loans to customers	<u>375,347</u>	<u>341,222</u>

Movements in the allowance for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in Note 5.

The table below summarizes the amount of loans analyzed by type of collateral, rather than the fair value of the collateral itself:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Loans collateralized by pledge of real estate and rights thereto	154,368	131,896
Loans collateralized by pledge of equipment	94,678	97,291
Loans collateralized by pledge of inventories	83,875	92,042
Loans collateralized by pledge of guarantees of individuals	29,705	17,000
Loans collateralized by pledge of receivables	10,780	2,546
Loans collateralized by pledge of corporate guarantees	8,818	16,275
Unsecured loans	31,014	19,984
	<u>413,238</u>	<u>377,034</u>
Less allowance for impairment losses	(37,891)	(35,812)
Total loans to customers	<u>375,347</u>	<u>341,222</u>

	<u>31 December 2010</u>	<u>31 December 2009</u>
Analysis by sector:		
Trade	185,330	123,977
Individuals	93,435	91,560
Manufacturing	64,288	70,637
Catering	27,000	46,700
Hospitality	20,000	-
Construction	17,000	11,000
Logistics	1,200	29,525
Agriculture	4,985	3,635
	<u>413,238</u>	<u>377,034</u>
Less allowance for impairment losses	(37,891)	(35,812)
Total loans to customers	<u>375,347</u>	<u>341,222</u>

Loans to individuals comprise the following products:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Mortgage loans	60,284	64,228
Consumer loans	23,285	25,375
Other	9,866	1,957
	<u>93,435</u>	<u>91,560</u>
Less allowance for impairment losses	(19,077)	(20,268)
Total loans to individuals	<u>74,358</u>	<u>71,292</u>

As at 31 December 2010 and 2009 the Bank granted loans to 10 and 6 borrowers, totalling RUR 224,842 thousand and RUR 144,601 thousand (less allowance for impairment losses), respectively, that individually exceeded 10% of the Bank's equity.

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2010			31 December 2009		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	299,122	(37,687)	261,435	248,228	(31,358)	216,870
Loans to customers collectively determined to be impaired	3,331	(204)	3,127	75,746	(4,454)	71,292
Unimpaired loans	110,785	-	110,785	53,060	-	53,060
Total	413,238	(37,891)	375,347	377,034	(35,812)	341,222

13. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Computer and office equipment	Total
At initial/indexed cost			
31 December 2008	-	8,634	8,634
Additions	4,589	722	5,311
Disposals	-	(1,076)	(1,076)
31 December 2009	4,589	8,280	12,869
Additions	2,064	1,710	3,774
Disposals	-	(100)	(100)
31 December 2010	6,653	9,890	16,543
Accumulated depreciation			
31 December 2008	-	6,622	6,622
Charge for the year	978	781	1,759
Disposals	-	(1,076)	(1,076)
31 December 2009	978	6,327	7,305
Charge for the year	280	671	951
Disposals	-	(100)	(100)
31 December 2010	1,258	6,898	8,156
Net book value as at 31 December 2009	3,611	1,953	5,564
Net book value as at 31 December 2010	5,395	2,992	8,387

As at 31 December 2010 and 2009, included in fixed assets was fully depreciated fixed assets of RUR 5,028 thousand and RUR 4,133 thousand, respectively.

14. OTHER ASSETS

Other assets comprise:

	31 December 2010	31 December 2009
Other financial assets:		
Penalties on overdue loans	2,366	10,538
	<u>2,366</u>	<u>10,538</u>
Less allowance for impairment losses	(1,704)	(2,367)
Total other financial assets	<u>662</u>	<u>8,171</u>
Other non-financial assets:		
Advances to suppliers	2,567	98
Prepaid expenses	1,774	730
Taxes recoverable, other than income tax	1,332	971
Intangible assets	343	388
Other	624	291
Total other non-financial assets	<u>6,640</u>	<u>2,478</u>
Total other assets	<u><u>7,302</u></u>	<u><u>10,649</u></u>

Other assets include penalties on overdue loan accrued according to court decisions consummated in 2007 and 2008 totaling RUR 9,876 thousand and RUR 662 thousand in 2009. In February 2010 during the executorial procedures the Bank received RUR 8,171 thousand and this event was taken into account when determining allowance for impairment losses as at 31 December 2009. In January 2011 year during the executorial procedures the Bank received RUR 662 thousand and this event was taken into account when determining allowance for impairment losses as at 31 December 2010.

Movements in the allowance for impairment losses of other assets for the years ended 31 December 2010 and 2009 are disclosed in Note 5.

15. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2010	31 December 2009
Current/settlement accounts and demand deposits	376,969	434,402
Time deposits	92,171	30,391
Total customer accounts	<u><u>469,140</u></u>	<u><u>464,793</u></u>

As at 31 December 2010 and 2009 customer accounts totaling RUR 185,022 thousand (39%) and RUR 227,913 thousand (49%), respectively, were due to 5 and 8 customers, that individually exceeded 10% of the Bank's equity, which represents significant concentration.

	31 December 2010	31 December 2009
Analysis by sector:		
Trade	203,963	193,667
Real estate and construction	101,669	123,603
Individuals	55,323	43,245
Services	41,149	25,523
Information technologies and telecommunications	27,315	10,712
Medicine	12,766	6,486
Machinery manufacturing	8,660	3,176
Manufacturing and consumer goods	5,494	34,663
Chemical industry	1,480	-
Transportation and freight forwarding	941	15,668
Other	10,380	8,050
Total customer accounts	<u><u>469,140</u></u>	<u><u>464,793</u></u>

16. OTHER BORROWED FUNDS

Other borrowed funds include interest-free loans, received by subsidiary from the Bank's shareholder in 2009 with maturity date in April 2014. The carrying value of other borrowed funds amounts RUR 2,117 thousand as at 31 December 2010 and RUR 1,983 thousand as at 31 December 2009.

17. OTHER LIABILITIES

Other liabilities comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Other financial liabilities:		
Accrued operating expenses	2,605	2,722
Payables under factoring transactions	1,148	255
Accrued bonuses	264	246
Total other financial liabilities	<u>4,017</u>	<u>3,223</u>
Other non-financial liabilities:		
Taxes payable, other than income tax	1,658	384
Provision for unused vacations	1,132	1,522
Other	447	443
Total other non-financial liabilities	<u>3,237</u>	<u>2,349</u>
Total other liabilities	<u>7,254</u>	<u>5,572</u>

18. SHARE CAPITAL

As at 31 December 2010 and 2009 the Bank's share capital comprised the following number of shares with a par value of RUR 1,000 each:

	<u>Authorized share capital</u>	<u>Unpaid share capital</u>	<u>Total share capital</u>
31 December 2009	117,500	(59,304)	58,196
31 December 2010	117,500	(59,304)	58,196

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created, as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's charter that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2010 and 2009 contingent liabilities comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Contingent liabilities and credit commitments		
Guarantees issued	24,540	3,867
Commitments on loans and unused credit lines	47,677	34,569
Total contingent liabilities and credit commitments	<u>72,217</u>	<u>38,436</u>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2010 and 2009 such unused credit lines come to RUR 47,677 thousand and RUR 34,569 thousand, respectively.

Operating lease commitments – where the Bank is the lessee, the future minimum rental payments under operating leases in effect as at 31 December 2010 and 2009 are as follows::

	31 December 2010	31 December 2009
Less than 1 year	8,820	8,197
Later than 1 year and not later than 5 years	77	2,180
Later than 5 years	-	454
Total operating lease commitments	8,897	10,831

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the RF and countries where the Bank operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Operating environment – Although in recent years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within RF is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in RF. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

In 2010 the financial markets, both globally and in the Russian Federation, is beginning to stabilize. Due to the actions taken by the central banks of emerging countries the liquidity situation have improved. Low interest rates with the high demand on loans from good borrowers have lead to excess of liquidity and further growth in raw materials markets and stock markets. However, the main reason for crisis (low consumer demand) still exists.

Excess of liquidity with the following growth and stability of raw materials prices together with Russian government anti-crises measures have lead to fairly rapid recovery of the Russian Federation's economy. It has resulted in an increase of the Russian Federation GDP (by 4%), the industrial production (by 8.2%) and the investments in fixed assets (by 6%) in 2010. The Russian Federation is facing a relatively high level of inflation, which was 8.8% for the year ended 31 December 2010 according to the government's statistical data.

While many countries, including the Russian Federation, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the country's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

The Bank is continuing to maintain conservative policy to reduce possible risks in financial markets in terms of economic crisis. In 2010 the main income was received on settlement operations and customer loans secured by high-liquid collateral. Highly speculative deals on stock markets were not carried by the Bank.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

20. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiary, which is related party of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Bank and other related parties are disclosed below:

	31 December 2010		31 December 2009	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loans to customers	7,793	413,238	383	377,034
<i>Shareholders of the Bank</i>	6,450		-	
<i>Other related parties</i>	1,343		383	
Allowance for impairment losses on loans to customers	(70)	(37,891)	(19)	(35,812)
<i>Provision for loans to other related parties of the Bank</i>	(70)		(19)	
Customer accounts	1,243	469,140	42,074	464,793
<i>Shareholders of the Bank</i>	275		30,479	
<i>Key management personnel of the Bank</i>	466		41	
<i>Others</i>	502		11,554	
Other borrowed funds	2,117	2,117	1,983	1,983
<i>Shareholders of the Bank</i>	2,117		1,983	

Included in the consolidated income statement for the years ended 31 December 2010 and 2009 are the following amounts which were recognized in transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Operating expenses (key management personnel compensation)				
<i>Short-term employee benefits</i>	1,478	24,258	1,332	24,159
Interest income	608	70,210	58	62,563
<i>Shareholders of the Bank</i>	411		-	
<i>Other related parties</i>	197		58	
Interest expense	4	4,661	1,117	1,543
<i>Shareholders of the Bank</i>	-		1,117	
<i>Other related parties</i>	4		-	
Operating expenses	458	10,711	458	11,189
<i>Shareholders of the Bank</i>	458		458	

Bank leases premises to locate additional office in Saint-Petersburg, Akademika Lebedeva str., 15/1 lit.A at a below market lease rate.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities that are carried at amortised cost in the consolidated statement of financial position is presented below:

	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the CBR	231,083	231,083	205,996	205,996
Due from banks	29,333	29,333	62,313	62,313
Loans to customers	375,347	375,347	341,222	341,222
Other financial assets	662	662	8,171	8,171
Customer accounts	469,140	469,140	464,793	464,793
Other borrowed funds	2,117	2,117	1,983	1,983
Other financial liabilities	4,017	4,017	3,223	3,223

22. CAPITAL RISK MANAGEMENT

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During the reporting year, the Bank had complied in full with all its externally imposed capital requirements.

The Bank's capital consists of shareholders' equity, which includes share capital and retained profit, as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Bank's overall capital risk management policy remains unchanged from 2009.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee 1988 with changes 2005:

	31 December 2010	31 December 2009
Movement in tier 1 capital:		
At 1 January	155,624	102,985
Total equity attributable to owners of the parent	20,532	50,878
Discounting of interest-free loan received from Bank's shareholder	-	712
Minority interest (decrease)/increase	(828)	1,049
At 31 December	<u>175,328</u>	<u>155,624</u>
	31 December 2010	31 December 2009
Composition of regulatory capital:		
Tier 1 capital:	<u>175,328</u>	<u>155,624</u>
Total regulatory capital	<u>175,328</u>	<u>155,624</u>
Capital Ratios:		
Tier 1 capital	40.12%	40.58%
Total capital	40.12%	40.58%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

23. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk, which is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is considered as a major risk as it is present practically in all the Bank's principle instruments (loan granting, accounting for promissory notes, investment in securities, etc.). In order to restrict the credit risk, decisions about loan granting and necessary collateral shall be taken collectively at meetings of the Bank's Management Board and the Credit Committee.

The Bank's Management Board delegates the responsibility for decisions about loans granting to the Credit Committee or to the Bank's credit officers. If the loan amount is in excess of the responsibilities of the Credit Committee, the decision about loans granting is transferred to the Management Board. If the loan amount is in excess of the responsibilities of the Management Board, the decision about loans granting is moved to the Supervisory Board. The Supervisory Board is also responsible for decisions on loans granted to the Bank's related parties irrespective of the principal amount.

Risk management and monitoring is performed within set limits of authority, by the Credit Committee and the Bank's Management Board.

Limits are restricted the amount of deals with the one borrower. Limits are reviewed during the year with appropriate amendments due to the change in the Bank's credit strategy and overall level of credit risk exposed by the Bank.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to:

- The exposure to any one borrower or the group of related borrowers;
- The large loans granted;
- The credit risk exposure issued to the Bank's shareholders;
- The credit risk exposure to the key management personnel of the Bank.

The process of credit risk management is based under the consistent quality control of loan transactions with the further monitoring of possible allowances for impairment losses.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to monthly or more frequent reviews.

Off-balance sheet commitments to extend credit represent unused credit lines, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on procedures for approving loans, limits to mitigate the risk, and on-going monitoring. The Bank monitors the term to maturity of loans, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure of credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

As at 31 December 2010:	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Due from banks	29,333	-	29,333	-	29,333
Loans to customers	375,347	-	375,347	(360,072)	15,275
Guarantees issued	24,540	-	24,540	-	24,540
Unused loan commitments	47,677	-	47,677	-	47,677

As at 31 December 2009:	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Due from banks	62,313	-	62,313	-	62,313
Loans to customers	341,222	-	341,222	(288,388)	52,834
Guarantees issued	3,867	-	3,867	-	3,867
Unused loan commitments	34,569	-	34,569	-	34,569

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As of 31 December 2010 and 2009 the balances with the CBR amounted to RUR 216,865 thousand and RUR 168,771 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2010 corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Bank as at 31 December 2010:

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u><BBB</u>	<u>Not rated</u>	Total at 31 December 2010
Due from banks	-	9,371	-	8,279	11,683	29,333
Loans to customers	-	-	-	-	375,347	375,347

As at 31 December 2009:

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u><BBB</u>	<u>Not rated</u>	Total at 31 December 2009
Due from banks	-	1,064	-	12,195	49,054	62,313
Loans to customers	-	-	-	-	341,222	341,222

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The Bank manages its credit risk based on the complex analysis of main factors of creditworthiness of borrowers. Such process is based on the analysis borrowers' financial performance, market place, business history, business plans of credited investment projects and collateral. Also qualitative parameters, such as quality of management and market share are considered. The borrowers' creditability is regularly reviewed and appropriate corrections in assessments are made.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Bank to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The following table details the ageing of financial assets that are past due but not impaired:

As at 31 December 2010:

Financial assets past due but not impaired				
Up to 3 months	3-6 months	6 months to 1 year	Greater than one year	
Loans to customers	-	-	-	5,960
Other financial assets	-	-	-	662

As at 31 December 2009:

Financial assets past due but not impaired				
Up to 3 months	3-6 months	6 months to 1 year	Greater than one year	
Loans to customers	-	-	-	2,129
Other financial assets	-	-	-	8,171

Geographical concentration

The Management Board and the Financial Reporting Department monitor the risk related to legislative changes and assesses its impact on the Bank's operations. This approach allows the Bank to minimize potential losses from changes in Russia's investment climate.

The geographical concentration of assets and liabilities is set out below:

	RF	OECD countries	Other non-OECD countries	31 December 2010 Total
Financial assets:				
Cash and balances with the CBR	231,083	-	-	231,083
Due from banks	19,962	9,371	-	29,333
Loans to customers	375,347	-	-	375,347
Other financial assets	662	-	-	662
Total financial assets	627,054	9,371	-	636,425
Financial liabilities:				
Customer accounts	469,132	-	8	469,140
Other borrowed funds	2,117	-	-	2,117
Other financial liabilities	4,017	-	-	4,017
Total financial liabilities	475,266	-	8	475,274
NET POSITION	151,788	9,371	(8)	

	RF	Other non-OECD countries	31 December 2009 Total
Financial assets:			
Cash and balances with the CBR	205,996	-	205,996
Due from banks	61,249	1,064	62,313
Loans to customers	341,222	-	341,222
Other financial assets	8,171	-	8,171
Total financial assets	616,638	1,064	617,702
Financial liabilities:			
Customer accounts	464,469	324	464,793
Other borrowed funds	1,983	-	1,983
Other financial liabilities	3,223	-	3,223
Total financial liabilities	469,675	324	469,999
NET POSITION	146,963	740	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. During 2010 Bank in time performed all client's payments and met commitments with counterparties.

The Bank's Management Board and the Financial Reporting Department monitor liquidity risk through maturity analysis, thus defining the Bank's strategy for the following financial period. Current liquidity is managed by the Financial Reporting Department, which carries out money market transactions to maintain current liquidity and optimize cash flows.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum level of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

As of 31 December 2010 Bank has liquidity gap for maturity from 1 month to 1 year after reporting date. The Bank's liquidity is dependent upon its ongoing access to customer deposits which the management has assessed as being improved and likely to continue to be available based on historic trends and current observations. Significant part of customer accounts is current accounts of legal entities and individuals which are considered by the Bank's management and clients as non-reducing balances and equivalent of short-term deposits.

Analysis of liquidity and interest rate risks is presented below:

- (a) Term to maturity of financial liabilities, that are not derivatives, calculated for discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability,
- (b) Estimated term till maturity of financial assets, that are not derivatives, calculated for discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
Financial assets:							
Loans to customers	36,980	19,335	203,042	106,740	9,250	-	375,347
Total interest bearing financial assets	36,980	19,335	203,042	106,740	9,250	-	375,347
Cash and balances with the CBR	228,248	-	-	-	-	2,835	231,083
Due from banks	29,028	-	-	-	-	305	29,333
Other financial assets	662	-	-	-	-	-	662
Total financial assets	294,918	19,335	203,042	106,740	9,250	3,140	636,425
Financial liabilities:							
Customer accounts	12,727	1,041	70,403	8,000	-	-	92,171
Other borrowed funds	-	-	-	2,117	-	-	2,117
Total interest bearing financial liabilities	12,727	1,041	70,403	10,117	-	-	94,288
Customer accounts	376,969	-	-	-	-	-	376,969
Other financial liabilities	2,031	322	1,664	-	-	-	4,017
Total financial liabilities	391,727	1,363	72,067	10,117	-	-	475,274
Liquidity gap	(96,809)	17,972	130,975	96,623	9,250		
Cumulative liquidity gap	(96,809)	(78,837)	52,138	148,761	158,011		
Interest sensitivity gap	24,253	18,294	132,639	96,623	9,250		
Cumulative interest sensitivity gap	24,253	42,547	175,186	271,809	281,059		
Cumulative interest sensitivity gap as a percentage of total assets	3.81%	6.69%	27.53%	42.71%	44.16%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
Financial assets:							
Due from banks	58,618	-	-	-	-	-	58,618
Loans to customers	9,981	92,324	121,397	110,530	6,990	-	341,222
Total interest bearing financial assets	68,599	92,324	121,397	110,530	6,990	-	399,840
Cash and balances with the CBR	201,763	-	-	-	-	4,233	205,996
Due from banks	3,393	-	-	-	-	302	3,695
Other financial assets	-	8,171	-	-	-	-	8,171
Total financial assets	273,755	100,495	121,397	110,530	6,990	4,535	617,702
Financial liabilities:							
Customer accounts	228	30,391	-	-	-	-	30,619
Other borrowed funds	-	-	91	1,892	-	-	1,983
Total interest bearing financial liabilities	228	30,391	91	1,892	-	-	32,602
Customer accounts	434,174	-	-	-	-	-	434,174
Other financial liabilities	1,522	401	1,300	-	-	-	3,223
Total financial liabilities	435,924	30,792	1,391	1,892	-	-	469,999
Liquidity gap	(162,169)	69,703	120,006	108,638	6,990		
Cumulative liquidity gap	(162,169)	(92,466)	27,540	136,178	143,168		
Interest sensitivity gap	68,371	61,933	120,306	108,638	6,990		
Cumulative interest sensitivity gap	68,371	130,304	251,610	360,248	367,238		
Cumulative interest sensitivity gap as a percentage of total assets	11.07%	21.09%	40.73%	58.32%	59.45%		

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments).

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	31 December 2010 Total
Financial liabilities:						
Customer accounts	6.32%	13,171	1,899	73,163	8,223	96,456
Other borrowed funds	13.00%	-	-	-	3,200	3,200
Total interest bearing financial liabilities		13,171	1,899	73,163	11,423	99,656
Customer accounts		376,969	-	-	-	376,969
Other financial liabilities		2,031	322	1,664	-	4,017
Liabilities on financial guarantees		225	3,325	20,990	-	24,540
Liabilities on unused credit lines		-	500	39,034	8,143	47,677
Total financial liabilities		392,396	6,046	134,851	19,566	552,859

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	31 December 2009 Total
Financial liabilities:						
Customer accounts	5.46%	-	30,659	-	-	30,659
Other borrowed funds	13.00%	-	-	100	3,200	3,300
Total interest bearing financial liabilities		-	30,659	100	3,200	33,959
Customer accounts		434,174	-	-	-	434,174
Other financial liabilities		1,522	401	1,300	-	3,223
Liabilities on financial guarantees		3,350	-	517	-	3,867
Liabilities on unused credit lines		-	-	27,204	7,365	34,569
Total financial liabilities		439,046	31,060	29,121	10,565	509,792

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

The Financial Reporting Department manages interest rate and markets risks by managing the Bank's interest rate positions to ensure that the Bank has a positive interest rate margin. The Financial Reporting Department monitors the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The Bank's management monitors its interest rate margin and does not consider the Bank exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

Interest rate risk appears due to imbalance of assets and liabilities sensible to changes in interest rate in case of an adverse change in interest rate.

Interest-bearing financial assets and liabilities mainly have fixed interest rates. The Bank's management monitors the Bank's interest margin and considered the Bank is not exposed to the significant interest rate risk.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Currency Risk Controlling Department monitors currency risk by minimize the Bank's net foreign currency position based on the estimated devaluation of the Russian Ruble and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant fluctuations in the rates of the national and foreign currencies. The Currency Operations Department monitors the Bank's net foreign currency position on a daily basis to ensure that it is in line with the Central Bank requirements.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD USD 1 =30.4769 RUR	EUR EUR 1 =40.3331 RUR	Other currency	31 December 2010 Total
Financial assets:					
Cash and balances with the CBR	228,319	585	1,964	215	231,083
Due from banks	11,272	8,225	9,836	-	29,333
Loans to customers	366,551	-	8,796	-	375,347
Other financial assets	662	-	-	-	662
Total financial assets	606,804	8,810	20,596	215	636,425
Financial liabilities:					
Customer accounts	449,798	8,497	10,845	-	469,140
Other borrowed funds	2,117	-	-	-	2,117
Other financial liabilities	4,017	-	-	-	4,017
Total financial liabilities	455,932	8,497	10,845	-	475,274
OPEN BALANCE SHEET POSITION	150,872	313	9,751	215	
	RUR	USD USD 1 =30.2442 RUR	EUR EUR 1 =43.3883 RUR	Other currency	31 December 2009 Total
Financial assets:					
Cash and balances with the CBR	201,705	2,405	1,843	43	205,996
Due from banks	55,361	4,225	2,727	-	62,313
Loans to customers	302,378	10,731	28,113	-	341,222
Other financial assets	8,171	-	-	-	8,171
Total financial assets	567,615	17,361	32,683	43	617,702
Financial liabilities:					
Customer accounts	423,422	16,202	25,169	-	464,793
Other borrowed funds	1,983	-	-	-	1,983
Other financial liabilities	3,223	-	-	-	3,223
Total financial liabilities	428,628	16,202	25,169	-	469,999
OPEN BALANCE SHEET POSITION	138,987	1,159	7,514	43	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the USD and EUR against the RUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at 31 December 2010 and 2009:

	31 December 2010		31 December 2009	
	RUR/USD	RUR/USD	RUR/USD	RUR/USD
	+ 10%	- 10%	+ 10%	- 10%
Impact on profit or loss	31	(31)	116	(116)
Impact on equity	25	(25)	93	(93)

	31 December 2010		31 December 2009	
	RUR/EUR	RUR/EUR	RUR/EUR	RUR/EUR
	+ 10%	- 10%	+ 10%	- 10%
Impact on profit or loss	975	(975)	751	(751)
Impact on equity	780	(780)	601	(601)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Legal risks

Some of the legal risks to which the Bank's operations are exposed include:

- Changes in foreign currency regulations;
- Changes in the tax legislation;
- Changes in requirements whereby a credit institution offering securities must hold licenses to engage in its operations, or licensing requirements for the use of limited resources (inter alia natural resources);
- Changes in court rulings on issues related to the operating activities of a credit institution offering securities (including licensing issues) that could affect its operating results;
- Missing or conflicting legal provisions governing individual issues arising in the course of the business done by a credit institution offering securities;

- Failure by its counterparties to comply with Russian laws and regulations or applicable contractual provisions.

The Bank seeks to avoid potential non-compliance with Russian laws, including failure to submit all required information to regulators, and it makes effort to ensure that it submits reliable information and to improve its quality. To this end, the Bank monitors changes in Russian legislation and modifies its internal controls accordingly. Responsible for monitoring legal risks are the Bank's Internal Control Department and its Legal Department.

Reputational risks

Reputational risk is a banking risk that involves the risk that the Bank will be subject to legal action or sanctions by regulatory/supervisory authorities, will incur material financial losses or lose its reputation due to failure to comply with federal laws or CBR regulations on money laundering and terror financing.

With its reputation being one of its most valuable assets, the Bank takes all necessary effort to protect its business reputation and its bona fide clients. The Bank's anti-money laundering and terror financing policies aim to reduce the probability of potential reputational risks by achieving the following objectives:

- Preventing the Bank's products and services from being used for criminal offences, such as money laundering, terror financing, fraud and corruption;
- Protecting the Bank's business reputation and that of its clients.

Pursuant to Russian legislative requirements and its internal procedures, the Bank has developed a set of measures to monitor reputational risks and implement an anti-money laundering and terror financing programme:

- The Bank has approved its Internal Control Rules to Prevent Money Laundering and Terror Financing, and they are now being implemented;
- The Bank ensures that all of its staff take part in measures to prevent money laundering and terror financing;
- The Bank is improving its software to timely detect transactions that are subject to mandatory monitoring and suspicious transactions;
- The Bank regularly holds special trainings for its staff.

The Bank is implementing all required procedures and the know-your-client principle in strict compliance with Russian and foreign standards for the confidentiality of bank information, as well as regulatory requirements.