JSCB “Moscow Bank for Reconstruction and Development” (Open Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2010

JOINT STOCK COMMERCIAL BANK
“MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)

CONTENTS

JOINT STOCK COMMERCIAL BANK
"MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Commercial Bank "Moscow Bank for Reconstruction and Development" (Open Joint Stock Company) (the "Bank") and its subsidiaries (the "Group") as at December 31, 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2010 were authorized for issue on April 26, 2011

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow

A.V. Eltyshev
Chief Accountant

April 26, 2011
Moscow

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank "Moscow Bank for Reconstruction and Development" (Open Joint Stock Company):

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Deloitte & Touche

April 26, 2011
Moscow

JOINT STOCK COMMERCIAL BANK
"MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles, except for earnings per share which are in Rubles)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	4, 32	16,087,547	19,673,405
Interest expense	4, 32	(11,524,623)	(14,182,985)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		4,562,924	5,490,420
Provision for impairment losses on interest bearing assets	5, 32	(824,849)	(3,540,796)
NET INTEREST INCOME		3,738,075	1,949,624
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6, 32	(54,654)	224
Net gain on foreign exchange operations	7, 32	413,617	721,839
Fee and commission income	8, 32	1,625,815	1,452,669
Fee and commission expense	8	(328,315)	(268,266)
Net gain on sale of investments available-for-sale		269,565	(18,062)
Net gain on disposal of real estate	9	672,836	-
Provision for impairment losses on other transactions	5, 32	(27,053)	(891,372)
Net (loss)/gain on investment property revaluation	21	(91,599)	25,579
Reversal of impairment/(impairment) of property and equipment	20	99,826	(242,808)
Other income	10, 32	342,164	255,212
NET NON-INTEREST INCOME		2,922,202	1,035,015
OPERATING INCOME		6,660,277	2,984,639
OPERATING EXPENSES	11, 32	(5,700,291)	(5,405,208)
PROFIT/(LOSS) BEFORE INCOME TAX		959,986	(2,420,569)
Income tax expense	12	(288,051)	(274,254)
NET PROFIT /(LOSS)		671,935	(2,694,823)
Attributable to:			
Owners of the Parent		510,620	(2,756,415)
Non-controlling interest		161,315	61,592
EARNINGS/(LOSS) PER SHARE			
Basic and diluted (RUB)	13	262	(1,562)

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow

A.V. Eltyshev
Chief Accountant

April 26, 2011
Moscow

The notes on pages 9-68 form an integral part of these consolidated financial statements.

JOINT STOCK COMMERCIAL BANK
"MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)

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

	Year ended December 31, 2010	Year ended December 31, 2009
NET PROFIT /(EXPENSE)	671,935	(2,694,823)
OTHER COMPREHENSIVE INCOME/(EXPENSE) AFTER INCOME TAX		
Exchange differences on translation of foreign operations	(239,253)	109,632
Net change in fair value of investments available-for-sale	259,534	548,630
Gain reclassified in profit or loss from other comprehensive income/(expense) on disposal of investments available-for-sale	(137,576)	(5,207)
Revaluation of property and equipment	15,879	(79,120)
Income tax attributable to other comprehensive income/loss	(24,198)	(22,051)
OTHER COMPREHENSIVE (EXPENSE)/INCOME AFTER INCOME TAX	(125,614)	551,884
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	546,321	(2,142,939)
Attributable to:		
Owners of the Parent	448,679	(2,431,975)
Non-controlling interest	97,642	289,036
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	546,321	(2,142,939)

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow

A.V. Eltyshev
Chief Accountant

April 26, 2011
Moscow

The notes on pages 9-68 form an integral part of these consolidated financial statements.

JOINT STOCK COMMERCIAL BANK
"MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)

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

	Notes	December 31, 2010	December 31, 2009
ASSETS:			
Cash and balances with the Central Banks	14	40,965,483	12,362,223
Financial assets at fair value through profit or loss	15, 32	21,463,739	17,896,389
Due from banks	16	53,086,043	64,548,041
Loans to customers	17, 32	107,519,343	106,458,788
Investments available-for-sale	18, 32	6,944,623	1,890,275
Investments held-to-maturity	19	-	9,771,325
Property equipment and intangible assets	20	2,125,001	5,253,200
Investment property	21	2,775,878	894,001
Current income tax assets		91,874	161,139
Deferred income tax assets	12	93,077	216,704
Other assets	22, 32	755,440	1,090,806
Non-current assets held for sale	23	720,458	-
TOTAL ASSETS		**236,540,959**	**220,542,891**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	15	-	9,328
Due to the Central Bank of the Russian Federation	24	-	1,503,699
Due to banks and other financial institutions	25	56,279,216	56,186,523
Customer accounts	26, 32	143,307,709	124,087,073
Debt securities issued	27	15,965,992	17,859,208
Current income tax liabilities		29,615	36,496
Deferred income tax liabilities	12	690,583	858,620
Other liabilities	28, 32	1,149,107	1,539,370
Subordinated debt	29, 32	2,682,400	7,765,952
Liabilities directly associated with assets classified as held for sale	23	43,395	-
Total liabilities		**220,148,017**	**209,846,269**
EQUITY:			
Equity attributable to owners of the Parent:			
Share capital	30	1,832,124	1,360,908
Share premium	30	16,186,587	11,507,804
Investments available-for-sale fair value reserve		(1,868)	(78,516)
Cumulative translation reserve		185,750	336,276
Property and equipment revaluation reserve		34,233	121,815
Accumulated deficit		(3,045,892)	(3,656,031)
Total equity attributable to owners of the Parent		15,190,934	9,592,256
Non-controlling interests		1,202,008	1,104,366
Total equity		**16,392,942**	**10,696,622**
TOTAL LIABILITIES AND EQUITY		**236,540,959**	**220,542,891**

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow

A.V. Elkyshev
Chief Accountant

April 26, 2011
Moscow

The notes on pages 9-68 form an integral part of these consolidated financial statements.

JOINT STOCK COMMERCIAL BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

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

	Notes	Share capital	Share premium	Investments available-for-sale fair value reserve	Cumulative translation reserve	Property and equipment revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the Parent	Minority interest	Total equity
December 31, 2008		**1,360,908**	**11,507,804**	**(412,099)**	**263,919**	**203,315**	**58,485**	**12,982,332**	**815,330**	**13,797,662**
Comprehensive (loss)/income		-	-	333,583	72,357	(81,500)	(2,756,415)	(2,431,975)	289,036	(2,142,939)
Disposal of assets to shareholders	17	-	-	-	-	-	1,394,200	1,394,200	-	1,394,200
Group reorganization		-	-	-	-	-	(2,352,301)	(2,352,301)	-	(2,352,301)
December 31, 2009		**1,360,908**	**11,507,804**	**(78,516)**	**336,276**	**121,815**	**(3,656,031)**	**9,592,256**	**1,104,366**	**10,696,622**
Transfer of property and equipment revaluation reserve as a result of disposal of real estate		-	-	-	-	(99,519)	99,519	-	-	-
Comprehensive (loss)/income		-	-	76,648	(150,526)	11,937	510,620	448,679	97,642	546,321
Increase in equity through issue of ordinary shares	30	471,216	4,678,783	-	-	-	-	5,149,999	-	5,149,999
December 31, 2010		**1,832,124**	**16,186,587**	**(1,868)**	**185,750**	**34,233**	**(3,045,892)**	**15,190,934**	**1,202,008**	**16,392,942**

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow

A.V. Eltyshev
Chief Accountant

April 26, 2011
Moscow

The notes on pages 9-68 form an integral part of these consolidated financial statements.

JOINT STOCK COMMERCIAL BANK
“MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009 (revised)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before tax		959,986	(2,420,569)
Adjustments for:			
Provision for impairment losses on interest bearing assets	5	824,849	3,540,796
Provision for impairment losses on other transactions	5	27,053	891,372
Foreign currency exchange rates fluctuations gains and losses		(157,598)	(114,316)
(Reversal of impairment)/impairment of property and equipment		(99,826)	242,808
Revaluation of investment property		91,599	(25,579)
Net change in fair value of financial instruments at fair value through profit or loss		79,527	(305,849)
Depreciation and amortization expense	11	428,353	364,558
Net gain attributable to disposal of real estate	9	(672,836)	-
Change in interest accruals, net		(850,788)	(1,201,040)
Change in other accruals		116,597	55,632
Cash inflow from operating activities before changes in operating assets and liabilities		746,916	1,027,813
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Banks of the Russian Federation and Luxemburg		(192,752)	(624,037)
Financial assets at fair value through profit or loss		(3,090,192)	(14,731,316)
Due from banks		6,213,435	(19,176,823)
Loans to customers		(1,815,457)	(1,926,518)
Other assets		(327,911)	518,010
Increase/(decrease) in operating liabilities			
Due to the Central Bank of the Russian Federation		(1,500,000)	(26,715,092)
Due to banks and other financial institutions		500,283	486,485
Customer accounts		20,426,274	63,325,030
Debt securities (repaid)/issued in the normal course of business		(2,076,778)	2,954,910
Other liabilities		24,583	(44,532)
Cash inflow from operating activities before taxation		**18,908,401**	**5,093,930**
Income tax paid		(63,648)	(458,593)
Net cash inflow from operating activities		**18,844,753**	**4,635,337**

JOINT STOCK COMMERCIAL BANK
"MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009 (revised)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, equipment and intangible assets	20	(471,563)	(715,148)
Proceeds on disposal of property, equipment and intangible assets		1,257,779	54,433
Proceeds from sale of investment property	21	39,792	-
Acquisition of subsidiaries, net of cash acquired		-	(2,091,435)
Purchase of investments available-for-sale		1,769,013	282,759
Sale/(purchase) of investments held-to-maturity		2,886,316	(8,115,061)
Net cash inflows/(outflow) from investing activities		**5,481,337**	**(10,584,452)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Disposal of assets to shareholders		-	3,028,000
Subordinated debt received		250,000	1,566,771
Net cash inflow from financing activities		**250,000**	**4,594,771**
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents		**(726,362)**	**(490,735)**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**23,849,728**	**(1,845,079)**
CASH AND CASH EQUIVALENTS, beginning of year	**14**	**24,961,042**	**26,806,121**
CASH AND CASH EQUIVALENTS, end of year	**14**	**48,810,770**	**24,961,042**

Interest paid and received by the Group during the year ended December 31, 2010 amounted to RUB 11,943,147 thousand and RUB 15,655,283 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2009 amounted to RUB 13, 859,162 thousand and RUB 18,148,542 thousand, respectively.

On behalf of the Management Board:

A.Z. Shlyakhovoy
Chairman of the Management Board

April 26, 2011
Moscow Moscow

A.V. Eltyshev
Chief Accountant

April 26, 2011

The notes on pages 9-68 form an integral part of these consolidated financial statements.

(in thousands of Russian Rubles, unless otherwise indicated)

1. ORGANIZATION

JSCB “Moscow Bank for Reconstruction and Development” (Open Joint Stock Company) (“MBRD”) is a joint-stock bank, which was incorporated in the Russian Federation in 1993. MBRD is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2268. MBRD’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

Its registered office is located at 75, Sadovnicheskaya St., Moscow, 119034, Russian Federation.

As at December 31, 2010 and 2009 MBRD had 16 and 17 branches, respectively, operating in the Russian Federation.

The Bank is a parent company of a banking group (the “Group”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Proportion of ownership interest/voting rights % December 31, 2010	December 31, 2009	Type of operation
MBRD JSCB (OJSC)	Russian Federation	Parent company		Commercial bank
Sistema K-Invest CJSC	Russian Federation	-	100%	Lease of premises
MBRD-Capital LLC	Russian Federation	100%	100%	Financial services
MBRD-Finance LLC	Russian Federation	50%	50%	Financial services
Leasing-Maximum LLC	Russian Federation	19%	19%	Financial lease
Invest-Svyaz-Holding CJSC	Russian Federation	100%	100%	Financial lease
Leasing Company Sistema-Finleasing CJSC	Russian Federation	100%	100%	Financial lease
Nostro LLC	Russian Federation	1%	100%	Lease of premises
Elavius CJSC	Russian Federation	100%	100%	Operating leases
Dalcombank OJSC	Russian Federation	100%	100%	Commercial bank
East West United Bank S.A.	Luxembourg	66%	66%	Commercial bank
Russian Securitization Platform S.A.	Luxembourg	-	contract	Issue of Eurobonds
Mortgage agent of MBRD CJSC	Russian Federation	contract	contract	Issue of Bonds
Planeta parketa LLC	Russian Federation	80%	-	Manufacturing
Inteksilo LLC	Russian Federation	80%	-	Manufacturing
Kemt LLC	Russian Federation	80%	-	Manufacturing

The Group has control over financial and operating policies of LLC Leasing-Maximum and LLC MBRD-Finance.

In 2009 the Group acquired Far Eastern Commercial Bank – Dalcombank (OJSC) and CJSC Elavius from the Group's shareholders. The Group classified these acquisitions as business combinations under common control. The Group recognized the excess of the cost of business combination over the fair value of the acquired net assets of RUB 2,352,301 thousand directly in equity.

Furthermore, the Group has control over the following investment funds:

- Closed unit investment real estate fund Kapitalny 2;
- Closed unit investment annuity fund Rentny 2;
- Closed unit investment annuity fund Rentny 3.

The Group renders services to a group of related entities by means of direct or indirect ownership by an ultimate parent of the Group. As at December 31, 2010 and 2009 amounts due to such entities comprised 33.31% and 35.67% of the total customer accounts, respectively (Note 32).

As at December 31, 2010 and 2009, the following shareholders owned the issued shares of MBRD:

	December 31, 2010, %	**December 31, 2009, %**
Shareholder		
JSFC Sistema ("Sistema")	86.48	74.97
CJSC Promtorgcenter	5.53	8.49
OJSC Moscow City Telephone Network	1.84	2.82
LLC Notris	1.71	2.62
Other	4.44	11.10
Total	**100.00**	**100.00**

As at December 31, 2010 and 2009 Sistema directly or indirectly owned 99.25% and 96.15% of the share capital of MBRD, respectively. Mr. V.P. Evtushenkov owns a controlling stake in Sistema.

The General meeting of shareholders has authority to give final approval to these financial statements.

2. BASIS OF PRESENTATION

Accounting basis

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 Group 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 Group in the Russian Federation both in the corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio which grew after capital increase.

These consolidated financial statements are presented in thousands of Russian rubles ("kRUB"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of buildings and investment property at revalued amounts according to International Accounting Standard ("IAS") 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), and the foreign subsidiary bank maintains its accounting records in accordance with the law of Luxemburg. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that company (the “functional currency”). The functional currency of the Group, except for East-West United Bank S.A. is the Russian ruble. The functional currency of East-West United Bank S.A. is Euro.

Revision and reclassifications

In 2010 the Group’s management discovered errors and inaccuracies in the consolidated financial statements for the year ended December 31, 2009. Certain types of transactions were not appropriately presented in the financial statements. Moreover, certain reclassifications were made to improve presentation of items.

Classification of financial assets held for trading

Some securities held for trading totaling RUB 7,450,976 thousand were classified as financial assets initially designated at fair value through profit or loss in the consolidated financial statements as at December 31, 2009. In the financial statements for the year ended December 31, 2010 the Group reclassified comparable data as at December 31, 2009 for the above assets into financial assets held for trading. This reclassification did not affect the consolidated statement of financial position. As a result, the presentation of transactions with financial assets initially designated at fair value through profit or loss and financial assets held for trading for the year ended December 31, 2009 was adjusted as follows:

Financial statements line item	As previously reported December 31, 2009/ Year ended December 31, 2009	Amount of reclassification	As reclassified, December 31, 2009/ Year ended December 31, 2009
Financial assets at fair value through profit or loss	Financial assets initially designated at fair value through profit or loss	7,450,976	Financial assets held for trading:
Interest income	Interest income on financial assets initially designated at fair value through profit or loss	454,463	Interest income on financial assets held-for-trading
Net gain on financial assets and liabilities at fair value through profit or loss	Net gain on financial assets and liabilities at fair value through profit or loss	314,298	Net gain on financial assets and liabilities held for trading

To improve the presentation of the consolidated financial statements for the year ended December 31, 2009, certain reclassifications have been made to the income statement items, as detailed below:

Financial statements line item	As previously reported Year ended December 31, 2009	Amount of reclassification	As reclassified Year ended December 31, 2009
Net gain on investment property revaluation	Other income	25,579	Net gain on investment property revaluation
Reversal of impairment/(impairment) of property and equipment	Operating expenses	(242,808)	Reversal of impairment/ (impairment) of property and equipment

Related party transactions

The effect of adjustments resulting from the correction of a technical error in the 'customer account – key management personnel of the Group or its parent company" line item of the "Related party transactions" note of the consolidated financial statements as at December 31, 2009 amounted to RUB 4,158,515 thousand. The amount previously reported in this line item as at December 31, 2009 was RUB 57,931 thousand.

The effect of adjustments resulting from the correction of errors discovered on the disclosure in the description of renegotiated loans to customers of the "Loans to customers" note to the consolidated financial statements as at December 31, 2009 amounted to RUB 11,896,231 thousand. The amount previously disclosed as at December 31, 2009 was RUB 14,858,774 thousand.

Statement of cash flows

To ensure appropriate presentation in the consolidated financial statements for the year ended December 31, 2010, the Group reconsidered classification of certain cash and cash equivalents for the purposes of the cash flow statement (the principles of classification are disclosed in Note 3), which resulted in the reclassification of certain assets in and out of this category as at December 31, 2009, and revision of the consolidated statement of cash flows for the year ended December 31, 2009. Financial assets at fair value through profit or loss and amounts due from OECD banks were reclassified out, while correspondent accounts with banks were reclassified into cash and cash equivalents. As a result, the previously stated amount of cash and cash equivalents as at December 31, 2009 of RUB 45,559,704 thousand was adjusted to RUB 24,961,042 thousand.

Consolidated statement of cash flow line item	As previously reported December 31, 2009/ Year ended December 31, 2009	Amount of reclassification	As revised December 31, 2009/ Year ended December 31, 2009
Net increase/(decrease) in cash and cash equivalents	30,115,235	(31,960,314)	(1,845,079)
Cash and cash equivalent, beginning of year	15,444,469	11,361,652	26,806,121
Cash and cash equivalent, end of year	45,559,704	(20,598,662)	24,961,042

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the MBRD and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (“IAS 21”), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity and are recognized in the cumulative translation reserve until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated statement of comprehensive income / (expense).

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders’ equity.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the non-controlling interest’s proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to the owners of the parent and net income attributable to minority shareholders’ interests are shown separately in the consolidated statement of financial position and the consolidated income statement (consolidated statement of comprehensive income) of the period in which they were acquired.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured by the Group at their carrying values recorded in the financial statements of the selling company. The difference between the carrying value of the acquired share in the net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to owners of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

If the Group purchases a non-controlling interest, the difference between the carrying amount of the acquired non-controlling interest and the amount paid on its purchase is recognized in equity attributable to owners of the parent.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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 income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of revenue – other

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. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income is recognized on the ex-dividend date (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition and measurement of financial instruments

The Group 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 financial liabilities are initially measured 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item in the statement of comprehensive income/income statement.

Investments held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in Note 34. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

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 granted by the Group 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 Group and after the Group 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.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss account. The carrying value of financial assets as at the date of reversal of impairment loss cannot exceed the carrying amount, which should have been recorded if impairment had not been recognized.

Securities repurchase and reverse repurchase agreements and securities lending transactions

In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans and advances to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Reclassification of financial assets

The Group has reclassified certain non-derivative financial assets out of held for trading (part of the FVTPL category) to AFS financial assets. Effective from July 1, 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Derecognition of financial assets and liabilities

Financial assets

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

- Rights to receive cash flows from the asset has expired;
- The Group 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 Group 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 required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group 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 on the balance sheet. 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 Group assesses whether of not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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 derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit and loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the CBR and the Central Bank of Luxemburg.

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

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

Due from banks

In the normal course of business, the Group 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.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity instruments.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options on foreign currency and securities to manage foreign currency and liquidity risks and for trading purposes. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Property, equipment and intangible assets

Property, equipment (except for buildings and land plots) and intangible assets, acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, equipment (except for buildings and land plots) and intangible assets, acquired before January 1, 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Land and buildings	2%
Furniture and equipment	20%
Intangible assets	20%

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The carrying amounts of property, equipment and intangible 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. After the recognition of an impairment loss the depreciation charge for fixed assets and intangible 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.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

Any revaluation increase arising on the revaluation of property and equipment is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease from the same asset recognized previously in the consolidated income statement, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the positive balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued land and buildings is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income/income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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 the end of each reporting period 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 realized, 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 Group 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 Group 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 recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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.

Due to CBR, due to banks, customer accounts, debt securities issued and subordinated debt

Due to CBR, due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between the carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial guarantees and letters of credit

Financial guarantee contracts and letters of credit issued by the Group 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 and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (b) the amount initially recognized less, where appropriate, cumulative amortisation of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingent liabilities

Contingent liabilities are not recognized in the consolidated statement of financial position, but are disclosed in the consolidated financial statements 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 and share premium

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

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 benefit obligations

In accordance with the requirements of the 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 Group 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 as selected by employees. The Group does not have any pension arrangements separate from the RF state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rate

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

	December 31, 2010	December 31, 2009
RUB/USD	30.4769	30.2442
RUB/1 Euro	40.3331	43.3883
RUB/Gold (1 gram)	1383.0600	1062.3200

Accounting for the effects of hyperinflation

In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since January 1, 2003, the economy of the Russian Federation ceased to be hyperinflationary and the costs of non-monetary assets, liabilities and equity as stated in measuring units as at December 31, 2002 was used to form the beginning balances as at January 1, 2003.

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Segment information

The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the Group's management responsible for operational decision-making. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, 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.

Allowance for impairment of loans

The Group regularly reviews its loans to customers, due from banks and accounts receivable to assess for impairment. The Group's allowances for impairment of such assets are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group 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 Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgement 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 Group estimates changes in future cash flows based on customer performance in the past, on 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 in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. The Group uses management's judgement to adjust observable data for a group of loans to reflect current circumstances not observed in historical data.

As at December 31, 2010 the Group reviewed its approach to estimating provisions for loans to customers which are assessed individually and for which no indicators of impairment are identified. Such loans were aggregated into portfolios with similar credit quality characteristics. The level of provision was estimated on the basis of statistical information on the historical losses on loans with similar credit characteristics.

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 Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgement as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgement, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in its statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Revaluation of property, equipment and investment property

Land and buildings, intangible assets and investment property, except for construction in progress recorded at cost and tested for impairment are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Market value of assets is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;

- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. The date of the latest appraisal was December 31, 2010. The next revaluation is scheduled for December 31, 2011.

Deferred tax assets

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

Provisions for possible payments

The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section *New Standards and Interpretations affecting the reported results or financial position*.

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. In line with the revised Standard, the Group has classified the liability component of convertible notes issued in the current year as non-current based on when cash settlement is required to be made. This amendment has had no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.
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. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset. This amendment has had no effect on the amounts reported in prior years because the Group has not previously incurred development costs.
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. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.

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

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

The impact of the application of IFRS 3(2008) is as follows:

- IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as ‘minority' interests) either at fair value or at the non-controlling interests' share of recognized identifiable net assets of the acquiree. In the current year the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognized in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the recognized amount of the identifiable net assets of the acquiree.
- IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognized in profit or loss.
- IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

Results in future periods may be affected by future impairment losses relating to the increased goodwill, and by changes in the fair value of contingent consideration recognized as a financial liability.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognized in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognize all assets, liabilities and non-controlling interests at their carrying amount and to recognize the fair value of the consideration received. Any retained interest in the former subsidiary is recognized at its fair value at the date control is lost. The resulting difference is recognized as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

IAS 28 (as revised in 2008) Investments in Associates

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit or loss.

As part of *Improvements to IFRSs* issued in 2010, IAS 28(2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively. The Group has applied the amendments to IAS 28(2008) as part of *Improvements to IFRSs* issued in 2010 in advance of their effective dates (annual periods beginning on or after July 1, 2010).

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 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	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 Share-based Payment – Group Cash-settled Share-based Payment Transactions	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 *Non-current Assets Held for Sale and Discontinued Operations* (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 Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	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 recognize the asset at its fair value on the date of the transfer, with the credit being recognized as revenue in accordance with IAS 18 Revenue.
Improvements to IFRSs issued in 2009	Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier, the application of Improvements to IFRSs 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 Group 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 recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized 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 amortized 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 recognized 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 recognized in profit or loss.

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

The directors anticipate that IFRS 9 that will be adopted in the Group'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 Groups' 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 Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group 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 Group because the Group 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 Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group 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 Group has not entered into transactions of this nature. However, if the Group 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 recognized in profit or loss.

Management is currently assessing the impact of the adoption of the new and amended standards on the financial statement and accounting policy of the Group.

4. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
Interest income comprises:		
Interest income on assets recorded at amortized cost:	13,844,193	18,073,058
Interest on loans to customers	12,208,967	15,030,073
Interest on balances due from banks	994,378	1,915,183
Interest on investments held-to-maturity	640,848	1,127,802
Interest income on assets at fair value through profit or loss:	1,708,612	1,283,794
Interest income on financial assets available-for-sale	534,742	316,553
Total interest income	**16,087,547**	**19,673,405**
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on customer accounts	(6,237,171)	(5,321,374)
Interest on due to banks and the CBR	(2,858,399)	(5,660,408)
Interest on debt securities issued	(2,133,903)	(2,653,736)
Interest on subordinated debt	(295,150)	(547,467)
Total interest expense on financial liabilities recorded at amortized cost	**(11,524,623)**	**(14,182,985)**
Net interest income before provision for impairment losses on interest bearing financial assets	**4,562,924**	**5,490,420**

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Due from banks	Loans to customers	Investments available-for-sale	Total
December 31, 2008	**576,694**	**3,603,886**	**-**	**4,180,580**
Group reorganization	-	1,721,676	50	1,721,726
(Recovery of provisions)/ provisions	(116,635)	3,657,431	-	3,540,796
Write-off of assets	-	(2,024,402)	-	(2,024,402)
Foreign exchange differences	31,834	20,650	-	52,484
December 31, 2009	**491,893**	**6,979,241**	**50**	**7,471,184**
(Recovery of provisions)/ provisions	(1,264)	826,113	-	824,849
Write-off of assets	-	(388,224)	-	(388,224)
Foreign exchange differences	(20,442)	1,576	-	(18,866)
December 31, 2010	**470,187**	**7,418,706**	**50**	**7,888,943**

For the year ended December 31, 2010 the Group received income from recovery of assets previously written off in the amount of RUB 77,985 thousand, which is recognized in other income (see Note 10).

The movements in other provisions were as follows:

	Other assets	Guarantees	Other provisions	Total
December 31, 2008	**3,420**	**33,858**	-	**37,278**
Group reorganization	1,301	-	-	1,301
Provisions/(Recovery of provisions)	114,438	(33,858)	810,792	891,372
Write-off of assets	(5,654)	-	-	(5,654)
December 31, 2009	**113,505**	-	**810,792**	**924,297**
Disposal (Note 9)	(37,928)	-	(814,115)	(852,043)
(Recovery of provisions)/ provisions	(4,675)	28,405	3,323	27,053
Write-off of assets	(10,592)	-	-	(10,592)
December 31, 2010	**60,310**	**28,405**	**-**	**88,715**

Allowance for impairment of interest bearing assets and other assets are deducted from the respective asset items. Provisions for credit commitments and other provisions are accounted for as other liabilities.

6. NET (LOSS)/GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Net gain / (loss) on financial derivatives	8,566	(651,758)
Net (loss)/gain on financial assets and liabilities held for trading comprises:		
Realised gain from trading operations	14,427	211,723
Fair value adjustments	(77,647)	440,259
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	**(54,654)**	**224**

The Group enters into derivative financial instruments both to manage currency and liquidity risks.

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	62,308	723,629
Translation differences, net	351,309	(1,790)
Total net gain on foreign exchange operations	**413,617**	**721,839**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission income:		
Settlements	981,754	829,570
Cash operations	315,452	285,404
Documentary operations	163,496	128,042
Trust and other fiduciary activities	47,431	51,367
Cash collection	45,905	57,935
Foreign currency agent and controller operations	31,594	20,330
Other	40,183	80,021
Total fee and commission income	**1,625,815**	**1,452,669**
Fee and commission expense:		
Settlements	(220,485)	(213,832)
Cash operations	(53,957)	(35,188)
Documentary operations	(14,918)	(6,529)
Other	(38,955)	(12,717)
Total fee and commission expense	**(328,315)**	**(268,266)**

9. NET GAIN ON DISPOSAL OF REAL ESTATE

On December 28, 2010 the Group sold its interests in equities of LLC Nostro and CJSC Sistema K-Invest. Whereas the indicated companies actually were holders of the fixed assets (real estate) of the Group, the assets and liabilities of these companies were classified at the moment of sale into the disposal group as follows:

Disposal group	**Carrying value**
Fair value of disposed real estate	1,508,489
Deferred income tax liabilities relating to the disposed real estate	(255,011)
Provision relating to disposed real estate	(814,115)
Other assets relating to disposed real estate	100,911
Total assets in the disposal group	**540,274**
Cash consideration received	1,213,110
Net gain on disposal of real estate	**672,836**

10. OTHER INCOME

Other income for the year ended December 31, 2010 included income on transportation services of RUB 131,152 thousand, income from disposal of assets previously written off of RUB 77,985 thousand and operating lease income of RUB 51,550 thousand.

Other income for the year ended December 31, 2009 included income from early settlement of own obligations of RUB 45,091 thousand, income on transportation services of RUB 68,731 thousand, and operating lease income of RUB 19,191 thousand.

11. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2010	**Year ended December 31, 2009**
Staff costs	2,901,193	2,542,316
Operating leases	706,571	719,760
Taxes, other than income tax	480,846	564,887
Depreciation and amortisation	428,353	364,558
Property and equipment maintenance	225,940	180,376
Communications	190,344	195,879
Payments to the Deposit Insurance Agency	187,383	127,225
Security expenses	108,674	149,247
Professional services	94,617	206,763
Office expenses	88,467	133,676
Business trip expenses	41,887	37,913
Advertising expenses	30,559	51,619
Other expenses	215,457	130,989
Total operating expenses	**5,700,291**	**5,405,208**

12. INCOME TAX

The Group calculates tax payments based on the tax accounts maintained and prepared in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

As certain income and expense are tax-free or tax non-deductible the Group is subject to certain permanent tax differences.

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

Income tax in 2010 and 2009 years was calculated applying 20% tax rate to the profit or loss for the year.

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 under tax law in that jurisdiction.

Temporary differences as at December 31, 2010 and 2009 comprise:

	December 31, 2010	December 31, 2009
Deferred tax assets/(liabilities) in relation to:		
Due from banks and loans to customers	(477,367)	(110,362)
Other assets	18,757	68,799
Investment property	39,169	(8,730)
Financial assets at fair value through profit or loss	(82,300)	(20,645)
Investment available-for-sale	(534,941)	(305,968)
Property and equipment	(173,313)	(389,098)
Other financial liabilities	46,042	(7,216)
Tax loss carryforward	566,447	131,304
Net deferred tax liabilities	**(597,506)**	**(641,916)**
Additional information: Deferred tax asset not recognized	211,306	-

Reconciliation between income tax expense and consolidated profit/(loss) before income tax for the years ended December 31, 2010 and 2009 is presented in the table below:

	Year ended December 31, 2010	Year ended December 31, 2009
Profit/(loss) before tax	959,986	(2,420,569)
Tax charge at the statutory tax rate (20%)	191,997	(484,114)
Change in deferred tax asset not recognized	304,609	-
Effect of income taxed at different rates	46,816	27,153
Tax effect of permanent differences	(255,371)	731,215
Income tax expenses	**288,051**	**274,254**
Current income tax expenses	78,535	97,228
Changes in deferred tax	209,516	177,026
Income tax expenses	**288,051**	**274,254**

Deferred income tax assets/(liabilities)	Year ended December 31, 2010	Year ended December 31, 2009
Deferred tax assets at January 1	**216,704**	**208,845**
Deferred tax liabilities at January 1	**(858,620)**	**(617,480)**
Change in deferred income tax balances recognized in profit or loss	(209,516)	(177,026)
Change in deferred income tax recoded in other comprehensive income	(24,198)	(22,051)
Disposal of deferred tax liabilities relating to the real estate disposed	255,011	(24,508)
Effect of foreign currencies exchange rate fluctuations	23,113	(9,696)
Deferred income tax assets at December 31	**93,077**	**216,704**
Deferred income tax liabilities at December 31	**(690,583)**	**(858,620)**

13. EARNINGS/(LOSS) PER SHARE

	Year ended December 31, 2010	Year ended December 31, 2009
Net profit/(loss) for the year attributable to owners of the Bank	510,620	(2,756,415)
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share	1,945,740	1,765,000
Earnings/(loss) per share – basic and diluted (RUB)	**262**	**(1,562)**

14. CASH AND BALANCES WITH THE CENTRAL BANKS

	December 31, 2010	December 31, 2009
Cash	3,731,643	3,378,199
Balances with the CBR	36,276,816	7,798,395
Balances with the Central Bank of Luxembourg	957,024	1,185,629
Total cash and balances with the Central Banks	**40,965,483**	**12,362,223**

The balances with the Central Banks of the Russian Federation and Luxemburg as at December 31, 2010 and 2009 include RUB 2,196,951 thousand and RUB 2,087,693 thousand, respectively, which represent the obligatory minimum reserve deposits with the Central Banks. The Group is required to maintain minimum reserve deposits with the Central Banks on a constant basis.

As at December 31, 2010 the Group placed a deposit with the Central Bank of the Russian Federation of RUB 20,001,664 thousand, maturing on February 11, 2011 and bearing interest of 3% per annum.

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

	December 31, 2010	December 31, 2009 (revised)
Cash and balances with the Central Banks	40,965,483	12,362,223
Correspondent accounts with banks	10,042,238	14,686,512
	51,007,721	27,048,735
Less minimum reserve deposits with the Central Bank of the Russian Federation	(1,241,339)	(903,756)
Less minimum reserve deposits with the Central Bank of Luxembourg	(955,612)	(1,183,937)
Total cash and cash equivalents	**48,810,770**	**24,961,042**

Revision of 2009 info see Note 2.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	Interest to nominal %	December 31, 2010	Interest to nominal %	December 31, 2009
Debt securities	3-15%	21,437,209	3-18%	17,859,085
Equity securities		18,423		17,989
Derivative financial instruments		8,107		19,315
Total financial assets at fair value through profit or loss		**21,463,739**		**17,896,389**

Financial assets at fair value through profit and loss are represented by financial assets held for trading:

	Interest to nominal %	December 31, 2010	Interest to nominal %	December 31, 2009
Debt securities				
- corporate and bank bonds	3-15%	16,087,404	7-18%	11,862,347
- Russian government debt securities	3%	4,015,369	3%	246,992
- municipal debt securities	8-10%	1,334,436	8-10%	996,922
- promissory notes		-		4,752,824
Equity securities		18,423		17,989
Derivative financial instruments		8,107		19,315
Total financial assets held for trading		**21,463,739**		**17,896,389**

As at December 31, 2010 financial assets at fair value through profit or loss comprised government and municipal bonds in the amount of RUB 4,015,369 thousand and RUB 1,334,436 thousand, respectively, which exceeded 10% of the Group's equity. As at December 31, 2009 financial assets at fair value through profit or loss comprised Eurobonds and bonds of one bank for the amount of RUB 2,853,063 thousand, which exceeds 10% of the Group's equity.

As at December 31, 2010 securities in the amount of RUB 308,549 thousand were pledged under the Group's settlement operations.

Derivative financial instruments comprise:

	December 31, 2010			December 31, 2009		
	Par value	Fair value Asset	Fair value Liability	Par value	Fair value Asset	Fair value Liability
Foreign currency contracts						
Forwards	235,282	8,107	-	590,341	1,215	9,328
Securities contracts						
Forwards		-	-	1,571,340	18,100	-
Total derivative financial instruments		**8,107**	**-**		**19,315**	**9,328**

16. DUE FROM BANKS

Due from banks comprise:

	December 31, 2010	December 31, 2009
Term deposits with banks	25,308,002	48,939,849
Reverse repurchase agreements with banks	11,825,176	834,495
Correspondent accounts with banks	10,042,238	14,686,512
Promissory notes of banks	6,380,814	579,078
	53,556,230	65,039,934
Less: allowance for impairment losses	(470,187)	(491,893)
Total due from banks	**53,086,043**	**64,548,041**

Movements in allowances for impairment losses on balances due from banks for the years ended December 31, 2010 and 2009 are disclosed in Note 5.

As at December 31, 2010 and 2009 the Group had amounts due from 7 and 18 banks, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2010 and 2009 due from banks comprised guarantee deposits totaling RUB 238,789 thousand and RUB 161,584 thousand, respectively.

As at December 31, 2010 and 2009 the fair value of bonds that were received as collateral under reserve repurchase agreements totaled RUB 13,164,461 thousand and RUB 985,833 thousand, respectively. As at December 31, 2010 securities with a fair value of RUB 3,361,362 thousand were pledged under repurchase agreements in the amount of RUB 2,997,739 thousand (Note 25).

17. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Loans to customers	112,534,590	110,125,189
Receivables on finance lease	1,446,699	1,113,588
Net investment in finance lease	956,760	2,199,252
	114,938,049	113,438,029
Less allowance for impairment losses	(7,418,706)	(6,979,241)
Total loans to customers	**107,519,343**	**106,458,788**

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

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

	December 31, 2010	December 31, 2009
Loans collateralized by cash	46,699,134	49,563,600
Loans collateralized by pledge of real estate	24,674,326	21,003,898
Loans collateralized by corporate guarantees	9,554,731	10,675,776
Loans collateralized by pledge of equipment	8,796,026	13,133,238
Loans collateralized by pledge of inventories	4,375,549	2,483,044
Loans collateralized by rights of claim	1,577,185	574,665
Loans collateralized by pledge of corporate shares	320,911	552,213
Other collateral	99,555	2,779,457
Loans collateralized by pledge of MBRD’s promissory notes	75,000	105,000
Unsecured loans	18,765,632	12,567,138
	114,938,049	113,438,029
Less allowance for impairment losses	(7,418,706)	(6,979,241)
Total loans to customers	**107,519,343**	**106,458,788**

	December 31, 2010	December 31, 2009
Analysis by sector:		
Finance sector	46,230,616	38,418,709
Individuals	23,576,474	26,508,232
Manufacturing	13,757,527	14,387,332
Trade	12,409,330	9,704,895
Real estate	6,887,897	9,066,952
Finance leases	4,104,951	3,077,988
Transport and communication	2,301,890	3,015,717
Hotel business	1,632,963	731,781
Culture and art	794,278	1,851,902
Agriculture	576,177	512,063
Food production	565,420	1,211,309
Oil industry	180,855	2,600,611
Other	1,919,671	2,350,538
	114,938,049	113,438,029
Less allowance for impairment losses	(7,418,706)	(6,979,241)
Total loans to customers	**107,519,343**	**106,458,788**

Loans to individuals comprise the following products:

	December 31, 2010	December 31, 2009
Mortgage loans	10,893,627	11,384,878
Consumer loans	5,347,854	4,968,989
Car loans	3,280,758	5,447,535
Other	4,054,235	4,706,830
	23,576,474	26,508,232
Less allowance for impairment losses	(3,704,110)	(2,937,119)
Total loans to individuals	**19,872,364**	**23,571,113**

As at December 31, 2010 and 2009 the Group granted loans to 10 and 19 customers totaling RUB 38,226,617 thousand and RUB 47,893,990 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2010 and 2009 loans to customers included loans totaling RUB 1,574,907 thousand and RUB 2,962,543 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

As at December 31, 2010 and 2009 loans to the finance sector included loans that were granted under reverse repurchase agreements in the amount of RUB 4,408,684 thousand and RUB 307,719 thousand, respectively.

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

	December 31, 2010			December 31, 2009		
	Carrying value of loans before allowance	Allowance for impairment losses	Carrying value	Carrying value of loans before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	13,933,134	(2,027,315)	11,905,819	16,944,861	(2,659,483)	14,285,378
Loans assessed individually with no indicators of impairment identified	64,297,902	(194,744)	64,103,158	62,043,484	-	62,043,484
Loans to customers collectively assessed for impairment	36,707,013	(5,196,648)	31,510,365	34,449,684	(4,319,758)	30,129,926
Total	**114,938,049**	**(7,418,706)**	**107,519,343**	**113,438,029**	**(6,979,241)**	**106,458,788**

As at December 31, 2010 and 2009 loans that had individual indicators of impairment due to negative trends in the borrowers' and guarantors' financial position were collateralized by pledge with fair value of RUB 7,380,560 thousand and RUB 5,669,554 thousand, respectively.

In December 2009 the Group sold loans with the carrying amount of RUB 1,633,800 thousand to its principal shareholder. The difference between the compensation received by the Group of RUB 3,028,000 thousand and the carrying value of the assets sold at the moment of sale in the amount of RUB 1,394,200 thousand was recognized in equity.

The components of net investment in finance lease as at December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Less than 1 year	829,684	1,621,147
Later than one year not later than five years	296,146	1,126,229
Minimum lease payments	1,125,830	2,747,376
Less: unearned finance income	(169,070)	(548,124)
Net investment in finance lease	956,760	2,199,252
Current portion	684,137	1,251,716
Long-term portion	272,623	947,536
Net investment in finance lease	**956,760**	**2,199,252**

18. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	December 31, 2010	December 31, 2009
Bonds issued by companies and banks	6,368,820	1,082,266
Debt securities	547,517	755,931
Equity securities	28,336	52,128
	6,944,673	1,890,325
Less: allowance for impairment losses	(50)	(50)
Total investments available-for-sale	**6,944,623**	**1,890,275**

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

19. INVESTMENTS HELD-TO-MATURITY

Investments held-to-maturity comprise:

	December 31, 2009	
	Nominal annual interest rate	Amount
Bonds issued by banks	12.20-16%	9,579,268
Corporate bonds	7.49-7.63%	192,057
Total investments held-to-maturity		**9,771,325**

In 2010 the Group sold bonds issued by banks in the amount of RUB 2,886,316 thousand which had been earlier classified as investments held-to-maturity. The remaining investments in bonds issued by banks and companies totaling RUB 6,950,395 thousand earlier classified as investments held-to-maturity were reclassified as financial assets available-for-sale, and recorded at fair value.

20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Capital invest-ments	Furniture and equipment	Construc-tion in progress	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
At initial/revalued cost							
December 31, 2008	**2,095,529**	**222,642**	**1,057,770**	**410,780**	**3,786,721**	**259,794**	**4,046,515**
Group reorganization	652,213	6,241	438,359	-	1,096,813	-	**1,096,813**
Acquisitions	83,092	10,292	338,646	1,265,018	1,697,048	90,890	**1,787,938**
Disposals	-	(43,314)	(103,910)	(70)	(147,294)	(4,517)	**(151,811)**
Elimination of accumulated depreciation on revaluation	(55,109)	-	-	-	(55,109)	-	**(55,109)**
Change as a result of revaluation recognized in comprehensive income	(321,859)	-	-	-	(321,859)	-	**(321,859)**
Foreign exchange differences	12,238	-	4,876	-	17,114	-	**17,114**
December 31, 2009	**2,466,104**	**195,861**	**1,735,741**	**1,675,728**	**6,073,434**	**346,167**	**6,419,601**
Acquisitions	65,195	6,572	168,954	13,713	254,434	217,129	**471,563**
Disposals	(53,614)	(26,725)	(119,785)	(24)	(200,148)	(5,056)	**(205,204)**
Elimination of accumulated depreciation on revaluation	(18,641)	-	-	-	(18,641)	-	**(18,641)**
Change as a result of revaluation recognized in other comprehensive income	15,879	-	-	-	15,879	-	**15,879**
Change as a result of revaluation recognized in net income	99,826	-	-	-	99,826	-	**99,826**
Foreign exchange differences	(34,878)	-	(5,034)	-	(39,912)	-	**(39,912)**
Disposal of real estate	(1,488,125)	-	(29,928)	(23,460)	(1,541,513)	-	**(1,541,513)**
Reclassification to investment property	-	-	-	(1,665,957)	(1,665,957)	-	**(1,665,957)**
December 31, 2010	**1,051,746**	**175,708**	**1,749,948**	**-**	**2,977,402**	**558,240**	**3,535,642**
Accumulated depreciation							
December 31, 2008	**17,778**	**122,089**	**481,940**	-	**621,807**	**80,071**	**701,878**
Group reorganization	-	-	248,810	-	248,810	-	**248,810**
Charge for the year	56,991	32,700	241,506	-	331,197	33,361	**364,558**
Disposals	-	(25,978)	(67,978)	-	(93,956)	(3,422)	**(97,378)**
Elimination of accumulated depreciation on revaluation	(55,109)	-	-	-	(55,109)	-	**(55,109)**
Foreign exchange differences	835	-	2,807	-	3,642	-	**3,642**
December 31, 2009	**20,495**	**128,811**	**907,085**	-	**1,056,391**	**110,010**	**1,166,401**
Charge for the year	48,832	20,969	290,777	-	360,578	67,775	**428,353**
Disposals	(16,489)	(18,257)	(88,833)	-	(123,579)	(3,907)	**(127,486)**
Elimination of accumulated depreciation on revaluation	(18,641)	-	-	-	(18,641)	-	**(18,641)**
Foreign exchange differences	(1,618)	-	(3,344)	-	(4,962)	-	**(4,962)**
Disposal of real estate	(25,279)	-	(7,745)	-	(33,024)	-	**(33,024)**
December 31, 2010	**7,300**	**131,523**	**1,097,940**	**-**	**1,236,763**	**173,878**	**1,410,641**
Net book value							
December 31, 2009	**2,445,609**	**67,050**	**828,656**	**1,675,728**	**5,017,043**	**236,157**	**5,253,200**
December 31, 2010	**1,044,446**	**44,185**	**652,008**	**-**	**1,740,639**	**384,362**	**2,125,001**

As at December 31, 2009 property and equipment with the carrying value of RUB 475,015 thousand was pledged as collateral under a loan received from another bank of RUB 213,168 thousand (Note 25).

As at December 31, 2010 and 2009 land and buildings owned by the Group were recognized at the current market value according to independent appraiser's report. The following methods were used for estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the final value calculation, certain weights were assigned to the results obtained using different approaches, depending on the degree of reliability and completeness of the information. The book values of these assets were RUB 1,044,446 thousand and RUB 2,445,609 thousand, respectively. If the land and buildings were accounted for at historical cost adjusted for inflation less accumulated depreciation and impairment losses, their carrying value as at December 31, 2010 and 2009 would be RUB 922,631 thousand and RUB 2,423,970 thousand, respectively.

As at December 31, 2010 and 2009 property, equipment and intangible assets included fully depreciated equipment of RUB 414,067 thousand and RUB 324,215 thousand, respectively.

As at December 31, 2009 a building held by the Group with the carrying amount of RUB 1,241,300 thousand was pledged under a loan received by a third party. The provision for this liability of RUB 808,626 thousand was recorded as part of other liabilities in the Group's financial statements.

21. INVESTMENT PROPERTY

Investment property comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
At January 1	894,001	-
Acquisitions	347,312	910,181
Disposals	(39,793)	(41,759)
Transferred from property and equipment	1,665,957	-
(Loss)/gain from property revaluation	(91,599)	25,579
At December 31	**2,775,878**	**894,001**

As at December 31, 2010 operating lease income comprised investment property rental income of RUB 17,071 thousand (2009: nil).

As at December 31, 2010 and 2009 land and buildings owned by the Group were recognized at the current market value according to an independent appraiser's report. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using different approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the investment property, or documented obligations to purchase, construct, repair, maintain or improve the investment property.

Transfer from property and equipment to investment property is due to changes in the intentions of use of property under construction.

22. OTHER ASSETS

Other assets comprise:

	December 31, 2010	December 31, 2009
Advances to suppliers and contractors	378,602	456,968
Fines and penalties receivable	126,983	102,888
Tax settlements, other than income tax	104,260	161,900
Advances to suppliers of equipment (finance lease)	95,654	158,207
Property taken in possession under terminated lease contracts	68,907	280,786
Property purchased to transfer to finance lease	20,101	25,035
Precious metals	14,313	11,861
Other	6,930	6,666
	815,750	1,204,311
Less allowance for impairment losses	(60,310)	(113,505)
Total other assets	**755,440**	**1,090,806**

As at December 31, 2010 and 2009 other assets included financial assets of RUB 68,244 thousand and RUB 468,824 thousand, respectively.

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

23. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale as at December 31, 2010 are presented below:

	December 31, 2010
Production line	
Property and equipment	356,019
Other assets	33,688
Current tax assets	24,651
	414,358
Interest in investment funds	
Investments into a venture fund	306,100
Total assets classified as held for sale	**720,458**

During 2010, the Group received 80% in LLC Planeta Parketa, LLC Kemt and LLC Interksilo which operate as a single parquet manufacturing complex, with a fair value of net assets of RUB 378,153 thousand, as repayment of loans issued earlier.

During the year ended December 31, 2010 the Group decided to sell the manufacturing complex and held negotiations with a number of potential buyers. As at December 31, 2010 the assets of the manufacturing complex were presented as assets held for sale, as the Group's management believes that the complex will be sold within 12 months after the reporting date. As at December 31, 2010 the value of the held for sale assets of the manufacturing complex amounted to RUB 414,358 thousand, and the value of liabilities relating to these assets amounted to RUB 43,395 thousand.

Investments in a venture fund comprise a 50% share in net assets of Closed-end investment fund Novye Technologii ("Novye Technologii") held by the Group. Assets of the fund include cash and investments in share capitals of Russian companies. During the year ended December 31, 2010 the Group's management decided to sell and started an active search for a buyer for this investment. Management believes that these assets will be sold within 12 months from the reporting date.

24. DUE TO THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to the Central Bank of the Russian Federation comprise:

	December 31, 2009
Loans from the CBR	1,503,699
Total due to the Central Bank of the Russian Federation	**1,503,699**

25. DUE TO BANKS OR OTHER FINANCIAL INSTITUTIONS

Due to banks or other financial institutions comprise:

	December 31, 2010	December 31, 2009
Correspondent accounts of other banks	27,461,640	26,580,199
Loans and term deposits from banks and other financial institutions	25,819,837	29,606,324
Loans received under repo transactions/Repurchase agreements	2,997,739	-
Total due to banks or other financial institutions	**56,279,216**	**56,186,523**

As at December 31, 2010 and 2009 the Group had RUB 39,409,816 thousand and RUB 41,462,908 thousand (70% and 74% of total due to banks and other financial institution) due to ten and twelve banks respectively which individually exceeded 10% of the Group's equity.

As at December 31, 2010, securities with fair value of RUB 3,361,362 thousand received by the Group as collateral under reverse repurchase agreements were repledged under loans received under repurchase agreements in the amount of RUB 2,997,739 thousand.

As at December 31, 2010 and 2009 due to banks included cash received as collateral for loans to customers in the amount of RUB 46,266,018 thousand and RUB 48,602,012 thousand, respectively.

As at December 31, 2009 due from banks and other financial institutions included a loan of RUB 213,168 thousand which was collateralized by property and equipment with the carrying value of RUB 475,015 thousand.

As at December 31, 2010 and 2009 due from banks included RUB 651,904 thousand and RUB 582,126 thousand, respectively, received as funding for finance lease transactions. These loans were secured by property transferred under finance leases where the Group acts as the lessor.

26. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2010	December 31, 2009
Current accounts	78,004,916	53,881,113
Time deposits	65,302,793	70,205,960
Total customer accounts	**143,307,709**	**124,087,073**

As at December 31, 2010 and 2009 customer accounts of RUB 3,000 thousand and RUB 157,906 thousand, respectively, were held as security under guarantees issued by the Group.

As at December 31, 2010 and 2009 customer accounts included balances placed with the Group as a collateral for loans to customers of RUB 394,216 thousand and RUB 933,846 thousand, respectively.

As at December 31, 2010 and 2009 customer accounts individually exceeding 10% of the Group's equity were placed by eight and fourteen customers in the total amount of RUB 48,499,654 thousand (34% of total customer accounts) and RUB 58,646,238 thousand (47% of total customer accounts), respectively.

	December 31, 2010	December 31, 2009
Analysis by sector:		
Finance sector	60,977,717	34,716,530
Individuals	55,798,320	41,296,865
Transport and communication	12,000,386	29,738,351
Real estate and construction	4,347,400	4,362,361
Manufacturing	3,801,515	8,352,361
Trade	2,562,782	2,343,269
Other	3,819,589	3,277,336
Total customer accounts	**143,307,709**	**124,087,073**

27. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity month/year	Annual coupon rate %	December 31, 2010	December 31, 2009
Bonds	March 2013 – June 2014	10.4-15.6%	13,251,850	16,336,211
Promissory notes	March 2011 – December 2038	3.29-20%	2,714,142	1,522,997
Total debt securities issued			**15,965,992**	**17,859,208**

28. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2010	December 31, 2009
Settlements with suppliers and contractors	490,043	98,517
Salaries and other compensations payable to employees	209,753	119,659
Accounts payable	99,845	35,246
Taxes payable, other than income tax	85,576	132,574
Accrued expense	83,974	113,157
Advances received under finance lease contracts	59,274	68,805
Contributions to the Deposit Insurance Agency payable	51,833	55,818
Provision on guarantees	28,405	-
Deferred bank guarantee fees	9,277	42,499
Other provisions	-	810,792
Other	31,127	62,303
Total other liabilities	**1,149,107**	**1,539,370**

As at December 31, 2009 the Group booked a provision of RUB 808,626 thousand in respect of the Group's liability under a pledge contract of a real estate against a loan received by a third party from another creditor. During 2010 the Group sold this real estate, the provision was disposed of either (see Note 9).

As at December 31, 2010 and 2009 other liabilities comprised financial liabilities of RUB 828,046 thousand and RUB 255,483 thousand, respectively.

29. SUBORDINATED DEBT

	Currency	Maturity date	Interest rate %	December 31, 2010	December 31, 2009
Subordinated Eurobonds	USD	2016	8.875%	1,584,048	1,577,009
Subordinated debt from the parent company	RUB	2017-2019	1.25%	665,604	6,006,148
Subordinated debt from another bank	USD	2013	0.769%	182,748	182,795
Subordinated debt from related parties	RUB	2020	8%	250,000	-
Total subordinated debt				**2,682,400**	**7,765,952**

In 2010, the Group converted subordinated debt held from the parent company and maturing in 2017-2019 of RUB 5,149,999 thousand into 942,431 ordinary shares (Note 30).

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

30. SHARE CAPITAL

In 2010, the Group converted subordinated debt earlier received from the parent and maturing in 2017-2019 of RUB 5,149,999 thousand into 942,431 ordinary shares with a par value of RUB 500 each at the offering price of RUB 5,464.59 per share.

As at December 31, 2010 the authorized share capital consisted of 2,707,431 ordinary shares with par value of RUB 500 each and 1,000 preference shares with par value of RUB 500 each.

The table below provides a reconciliation of the number of shares issued for the years ended December 31, 2010 and 2009:

	Number of preference shares	Number of ordinary shares
December 31, 2008	1,000	1,765,000
Issue of shares	-	-
December 31, 2009	1,000	1,765,000
Issue of shares	-	942,431
December 31, 2010	**1,000**	**2,707,431**

All ordinary shares are of the same class and bear one vote. Preference shares are not cumulative.

As at December 31, 2010 and 2009, share premium totaling RUB 16,186,587 thousand and RUB 11,507,804 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

The Group's distributable reserves 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. This reserve has been created in accordance with the Group's articles of association that provide for the creation of a reserve of not less than 12.5% of the Group's share capital reported in statutory books.

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group 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 Group'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.

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

As at December 31, 2010 and 2009 contingent liabilities comprised:

	December 31, 2010	December 31, 2009
Contingent liabilities and credit commitments		
Guarantees issued and other commitments	2,900,448	8,258,776
Letters of credit and other transaction related contingent obligations	711,950	7,755
Commitments on loans and unused credit lines	8,523,876	5,064,551
Total contingent liabilities and credit commitments	**12,136,274**	**13,331,082**

As at December 2010 and 2009, guarantees issued in the amount of RUB 3,000 thousand and RUB 157,906 thousand, respectively, were covered by customer accounts.

Operating lease commitments

Future minimum lease payments under non-cancelable operating leases of premises, motor vehicles and equipment in effect as at December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Less than 1 year	458,529	584,873
Later than 1 year and not later than 5 years	392,431	685,299
Later than 5 years	539,421	573,892
Total operating lease commitments	**1,390,381**	**1,844,064**

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the customers' funds until such funds or securities are not returned to the customer due to gross negligence or willful misconduct by the Group. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds adjusted by any unrealised gain/loss on the clients' position. In the judgement of management, as at December 31, 2010 and 2009 the maximum potential financial risk on securities accepted by the Group on behalf of its customers does not exceed RUB 2,634,598 thousand and RUB 3,722,152 thousand, respectively.

The Group also provides depositary services to its customers. As at December 31, 2010 and 2009, the Group had 666,727,713 and 250,735,476 customer securities, respectively, in its nominal holder accounts.

Legal proceedings

In respect of claims against the Group received from customers and counterparties the management of the Group is of the opinion that no material losses will be incurred other than those that were provided for in these consolidated financial statements.

As at December 31, 2010 a subsidiary of the Bank was a party in legal proceedings with tax authorities. The litigation arose from a claim filed by the company against the tax authorities with a view to invalidate the tax authorities' assessment of additional taxes and penalties for a total amount of RUB 579 million. The amount was assessed as a result of the tax audit for the tax periods relating to 2006-2008. First instance court dismissed the claim; however, management believes that the tax authorities' claims are ungrounded, plans to appeal against the court ruling and undertake the necessary steps to substantiate the Group's position. Management believes that an outflows of the Group assets in connection with this claim is not probable as at the reporting date; therefore, no provision was booked in the financial statements.

Taxation

Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

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

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the country's economy in general.

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

The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has receded and Russian economy returned to growth in 2010. However significant economic uncertainties remain. 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 Russia economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

In addition, Russia is also facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended December 31, 2010 and 2009 was 6.9% and 11.7%, respectively).

Because Russia produces and exports large volumes of oil and gas, Russian economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010 and 2009.

32. RELATED-PARTY TRANSACTIONS

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at December 31, 2010 and 2009:

	December 31, 2010		**December 31, 2009**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Financial assets at fair value through profit or loss	587,537	21,463,739	478,959	17,896,389
- shareholders	534,361		463,960	
- entities under common control with the Group	53,176		14,999	
Loans to customers	2,687,650	114,938,049	8,546,461	113,438,029
- key management personnel of the Group or its parent	2,040		8,524	
- shareholders	328,810		441,736	
- entities under common control with the Group	2,356,800		8,096,201	
Allowance for impairment losses on loans to customers	(53,336)	(7,418,706)	(189,674)	(6,979,241)
- key management personnel of the Group or its parent			-	
- shareholders	(370)		-	
- entities under common control with the Group	(52,966)		(189,674)	
Investments available-for-sale	456,140	6,944,623	51,661	1,890,275
- shareholders	95,187		1	
- entities under common control with the Group	360,953		51,660	
Other assets	69,812	755,440	33,198	1,090,806
- shareholders	2,494		8,260	
- entities under common control with the Group	67,318		24,938	
Customer accounts	52,822,135	143,307,709	48,472,177	124,087,073
- shareholders	26,399,230		3,936,667	
- key management personnel of the Group or its parent	5,090,644		4,216,446	
- entities under common control with the Group	21,332,261		40,319,064	
Other liabilities	70,920	1,149,107	9,425	1,539,370
- shareholders	26,595		384	
- key management personnel of the Group or its parent	1,387		4,451	
- entities under common control with the Group	42,938		4,590	
Subordinated debt	915,603	2,682,400	6,006,148	7,765,952
- shareholders	665,603		6,006,148	
- entities under common control with the Group	250,000		-	
Commitments on loans and unused credit lines	216,538	8,523,876	21,622	5,064,551
- shareholders	148		-	
- entities under common control with the Group	216,390		21,622	
	:			
Guarantees issued and similar commitments	12,831	2,900,448	527,320	8,258,776
- shareholders	-		11,523	
- entities under common control with the Group	12,831		515,797	

Revision of 2009 info see Note 2

The remuneration of directors and other members of key management was as follows:

	December 31, 2010		December 31, 2009	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
-short-term compensation	203,261	2,901,193	232,879	2,542,316

Included in the income statement for the years ended December 31, 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income comprises:	530,744	16,087,547	1,759,270	19,673,405
- shareholders	632		117,290	
- entities under common control with the Group	530,112		1,640,717	
- key management personnel of the Group or its parent	-		1,263	
Interest expense comprises:	(1,264,118)	(11,524,623)	(1,992,736)	(14,182,985)
- shareholders	(142,648)		(430,121)	
- entities under common control with the Group	(693,302)		(1,035,648)	
- key management personnel of the Group or its parent	(428,168)		(526,967)	
(Provision)/recovery of provision for impairment losses	136,338	(824,849)	172,166	(3,540,796)
- shareholders	(370)		902	
- entities under common control with the Group	136,708		170,779	
- key management personnel of the Group or its parent	-		485	
Net gain/(loss) on financial assets at fair value through profit or loss	22,838	(54,654)	-	224
- shareholders	22,838		-	
- entities under common control with the Group	-		-	
Net (loss)/gain on foreign exchange operations:	(5,943)	413,617	114,026	721,839
- shareholders	19,736		10,958	
- entities under common control with the Group	(25,679)		103,068	
Fees and commission income	115,413	1,625,815	149,459	1,452,669
- shareholders	17,715		15,848	
- entities under common control with the Group	97,698		133,611	
Other income	72,809	342,164	124,003	255,212
- shareholders	20,845		94,838	
- entities under common control with the Group	51,964		29,165	

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Recovery of provision/(provision) for losses on other transactions	8,271	(27,053)	-	(891,372)
- entities under common control with the Group	7,116		-	
- shareholders	1,155		-	
Operating expenses (net of staff costs)	(44,925)	(2,799,098)	(83,777)	(2,862,892)
- shareholders	(8,854)		(19,298)	
- entities under common control with the Group	(36,071)		(64,479)	

33. SEGMENT REPORTING

The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the Group's management responsible for operational decision-making. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

For management purposes, the Group is divided into the following operating segments:

1. JSCB MBRD (OJSC), CJSC Mortgage agent of MBRD, LLC MBRD – Capital;
2. LLC MBRD-Finance;
3. LLC Leasing-Maximum;
4. CJSC Invest-Svyaz-Holding;
5. CJSC Leasing Company Sistema-Finleasing;
6. CJSC Elavius;
7. OJSC Dalcombank;
8. East West United Bank S.A.,

separated on the basis of the organizational structure. The principal activities of the segments are banking operations; subsidiaries specialize in financial operations, in particular, finance lease. For the purposes of the consolidated financial statements, the operating segments have been aggregated into the following reporting segments:

1. MBRD (including CJSC Mortgage agent of MBRD);
2. Dalcombank;
3. EWUB;
4. Other subsidiaries.

Management reviews the results of each of the segments when making decisions about allocation of resources and assessing their performance.

Intersegment operations are conducted on an arm's length basis, which enables adequate management analysis to be made on the basis of IFRS reporting without elimination of intercompany operations.

The activities of subsidiary companies are controlled at the Group level.

Segment information about these businesses comprises:

	MBRD	Dalcombank	EWUB	Other subsidiaries	Offsets and adjustments	Total 2010
Interest income	10,256,826	2,837,174	3,366,011	502,669	(875,133)	16,087,547
Interest expense	(7,229,852)	(1,610,986)	(2,742,400)	(886,421)	945,036	(11,524,623)
NET INTEREST INCOME/(EXPENSE) BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	**3,026,974**	**1,226,188**	**623,611**	**(383,752)**	**69,903**	**4,562,924**
(Provision)/recovery of provision for impairment losses on interest bearing assets	(674,389)	(428,718)	103,969	(53,381)	227,670	(824,849)
NET INTEREST INCOME/(EXPENSE)	**2,352,585**	**797,470**	**727,580**	**(437,133)**	**297,573**	**3,738,075**
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	(39,408)	(11,376)	(2,740)	-	(1,130)	(54,654)
Net gain on foreign exchange operations	169,057	31,699	86,600	16,274	109,987	413,617
Net (loss)/gain on derecognition of investments available-for-sale	135,951	(3,842)	137,456	-	-	269,565
Net gain attributable to disposal of real estate	1,110	-	-	-	671,726	672,836
Fee and commission income	1,031,685	491,125	115,373	-	(12,368)	1,625,815
Fee and commission expense	(263,300)	(63,068)	(9,107)	(1,666)	8,826	(328,315)
Recovery of provision/(provision) for impairment losses on other transactions	(85,368)	6,165	-	52,150	-	(27,053)
Net gain/(loss) on investment property revaluation	(116,845)	-	-	25,245	1	(91,599)
Net gain/(loss) resulting on revaluation of property and equipment	-	-	-	77,768	22,058	99,826
Other income	42,068	33,086	18,577	322,762	(74,329)	342,164
NET NON-INTEREST INCOME/(EXPENSE)	**874,950**	**483,789**	**346,159**	**492,533**	**724,771**	**2,922,202**
OPERATING INCOME/(EXPENSE)	**3,227,535**	**1,281,259**	**1,073,739**	**55,400**	**1,022,344**	**6,660,277**
OPERATING EXPENSES	**(3,800,589)**	**(1,241,066)**	**(305,136)**	**(427,775)**	**74,275**	**(5,700,291)**
(LOSS)/PROFIT BEFORE INCOME TAX	**(573,054)**	**40,193**	**768,603**	**(372,375)**	**1,096,619**	**959,986**
Income tax expense	129,898	(12,737)	(238,927)	(221,119)	54,834	(288,051)
NET PROFIT/(LOSS)	**(443,156)**	**27,456**	**529,676**	**(593,494)**	**1,151,453**	**671,935**
Cross-segment revenue	**(714,254)**	**(16,403)**	**73,125**	**(121,115)**	**778,647**	**-**

	MBRD	Dalcombank	EWUB	Other subsidiaries	Offsets and adjustments	Total 2010
Depreciation and amortisation charge	290,144	52,589	17,731	67,889	-	428,353
Capital expenditure	298,180	67,294	10,285	95,804	-	471,563
TOTAL ASSETS	**153,771,291**	**23,877,156**	**61,994,072**	**7,169,750**	**(10,271,310)**	**236,540,959**
TOTAL LIABILITIES	**138,425,091**	**22,372,128**	**58,370,748**	**8,268,721**	**(7,288,671)**	**220,148,017**

	MBRD	Dalcombank	EWUB	Other subsidiaries	Offsets and adjustments	Total 2009
Interest income	13,517,637	2,142,570	4,509,590	960,771	(1,457,163)	19,673,405
Interest expense	(9,588,375)	(1,017,572)	(3,992,123)	(1,042,338)	1,457,423	(14,182,985)
NET INTEREST INCOME/(EXPENSE) BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	**3,929,262**	**1,124,998**	**517,467**	**(81,567)**	**260**	**5,490,420**
(Provision)/recovery of provision for impairment losses on interest bearing assets	(2,796,066)	(64,047)	255,027	(935,710)	-	(3,540,796)
NET INTEREST INCOME/(EXPENSE)	**1,133,196**	**1,060,951**	**772,494**	**(1,017,277)**	**260**	**1,949,624**
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	259,927	(23,413)	(221,973)	-	(14,317)	224
Net gain on foreign exchange operations	726,984	(28,323)	26,627	(19,486)	16,037	721,839
Net (loss)/gain on disposal of investments available-for-sale	-	(1,304)	-	(8,071)	(8,687)	(18,062)
Fee and commission income	966,339	367,559	119,813		(1,042)	1,452,669
Fee and commission expense	(211,103)	(51,478)	(2,604)	(3,884)	803	(268,266)
Net gain/(loss) on investment property revaluation	(3,382)	-	-	28,961	-	25,579
Recovery of provision/(provision) for impairment losses on other transactions	33,931	(10,518)	-	(914,785)	-	(891,372)
Impairment of property and equipment	-	(43,234)	-	(199,574)	-	(242,808)
Other income	75,814	17,709	60,986	211,064	(110,361)	255,212
NET NON-INTEREST INCOME/(EXPENSE)	**1,848,510**	**226,998**	**(17,151)**	**(905,775)**	**(117,567)**	**1,035,015**
OPERATING INCOME/(EXPENSE)	**2,981,705**	**1,287,949**	**755,343**	**(1,923,052)**	**(117,307)**	**2,984,639**
OPERATING EXPENSES	**(3,727,121)**	**(1,090,730)**	**(336,623)**	**(369,722)**	**118,987**	**(5,405,208)**
(LOSS)/PROFIT BEFORE INCOME TAX	**(745,415)**	**197,221**	**418,720**	**(2,292,774)**	**1,680**	**(2,420,569)**
Income tax expense	(215,950)	(67,862)	(235,124)	244,682	-	(274,254)
NET (LOSS)/PROFIT	**(961,365)**	**129,359**	**183,596**	**(2,048,092)**	**1,680**	**(2,694,823)**
Cross-segment revenue	**(1,242,640)**	**(24,462)**	**(17,510)**	**(290,921)**	**1,575,533**	**-**

	MBRD	Dalcombank	EWUB	Other subsidiaries	Offsets and adjustments	Total 2009
Depreciation and amortisation charge	234,101	51,152	27,537	51,768	-	364,558
Capital expenditure	1,389,142	41,938	35,448	321,410	-	1,787,938
TOTAL ASSETS	**143,243,151**	**18,654,207**	**66,902,026**	**9,430,393**	**(17,686,886)**	**220,542,891**
TOTAL LIABILITIES	**130,046,163**	**17,238,386**	**63,653,804**	**9,933,735**	**(11,025,819)**	**209,846,269**

34. 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 Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumptions is also applied to demand deposits and savings accounts without a maturity.

Due from banks

The fair value of loans and advances to banks has been estimated using the same valuation technique for financial instruments accounted for at fair value as described in the valuation techniques below.

Loans to customers

Loans and advances to personal customers are made both at variable and at fixed rates. As there is no active secondary market in Russia for such loans and advances, there is no reliable market value available for this portfolio.

(a) Variable rate – Management believes that carrying rate may be assumed to be fair value.

(b) Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

Investments available-for-sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value.

	December 31, 2010		**December 31, 2009**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Debt securities issued	15,965,962	16,266,108	17,859,208	17,759,498
Subordinated debt	2,682,400	2,610,007	7,765,952	7,868,031
Investments held-to-maturity	-	-	9,771,325	9,969,718

As at December 31, 2010 loans to customers and investments available-for-sale with the total carrying value of RUB 107,519,343 thousand (December 31, 2009: RUB 106,458,788 thousand) and RUB 28,336 thousand (December 31, 2009: RUB 52,128 thousand) are accounted for at amortized and initial cost, respectively. It is not practicable within time and cost constraints to determine the fair value of loans and investments with sufficient reliability.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the availability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgement.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group’s valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

As at December 31, 2010

	Quoted prices in an active market (Level 1)	Valuation techniques based on observable market data (Level 2)
Financial assets at fair value through profit or loss	21,463,739	-
Investments available-for-sale	6,916,287	-
Financial liabilities at fair value through profit or loss	-	-

As at December 31, 2009

	Quoted prices in an active market (Level 1)	Valuation techniques based on observable market data (Level 2)
Financial assets at fair value through profit or loss	13,143,565	4,752,824
Investments available-for-sale	1,838,147	-
Financial liabilities at fair value through profit or loss	9,328	-

There were no transfers between Levels in 2010 and 2009.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 32, and equity attributable to owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As 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 Management Board, the Group adjusts the capital structure by paying dividends, issuing additional shares, taking additional loans or paying on existing loans.

The Group's overall capital risk management policy remains unchanged from 2010.

The CBR requires that the banks comply with the minimum capital adequacy ratios calculated on the basis of the statutory financial statements of the banks. During the years ended December 31, 2010 and 2009 the Group met capital adequacy requirements established by the CBR.

Commission de Surveillance du Secteur Financier (the "CSSF") of Luxembourg requires banks to maintain a statutory capital adequacy ratio computed based on Luxembourgian Accounting Standards. As at December 31, 2010 and 2009 East West United Bank S.A. was in compliance with the capital requirements imposed by the CSSF.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel I):

	December 31, 2010	December 31, 2009
Tier 1 capital		
Share capital	1,832,124	1,360,908
Share premium	16,186,587	11,507,804
Accumulated deficit	(3,045,892)	(3,656,031)
Minority interest	1,202,008	1,104,395
Total Tier 1 capital (principal capital)	**16,174,827**	**10,317,076**
Tier 2 capital		
Investments available-for-sale fair value reserve	(1,868)	(78,516)
Cumulative translation reserve	185,750	336,276
Revaluation reserve	34,233	121,815
Subordinated debt	2,609,300	5,158,538
Total Tier 2 capital	**2,827,415**	**5,538,113**
Total capital	**19,002,242**	**15,855,189**
Capital ratios:		
Tier 1 capital	15.01%	8.79%
Total capital	17.64%	13.50%

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

As at December 31, 2010 and 2009 the Group included in the computation of Tier 2 capital for Capital adequacy purposes the subordinated loans received. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

36. RISK MANAGEMENT POLICIES

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

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

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

Credit Risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group issues loans to corporate and retail customers. Ruble-denominated loans to Russian customers represent a significant portion of the Group's loan portfolio. Loans issued are typically short-term and secured by collateral. The Group has established procedures for granting loans and monitoring loan quality as well as for extension and refinancing the existing loans. These procedures are set out in the credit policy approved by the Group's Management Board and are effective for all loans.

At the centre of Bank's lending process is its Credit Committee, which makes all decisions with respect to any loan made by the Bank's headquarters and branches to corporate customers and individuals. The final decisions with respect to transactions with a volume exceeding 25% of the

Group’s total assets and transactions with related parties are made by Bank's Board of Directors. Some transactions between the Group and related parties require the approval of disinterested directors or shareholders.

The Group evaluates borrowers based on their credit history, quality of the collateral offered and financial position. In addition, it may take into account the respective business relationships when determining the interest rate of loans to certain related parties.

The Group monitors its loan portfolio on a regular basis. As well as ensuring that the borrower fulfils its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio per borrower, group of borrowers or industry.

The Group’s maximum exposure to credit loss 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.

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

The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

Maximum exposure

The Group’s maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market 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. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	December 31, 2010		**December 31, 2009**	
	Maximum exposure	**Collateral pledged**	**Maximum exposure**	**Collateral pledged**
Balances with the Central banks	37,233,840	-	8,984,024	-
Financial assets at fair value through profit or loss, less equity securities	21,445,316	-	17,878,400	-
Due from banks	53,086,043	14,991,268	64,548,041	985,833
Loans to customers	107,519,343	96,172,417	106,458,788	100,870,891
Investments available-for-sale, less equity securities	6,916,287	-	1,838,147	-
Investments held-to-maturity	-	-	9,771,325	-
Other financial assets	68,244	-	468,824	-
Guarantees issued and other commitments	2,872,043	1,644,475	8,258,776	1,190,343
Letters of credit and other transaction related contingent liabilities	711,950	56,041	7,755	7,755
Commitments on loans and unused lines of credits	8,523,876	-	5,064,551	-

Collateral included in the Due from banks item is stated at fair value, and collateral for Loans to customers is stated at carrying amount (Note 17).

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized 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 at December 31, 2010 and 2009 balances with the Central Banks amounted to RUB 37,233,840 thousand and RUB 8,984,024 thousand, respectively. The credit rating of the Russian Federation according to the international rating agencies in 2010 corresponded to investment level BBB. The credit rating of Luxembourg according to the international rating agencies in 2010 corresponded to investment level AAA.

The following table details the credit ratings of financial assets held by the Group as at December 31, 2010 that are neither impaired nor past due:

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**December 31, 2010 Total**
Financial assets at fair value through profit or loss, less equity securities	1,161	-	246,124	7,811,700	11,795,282	1,591,049	**21,445,316**
Due from banks	705,118	7,404,674	5,356,275	2,042,152	21,396,353	16,052,014	**52,956,586**
Investments available-for-sale, less equity securities	38,944	32,381	-	994,776	5,789,291	60,895	**6,916,287**

As at December 31, 2009:

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**December 31, 2009 Total**
Financial assets at fair value through profit or loss, less equity securities	17,997	4,490	453,560	1,344,160	15,615,456	442,737	**17,878,400**
Due from banks	791,059	11,433,867	20,121,343	10,177,803	14,079,836	7,944,133	**64,548,041**
Investments available-for-sale, less equity securities	14,897	26,052	24,651	805,938	926,265	40,395	**1,838,198**
Investments held-to-maturity	-	-	-	192,057	9,579,268	-	**9,771,325**

Customer accounts detailed by credit quality categories according to the Group's proprietary credit quality rating methodology are presented below.

	December 31, 2010			**December 31, 2009**		
	Legal entities	**Individuals**	**Total**	**Legal entities**	**Individuals**	**Total**
Top performing loans	73,724,008	17,673,861	91,397,869	64,900,072	20,911,660	**85,811,732**
Moderately performing loans	10,757,648	1,262,303	12,019,951	16,308,286	1,591,617	**17,899,903**
Other	6,879,919	4,640,310	11,520,229	5,721,439	4,004,955	**9,726,394**
Total	**91,361,575**	**23,576,474**	**114,938,049**	**86,929,797**	**26,508,232**	**113,438,029**

The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have a good credit history with the Group and other creditors; with no signs of decline of their financial sustainability.

The "Moderately performing" category with temperate credit risk includes loans that are granted to borrowers with good credit history with the Group and other creditors with minor exceptions in the past or that have the status of technically overdue at the reporting date; that are characterized by average financial sustainability at the moment.

The "Other" category includes loans that are granted to borrowers that do not fall within the two categories described above.

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 and Luxembourg.

The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the RF.

Country (risk of global changes in the bank services market and markets of the Group’s principal debtors, changes in investment attractiveness of securities) are managed through on-going monitoring.

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

	Russia	Other non-OECD countries	OECD countries	December 31, 2010 Total
FINANCIAL ASSETS				
Cash and balances with the Central Banks	40,008,459	-	957,024	40,965,483
Financial assets at fair value through profit or loss	21,387,187	68,445	8,107	21,463,739
Due from banks	26,783,763	7,007,614	19,294,666	53,086,043
Loans to customers	62,166,744	33,768,459	11,584,140	107,519,343
Investments available-for-sale	4,344,036	2,344,101	256,486	6,944,623
Other financial assets	68,244	-	-	68,244
TOTAL FINANCIAL ASSETS	**154,758,433**	**43,188,619**	**32,100,423**	**230,047,475**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	36,583,681	17,480,346	2,215,189	56,279,216
Customer accounts	131,565,582	7,586,393	4,155,734	143,307,709
Debt securities issued	15,965,992	-	-	15,965,992
Other financial liabilities	813,728	14,318	-	828,046
Subordinated debt	1,098,353	-	1,584,047	2,682,400
TOTAL FINANCIAL LIABILITIES	**186,027,336**	**25,081,057**	**7,954,970**	**219,063,363**
NET POSITION	**(31,268,903)**	**18,107,562**	**24,145,453**	

	Russia	Other non-OECD countries	OECD countries	December 31, 2009 Total
FINANCIAL ASSETS				
Cash and balances with the Central Banks	11,176,594	-	1,185,629	12,362,223
Financial assets at fair value through profit or loss	17,895,174	-	1,215	17,896,389
Due from banks	18,864,836	10,483,439	35,199,766	64,548,041
Loans to customers	62,437,462	35,304,037	8,717,289	106,458,788
Investments available-for-sale	1,108,396	527,081	254,798	1,890,275
Investments held-to-maturity	9,771,325	-	-	9,771,325
Other financial assets	436,879	-	31,945	468,824
TOTAL FINANCIAL ASSETS	**121,690,666**	**46,314,557**	**45,390,642**	**213,395,865**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss	-	-	9,328	9,328
Due to the Central Bank of the Russian Federation	1,503,699	-	-	1,503,699
Due to banks and other financial institutions	33,869,461	19,968,529	2,348,533	56,186,523
Customer accounts	110,978,750	11,976,286	1,132,037	124,087,073
Debt securities issued	17,859,208	-	-	17,859,208
Other financial liabilities	212,430	-	43,053	255,483
Subordinated debt	6,188,943	-	1,577,009	7,765,952
TOTAL FINANCIAL LIABILITIES	**170,612,491**	**31,944,815**	**5,109,960**	**207,667,266**
NET POSITION	**(48,921,825)**	**14,369,742**	**40,280,682**	

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.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group 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 proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, the Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances. On the retail banking side, the Group carries out a scenario analysis and stress testing to forecast cash flows.

The Group aims to match the terms of loans and deposits. A weekly analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. Stress testing is also carried out on a monthly basis using statistical analysis on the stability of balances on deposit accounts. For liquidity management purposes, the Group calculates expected liquidity surpluses/shortfalls over various time periods on the basis of cash flow forecasts under an "average expected scenario" assuming there are no significant losses or withdrawals of customer deposits over the relevant period and under a "worst-case scenario" assuming losses are incurred as a result of market or credit risk or significant withdrawals of deposits. The "worst-case scenario" is essentially a stress-testing technique which is based on an analysis of the impact of a combination of negative factors.

The review of liquidity and interest rate risks is provided below:

(a) The term to maturity of non-derivative financial liabilities, calculated for undiscounted cash flows on financial liabilities (principal amount and interest) using the earliest of the dates when the Group will have to settle the liability, and

(b) Estimated term to maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual maturities, except the cases when the Group expects that cash flows will be received at a 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 entity.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2010 Total
FINANCIAL ASSETS							
Cash and balances with the Central Banks	20,001,644	-	-	-	-	956,257	20,957,901
Financial assets at fair value through profit or loss	21,257,485	21,941	157,783	-	-	-	21,437,209
Due from banks	31,507,633	12,292,943	6,615,919	342,333	-	-	50,758,828
Loans to customers	13,988,914	9,744,455	35,514,761	37,138,797	11,132,416	-	107,519,343
Investments available-for-sale	178,248	2,549,993	807,348	2,519,635	861,063	-	6,916,287
Total interest bearing financial assets	**86,933,924**	**24,609,332**	**43,095,811**	**40,000,765**	**11,993,479**	**956,257**	**207,589,568**
Cash and balances with the Central Banks	18,766,243	-	-	-	-	1,241,339	20,007,582
Financial assets at fair value through profit or loss	26,530	-	-	-	-	-	26,530
Due from banks	2,327,215	-	-	-	-	-	2,327,215
Investments available-for-sale	-	-	-	-	-	28,336	28,336
Other financial assets	496	51		67,697	-	-	68,244
Total financial assets	**108,054,408**	**24,609,383**	**43,095,811**	**40,068,462**	**11,993,479**	**2,225,932**	**230,047,475**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	9,133,572	7,424,285	25,307,023	13,356,923	219,446	-	55,441,249
Customer accounts	12,452,476	4,744,142	29,310,343	26,431,926	350,000	-	73,288,887
Debt securities issued	182,601	104,527	14,117,966	1,294,013	266,885	-	15,965,992
Subordinated debt	323	-	182,427	182,427	2,317,223	-	2,682,400
Total interest bearing financial liabilities	**21,768,972**	**12,272,954**	**68,917,759**	**41,265,289**	**3,153,554**	**-**	**147,378,528**
Due to banks and other financial institutions	837,967	-	-	-	-	-	837,967
Customer accounts	70,003,677	-	-	-	15,145	-	70,018,822
Other financial liabilities	664,025	67,470	96,551	-	-	-	828,046
Total financial liabilities	**93,274,641**	**12,340,424**	**69,014,310**	**41,265,289**	**3,168,699**	**-**	**219,063,363**
Liquidity gap	**14,779,767**	**12,268,959**	**(25,918,499)**	**(1,196,827)**	**8,824,780**		
Interest sensitivity gap	**65,164,952**	**12,336,378**	**(25,821,948)**	**(1,264,524)**	**8,840,925**		
Cumulative interest sensitivity gap	**65,164,952**	**77,501,330**	**51,679,382**	**50,414,858**	**59,254,783**		
Cumulative interest sensitivity gap as a percentage of total assets	**28.33%**	**33.69%**	**22.46%**	**21.91%**	**25.76%**		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2009 Total
FINANCIAL ASSETS							
Cash and balances with the Central Banks	824	-	-	-	-	116,333	117,157
Financial assets at fair value through profit or loss	17,871,044	-	-	-	-	-	17,871,044
Due from banks	40,401,269	3,663,128	8,796,509	-	3,024	-	52,863,930
Loans to customers	18,757,096	12,757,321	37,397,548	31,151,204	6,395, 619	-	106,458,788
Investments available-for-sale	80,742	94,153	353,137	587,384	722,781	-	1,838,197
Investments held-to-maturity	-	-	-	7,723,385	2,047,940	-	9,771,325
Total interest bearing financial assets	**77,110,975**	**16,514,602**	**46,547,194**	**39,461,973**	**9,169,364**	**116,333**	**188,920,441**
Cash and balances with the Central Banks	10,273,706	-	-	-	-	1,971,360	12,245,066
Financial assets at fair value through profit or loss	24,998	347	-	-	-	-	25,345
Due from banks	11,105,033	-	-	579,078	-	-	11,684,111
Investments available-for-sale	-	-	-	52,078	-	-	52,078
Other financial assets	77,619	61,649	101,238	180,663	38,587	9,068	468,824
TOTAL FINANCIAL ASSETS	**98,592,331**	**16,576,598**	**46,648,432**	**40,273,792**	**9,207,951**	**2,096,761**	**213,395,865**
FINANCIAL LIABILITIES							
Due to the Central Bank of the Russian Federation	3,699	-	1,500,000	-	-	-	1,503,699
Due to banks and other financial institutions	14,839,837	4,684,253	22,759,366	13,187,085	673,284	-	56,143,825
Customer accounts	27,644,634	7,613,968	32,821,520	23,521,344	391,591	-	91,993,057
Debt securities issued	185,696	5,873,517	11,779,995	20,000	-	-	17,859,208
Subordinated debt	477	-	-	182,318	7,583,157	-	7,765,952
Total interest bearing financial liabilities	**42,674,343**	**18,171,738**	**68,860,881**	**36,910,747**	**8,648,032**	**-**	**175,265,741**
Financial liabilities at fair value through profit or loss	9,328	-	-	-	-	-	9,328
Due to banks and other financial institutions	42,698	-	-	-	-	-	42,698
Customer accounts	32,094,016	-	-	-	-	-	32,094,016
Other financial liabilities	216,558	4,815	34,110	-	-	-	255,483
TOTAL FINANCIAL LIABILITIES	**75,036,943**	**18,176,553**	**68,894,991**	**36,910,747**	**8,648,032**	**-**	**207,667,266**
Liquidity gap	**23,555,388**	**(1,599,955)**	**(22,246,559)**	**3,363,045**	**559,919**		
Interest sensitivity gap	**34,436,632**	**(1,657,136)**	**(22,313,687)**	**2,551,226**	**521,332**		
Cumulative interest sensitivity gap	**34,436,632**	**32,779,496**	**10,465,809**	**13,017,035**	**13,538,367**		
Cumulative interest sensitivity gap as a percentage of total assets	**16.14%**	**15.36%**	**4.90%**	**6.10%**	**6.34%**		

Further analysis of the liquidity and interest rate risks is presented in the following tables.

The amounts in the tables below are not the same as the amounts in the statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average effective rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
Due to banks and other financial institutions	7.80%	9,434,912	7,607,351	25,579,042	14,014,561	605,060	57,240,926
Customer accounts	8.89%	12,805,706	6,096,485	38,659,694	27,513,527	2,181,095	87,256,507
Debt securities issued	15.07%	258,071	2,640,636	17,220,166	1,406,358	-	21,525,231
Subordinated debt	10.18%	2,030	78,875	277,390	920,593	3,373,901	4,652,789
Total interest bearing financial liabilities		**22,500,719**	**16,423,347**	**81,736,292**	**43,855,039**	**6,160,056**	**170,675,453**
Due to banks and other financial institutions		837,967	-	-	-		837,967
Customer accounts		70,003,677	-	-	-	15,145	70,018,822
Other financial liabilities		664,025	67,470	96,551	-	-	828,046
Total financial liabilities		**94,006,388**	**16,490,817**	**81,832,843**	**43,855,039**	**6,175,201**	**242,360,288**
Guarantees issued, letters of credit and similar commitments		3,612,398	-	-	-	-	3,612,398
Commitments on loans and unused credit lines		8,523,876	-	-	-	-	8,523,876
Total financial and contingent liabilities		**106,142,662**	**16,490,817**	**81,832,843**	**43,855,039**	**6,175,201**	**254,496,562**

	Weighted average effective rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES							
Due to the Central Bank of the Russian Federation	9.00%	43,644	-	1,503,698	-	-	1,547,342
Due to banks and other financial institutions	4.22%	14,221,065	4,367,533	23,678,911	13,963,818	185,591	56,416,918
Customer accounts	9.07%	23,396,888	8,914,507	38,677,538	27,259,755	2,291,591	100,540,279
Debt securities issued	15.29%	253,191	1,015,801	2,419,993	22,781,285	-	26,470,270
Subordinated debt	6.13%	564	73,756	76,358	773,013	8,708,792	9,632,483
Total interest bearing financial liabilities		**37,915,352**	**14,371,597**	**66,356,498**	**64,777,871**	**11,185,974**	**194,607,292**
Financial liabilities at fair value through profit or loss		9,328	-	-	-	-	9,328
Due to banks and other financial institutions		42,698	-	-	-	-	42,698
Customer accounts		32,094,016	-	-	-	-	32,094,016
Other financial liabilities		216,558	4,815	34,110	-	-	255,483
Total financial liabilities		**70,277,952**	**14,376,412**	**66,390,608**	**64,777,871**	**11,185,974**	**227,008,817**
Guarantees issued, letters of credit and similar commitments		464,301	1,011,918	6,671,281	119,031	-	8,266,531
Commitments on loans and unused credit lines		2,512,536	192,161	1,682,236	496,191	181,427	5,064,551
Total financial and contingent liabilities		**73,254,789**	**15,580,491**	**74,744,125**	**65,393,093**	**11,367,401**	**240,339,899**

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Assessment and Control Department to assess these types of risks, and the composition and contents of management reports presented to the Group's management bodies.

The Group's Limit Committee sets stop-loss limits on securities portfolios and foreign currency operations, and caps on positions for certain types of securities and foreign currencies. The open foreign currency position limits are fully in compliance with the requirements of the CBR. Compliance with the market risk limits of the Group is monitored on a daily basis. To review the conformity of the risk limits with the Group's risk management policies and the adequacy of the limits for the market situation the risk Assessment and Control Department regularly tests the risk limits (scenario modeling of stress situations and VaR analysis of possible losses).

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Assessment and Control Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel. VAR analysis was used for interest rate calculation.

Impact on profit before tax based on asset values as at December 31, 2010 and 2009 is as follows:

	As at December 31, 2010		**As at December 31, 2009**	
	Interest rate +3.5%	**Interest rate -3.5%**	**Interest rate +3.25%**	**Interest rate -3.25%**
Financial assets:				
Financial assets at fair value through profit or loss	751,231	(751,231)	581,633	(581,633)
Due from banks	1,846,030	(1,846,030)	2,097,811	(2,097,811)
Loans to customers	2,073,685	(2,073,685)	3,459,911	(3,459,911)
Investments available-for-sale	123,746	(123,746)	61,434	(61,434)
Investments held-to-maturity	-	-	317,568	(317,568)
Financial liabilities:				
Due to the Central Bank of the RF	-	-	(48,870)	48,870
Due to banks and other financial institutions	(1,494,600)	1,494,600	(1,826,062)	1,826,062
Customer accounts	(4,077,872)	4,077,872	(4,032,830)	4,032,830
Debt securities issued	(504,178)	504,178	(580,424)	580,424
Net impact on profit before tax	(1,281,958)	1,281,958	30,171	(30,171)
Net impact on shareholders equity	(1,025,566)	1,025,566	24,137	(24,137)

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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

The Group's exposure to foreign currency exchange rate risk with respect to financial assets and liabilities is presented in the table below:

	RUB	**USD** USD 1 = RUB 30.4769	**EUR** EUR 1= RUB 40.3331	**Other currency**	**December 31, 2010 Total**
Financial assets					
Cash and balances with the Central Banks	39,341,603	381,269	1,228,499	14,112	40,965,483
Financial assets at fair value through profit or loss	17,919,237	3,301,092	243,410	-	21,463,739
Due from banks	30,921,036	18,176,194	3,859,260	129,553	53,086,043
Loans to customers	62,657,187	39,692,453	5,169,703	-	107,519,343
Investments available-for-sale	3,713,751	2,804,723	426,149	-	6,944,623
Other financial assets	39,126	29,106	12	-	68,244
Total financial assets	**154,591,940**	**64,384,837**	**10,927,033**	**143,665**	**230,047,475**
Financial liabilities					
Due to banks and other financial institutions	16,531,433	36,389,147	3,078,330	280,306	56,279,216
Customer accounts	110,258,265	25,168,950	7,787,879	92,615	143,307,709
Debt securities issued	15,964,468	1,524	-	-	15,965,992
Other financial liabilities	812,440	14,836	768	2	828,046
Subordinated debt	915,604	1,766,796	-	-	2,682,400
Total financial liabilities	**144,482,210**	**63,341,253**	**10,866,977**	**372,923**	**219,063,363**
OPEN BALANCE SHEET POSITION	**10,109,730**	**1,043,584**	**60,056**	**(229,258)**	

Derivative financial instruments and spot contracts

Transactions using the derivative financial instruments ("derivative instruments") include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or investment in small dollars and with respect to which the calculation is made as at the future date.

Fair values of derivative instruments and spot contracts are included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	RUB	**USD** USD 1 = RUB 30.4769	**EUR** EUR 1= RUB 40.3331	**Other currency**	**December 31, 2010 Total**
Accounts payable on spot and derivative contracts	(254,981)	(387,016)	-	-	(641,997)
Accounts receivable on spot and derivative contracts	151,753	182,103	72,878	235,263	641,997
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(103,228)**	**(204,913)**	**72,878**	**235,263**	
OPEN POSITION	**10,006,502**	**838,671**	**132,934**	**6,005**	

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the Group, except for East-West United Bank S.A. is the Russian ruble. The functional currency of East-West United Bank S.A. is Euro.

As at December 31, 2010 the Group's open foreign currency position, net of balances of East-West United Bank S.A. (functional currency – Russian ruble) was RUB 983,540 thousand for US dollars, RUB 2,399,609 thousand for Euro, and RUB 2,899 thousand for other currencies.

As at December 31, 2010 the open foreign currency position of East-West United Bank S.A. (functional currency – Euro) was RUB 1,822,213 thousand for US dollars, RUB (447,172) thousand for Russian rubles, and RUB 3,106 thousand for other currencies.

	RUB	**USD** USD 1 = RUB 30.2442	**EUR** EUR 1= RUB 43.3883	**Other currency**	**31 December 2009 Total**
Financial assets					
Cash and balances with the Central Banks	10,508,681	325,508	1,510,981	17,053	12,362,223
Financial assets at fair value through profit or loss	6,870,579	11,025,810	-	-	17,896,389
Due from banks	17,823,629	27,153,921	19,478,263	92,228	64,548,041
Loans to customers	51,280,385	46,667,000	8,511,403	-	106,458,788
Investments available-for-sale	158,007	1,307,475	424,793	-	1,890,275
Investments held-to-maturity	9,771,325	-	-	-	9,771,325
Other financial assets	445,525	12,886	10,370	43	468,824
Total financial assets	**96,858,131**	**86,492,600**	**29,935,810**	**109,324**	**213,395,865**
Financial liabilities					
Financial liabilities at fair value through profit or loss	-	9,328	-	-	9,328
Due to the Central Bank of the Russian Federation	1,503,699	-	-	-	1,503,699
Due to banks and other financial institutions	9,887,564	41,123,416	4,939,239	236,304	56,186,523
Customer accounts	57,403,190	41,974,724	24,644,230	64,929	124,087,073
Debt securities issued	17,549,961	107,074	202,173	-	17,859,208
Other financial liabilities	231,085	24,398	-	-	255,483
Subordinated debt	6,006,148	1,759,804	-	-	7,765,952
Total financial liabilities	**92,581,647**	**84,998,744**	**29,785,642**	**301,233**	**207,667,266**
OPEN BALANCE SHEET POSITION	**4,276,484**	**1,493,856**	**150,168**	**(191,909)**	

	RUB	**USD** USD 1 = RUB 30.2442	**EUR** EUR 1= RUB 43.3883	**Other currency**	**December 31, 2009 Total**
Accounts payable on spot and derivative contracts	(1,205,997)	(2,696,711)	(287,014)	-	(4,189,722)
Accounts receivable on spot and derivative contracts	2,393,383	1,458,292	125,054	212,993	4,189,722
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**1,187,386**	**(1,238,419)**	**(161,960)**	**212,993**	
TOTAL OPEN POSITION	**5,463,870**	**255,437**	**(11,792)**	**21,084**	

Currency risk sensitivity

The following table details the Group's sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was 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 as at December 31, 2010 and 2009. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group 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 December 31, 2010 and 2009:

	As at December 31, 2010		As at December 31, 2009	
	RUB/USD +4.90%	RUB/USD -4.90%	RUB/USD +5.01%	RUB/USD -5.01%
Impact on profit/loss before tax	41,094	(41,095)	12,798	(12,798)
Impact on equity	32,875	(32,875)	10,238	(10,238)
	RUB/EUR +3.40%	RUB/EUR -3.40%	RUB/EUR +3.94%	RUB/EUR -3.94%
Impact on profit/loss before tax	4,520	(4,520)	464	(464)
Impact on equity	3,616	(3,616)	371	(371)

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 analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group'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 on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group'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.

Price risk

0Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

In 2010, the Group's policy was aimed at minimizing the pricing risk which arises from stock market instruments.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for equity investments at the reporting date.

The results of the analysis of the sensitivity of the Group's profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 13,80% symmetrical increase or decrease in all securities prices are given in the table below:

	December 31, 2010		**December 31, 2009**	
	13.80% increase in securities price	**13.80% decrease in securities price**	**5.09% increase in securities price**	**5.09% decrease in securities price**
Impact on profit before tax	2,542	(2,542)	3,566	(3,566)
Impact on equity	5,162	(5,162)	2,853	(2,853)