Joint Stock Bank “ROST”

Financial Statements

for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To the Board of Directors of Joint Stock Bank "ROST"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ZAO KPMG

ZAO KPMG
30 June 2011

	Notes	2010 RUB'000	2009 RUB'000
Interest income	4	346 421	146 352
Interest expense	4	(69 309)	(15 655)
Net interest income		**277 112**	**130 697**
Fee and commission income	5	29 089	18 493
Fee and commission expense	6	(8 748)	(3 518)
Net fee and commission income		**20 341**	**14 975**
Net foreign exchange income	7	10 151	15 812
Net loss on financial instruments at fair value through profit or loss		-	(1 613)
Net gain on available-for-sale assets		-	922
Net gain on purchased loans	14	52 655	46 335
Other operating income		1 367	1 273
Operating income		**361 626**	**208 401**
Impairment losses	8	(182 241)	(59 569)
Personnel expenses	9	(45 719)	(30 783)
Other general administrative expenses	10	(70 910)	(35 775)
Profit before income taxes		**62 756**	**82 274**
Income tax expense	11	(11 746)	(15 808)
Net profit		**51 010**	**66 466**
Total comprehensive income		**51 010**	**66 466**

The financial statements were approved by the Chairman of the Management Board on 30 June 2011.

Mr. Zhukov B.B.
Chairman of the Management Board

Ms. Dunaeva N.Y.
Chief Accountant

ОАО БАНК «РОСТ»

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

	Notes	2010 RUB'000	2009 RUB'000
ASSETS			
Cash and cash equivalents	12	499 575	521 684
Mandatory cash balances with the Central bank of the Russian Federation		14 613	11 018
Placements with banks and other financial institutions	13	533 272	9 207
Loans to customers	14	2 613 904	1 055 604
Available-for-sale assets	15	127 608	58 192
Property, equipment and intangible assets	16	18 003	10 565
Other assets	17	6 067	2 762
Current income tax receivable		284	-
Total assets		**3 813 326**	**1 669 032**
LIABILITIES			
Deposits and balances from banks and other financial institutions	18	501 493	155 529
Current accounts and deposits from customers	19	1 863 247	784 177
Debt securities issued	20	164 738	7 035
Other liabilities	21	21 667	5 426
Current income tax payable		-	282
Deferred tax liability	11	9 083	14 505
Total liabilities		**2 560 228**	**966 954**
EQUITY			
Share capital	22	418 279	180 179
Share premium	22	795 711	533 801
Additional paid-in capital		70 179	70 179
Accumulated losses		(31 071)	(82 081)
Total equity		**1 253 098**	**702 078**
Total liabilities and equity		**3 813 326**	**1 669 032**
Commitments and contingencies	25-27		

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

	Notes	2010 RUB'000	2009 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		324 606	150 314
Interest paid		(66 206)	(16 323)
Fee and commission received		27 954	18 493
Fee and commission paid		(8 413)	(3 856)
Net receipts from foreign exchange		15 381	13 500
Net receipts from purchased loans		52 655	46 335
Other operating receipts		1 454	829
Payments arising from legal cases		(590)	(69 973)
Personnel expenses		(44 272)	(29 925)
Other general administrative payments		(51 115)	(32 049)
		251 454	**77 345**
(Increase) decrease in operating assets			
Mandatory cash balances with the Central bank of the Russian Federation		(2 346)	(9 809)
Placements with banks and other financial institutions		(523 876)	(5 713)
Loans to customers		(1 648 843)	(830 152)
Available-for-sale assets		(66 686)	(25 336)
Other assets		(4 331)	(1 250)
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		264 959	60 713
Current accounts and deposits from customers		1 085 364	378 044
Debt securities issued		154 249	(53 000)
Other liabilities		5 452	(1 006)
Net cash used in operating activities before income tax paid		**(484 604)**	**(410 164)**
Income tax paid		(17 734)	(1 759)
Net cash used in operating activities		**(502 338)**	**(411 923)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(12 618)	(4 090)
Sales of property and equipment		-	525
Cash flows used in investing activities		**(12 618)**	**(3 565)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of subordinated debt		-	(33 222)
Finance lease payments		(3 067)	(5 067)
Shares issued		500 010	499 500
Contributions from shareholders		-	70 179
Cash flows from financing activities		**496 943**	**531 390**
Net (decrease) increase in cash and cash equivalents		(18 013)	115 902
Effect of changes in foreign exchange rates on cash and cash equivalents		(4 096)	6 841
Cash and cash equivalents as at the beginning of the year		521 684	398 941
Cash and cash equivalents as at the end of the year	12	**499 575**	**521 684**

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

	Share capital RUB'000	Share premium RUB'000	Additional paid-in capital RUB'000	Accumulated losses RUB'000	Total RUB'000
Balance as at 1 January 2009	**80 279**	**134 201**	**-**	**(148 547)**	**65 933**
Total comprehensive income					
Net profit	-	-	-	66 466	66 466
Total comprehensive income	-	-	-	**66 466**	**66 466**
Shares issued	99 900	399 600	-	-	499 500
Other contributions from shareholders	-	-	70 179	-	70 179
Balance as at 31 December 2009	**180 179**	**533 801**	**70 179**	**(82 081)**	**702 078**
Total comprehensive income					
Net profit	-	-	-	51 010	51 010
Total comprehensive income	-	-	-	**51 010**	**51 010**
Shares issued	238 100	261 910	-	-	500 010
Balance as at 31 December 2010	**418 279**	**795 711**	**70 179**	**(31 071)**	**1 253 098**

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

1 Background

Principal activities

Joint Stock Bank “ROST” (the Bank) was established in the Russian Federation in 1993. The Bank operates under general banking license No. 2589 issued by the Central Bank of the Russian Federation (CBR). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange. The activities of the Bank are regulated by the CBR.

The Bank has been a member of the state deposit insurance system since 23 December 2003.

The Bank has 2 branches and 4 additional offices operating in the Russian Federation. The registered address of the Bank’s head office is 109004, Russian Federation, Moscow, Stanislavskogo str., 1, bld. 4. The majority of the Bank’s assets and liabilities are located in the Russian Federation. The average number of people employed by the Bank during the year was 121 (2009: 82).

The Bank does not have any subsidiaries or associates.

Shareholders

Shareholders of the Bank as at 31 December 2010 and 2009 are as follows:

	2010 %	**2009 %**
Legal entities		
CJSC “TRANSIT-VILS”	-	0.44%
LLC “OFFERTA – 1”	-	0.12%
Individuals		
Vlasova E.V.	100.00%	98.47%
Kuznetsova I.L.	-	0.31%
Mineeva I.A.	-	0.20%
Agapova T.V.	-	0.19%
Zaycev L.A.	-	0.15%
Vankov K.A.	-	0.12%
	100.00%	**100.00%**

Russian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to it.

The RUB is also the presentation currency for the purposes of these financial statements.

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

Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 14 in respect of loan impairment estimates.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash and cash equivalents

The Bank includes cash and nostro accounts with the CBR and other banks in cash and cash equivalents. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

<u>Classification</u>

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

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

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

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

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

The Bank designates financial assets and liabilities at fair value through profit or loss where either:

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

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

Recognition

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

Measurement

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

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

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

- held-to-maturity investments that are measured at amortized cost using the effective interest method

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm’s length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

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

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

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

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

Derecognition

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Purchased loans to customers

The Bank acquires portfolios of loans to legal entities originally issued by Russian banks that are initially recorded at fair value. Where acquired loans have experienced deterioration of credit quality between origination and the Bank's acquisition of the loans, the amount paid for loans reflects the Bank's determination that it is probable the Bank will be unable to collect all amounts due according to the contractual terms of each loan. The Bank considers expected collections, and estimates the amount and timing of undiscounted expected principal, interest and other cash flows (expected at acquisition) for each loan.

At acquisition, the Bank derives an internal rate of return (IRR) based on the expected repayment of each loan compared to the original purchase price. Repayments on the loans are allocated between interest income, net gain on purchased loans and carrying value reduction based on applying each loan's effective IRR to its carrying value. Over the life of each loan, the Bank continues to estimate cash flows expected to be collected. The Bank evaluates at the reporting date whether the present value of loans determined using the effective interest rates for each loan has decreased, and if so, records loan impairment allowance to maintain the original IRR.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks and other financial institutions or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with financial organizations or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Leased assets

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

Depreciation

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

computers	25% - 50%
office equipment	10% - 50%
motor vehicles	14% - 25%
other	20% - 50%

Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Useful lives of intangible assets vary from 1 to 5 years.

Impairment

Financial assets carried at amortized cost

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

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

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

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

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

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

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

Financial assets carried at cost

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

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Available-for-sale assets

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

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

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

Non financial assets

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

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

Provisions

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

Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share premium represents the excess of contributions over the nominal value of the shares issued adjusted for hyperinflation.

Repurchase of share capital

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

Dividends

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

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

Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

Income and expense recognition

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

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

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

The excess cash flows collected in respect of purchased loans to customers over the amount paid is recognised as net gain on purchased loans in the statement of comprehensive income.

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

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

Inflation accounting

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

New standards and interpretations not yet adopted

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

- IFRS 9 "Financial Instruments" will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2011. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.

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

4 Net interest income

	2010 RUB'000	2009 RUB'000
Interest income		
Placements with banks and other financial institutions	2 272	2 554
Loans to customers	340 193	140 545
Available-for-sale assets	3 956	3 253
	346 421	**146 352**
Interest expense		
Deposits and balances from banks and other financial institutions	(11 938)	(2 033)
Current accounts and deposits from customers	(48 370)	(8 229)
Debt securities issued	(8 439)	(2 169)
Finance lease liabilities	(562)	(1 473)
Subordinated debt	-	(1 751)
	(69 309)	**(15 655)**
	277 112	**130 697**

Included within interest income on loans to customers for the year ended 31 December 2010 is a total of RUB 50 351 thousand (2009: RUB 6 773 thousand) accrued on impaired loans.

5 Fee and commission income

	2010 RUB'000	2009 RUB'000
Settlement fees	10 318	8 320
Guarantee fees	10 022	3 791
Plastic cards transactions	3 157	3 041
Cash operations	2 571	1 675
Other	3 021	1 666
	29 089	**18 493**

6 Fee and commission expense

	2010 RUB'000	2009 RUB'000
Settlement fees	(4 962)	(941)
Plastic cards transactions	(3 132)	(2 573)
Other	(654)	(4)
	(8 748)	**(3 518)**

7 Net foreign exchange income

	2010 RUB'000	2009 RUB'000
Net foreign exchange trading gain	15 381	13 500
Net foreign exchange translation differences	(5 230)	2 312
	10 151	**15 812**

8 Impairment losses

	2010 RUB'000	2009 RUB'000
Loans to customers	(182 761)	(59 986)
Available-for-sale assets	524	381
Other	(4)	36
	(182 241)	**(59 569)**

9 Personnel expenses

	2010 RUB'000	2009 RUB'000
Employee compensation	(36 369)	(25 112)
Payroll related taxes	(9 350)	(5 671)
	(45 719)	**(30 783)**

10 General administrative expenses

	2010 RUB'000	2009 RUB'000
Occupancy	(22 016)	(14 880)
Expenses arising from legal cases	(8 214)	-
Professional services	(7 942)	(506)
Taxes other than on income	(6 564)	(3 811)
Depreciation and amortisation	(5 051)	(3 945)
Communications and information services	(4 783)	(5 607)
Security	(4 751)	(2 538)
Repairs and maintenance	(3 264)	(2 319)
Advertising and marketing	(2 776)	(18)
Insurance	(1 281)	(738)
Other	(4 268)	(1 413)
	(70 910)	**(35 775)**

11 Income tax expense

	2010 RUB'000	2009 RUB'000
Current tax expense		
Current year	(17 168)	(3 369)
	(17 168)	**(3 369)**
Deferred tax expense		
Origination and reversal of temporary differences	5 422	(12 439)
Total income tax expense	**(11 746)**	**(15 808)**

In 2010 applicable tax rate for current and deferred tax is 20% (2009: 20%).

Reconciliation of effective tax rate

	2010 RUB'000	%	2009 RUB'000	%
Profit before income taxes	62 756		82 274	
Income tax at the applicable tax rate	(12 551)	20	(16 455)	20
Non-taxable income	805	(1)	647	(1)
	(11 746)	**19**	**(15 808)**	**19**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2010 and 2009. These deductible temporary differences do not expire under current tax legislation.

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

RUB'000	Balance at 1 January 2010	Recognised in profit or loss	Balance at 31 December 2010
Placements with banks and other financial institutions	-	(312)	(312)
Loans to customers	(13 225)	5 776	(7 449)
Available-for-sale assets	(186)	(2 863)	(3 049)
Property, equipment and intangible assets	(1 260)	(190)	(1 450)
Other assets	(4)	343	339
Other liabilities	170	2 668	2 838
	(14 505)	**5 422**	**(9 083)**

RUB'000	Balance at 1 January 2009	Recognised in profit or loss	Balance at 31 December 2009
Loans to customers	(784)	(12 441)	(13 225)
Available-for-sale assets	181	(367)	(186)
Property, equipment and intangible assets	(1 738)	478	(1 260)
Other assets	32	(36)	(4)
Other liabilities	243	(73)	170
	(2 066)	**(12 439)**	**(14 505)**

12 Cash and cash equivalents

	2010 RUB'000	2009 RUB'000
Cash on hand	165 520	127 994
Nostro accounts with the CBR	205 348	337 484
Nostro accounts with other banks and financial institutions		
OECD banks	94 506	39 731
Largest 30 Russian banks	15 379	9 753
Other Russian banks	18 822	6 722
Total nostro accounts with other banks and financial institutions	128 707	56 206
	499 575	**521 684**

Concentration of cash and cash equivalents

As at 31 December 2010 the Bank has one counterparty (31 December 2009: one counterparty), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2010 is RUB 205 348 thousand (31 December 2009: RUB 337 484 thousand).

13 Placements with banks and other financial institutions

	2010 RUB'000	2009 RUB'000
Largest 30 Russian banks	206 132	2 519
Other Russian banks and other financial institutions	327 140	6 688
	533 272	**9 207**

None of placements with banks and other financial institutions are impaired or past due.

Concentration of placements with banks and other financial institutions

As at 31 December 2010 the Bank has one counterparty (2009: no such counterparties), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2010 is RUB 215 016 thousand.

14 Loans to customers

	2010 RUB'000	2009 RUB'000
Loans to legal entities		
Loans to large corporates	466 183	-
Loans to small and medium size companies	2 278 952	1 116 724
Total loans to legal entities	**2 745 135**	**1 116 724**
Loans to individuals		
Consumer loans	77 369	24 677
Mortgage loans	60 035	330
Other	368	115
Total loans to individuals	**137 772**	**25 122**
Gross loans to customers	**2 882 907**	**1 141 846**
Impairment allowance	(269 003)	(86 242)
Net loans to customers	**2 613 904**	**1 055 604**

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

	Loans to legal entities RUB'000	Loans to individuals RUB'000	Total RUB'000
Balance at the beginning of the year	(76 450)	(9 792)	(86 242)
Net charge	(156 105)	(26 656)	(182 761)
Balance at the end of the year	**(232 555)**	**(36 448)**	**(269 003)**

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

	Loans to legal entities RUB'000	Loans to individuals RUB'000	Total RUB'000
Balance at the beginning of the year	(26 094)	(326)	(26 420)
Net charge	(50 356)	(9 630)	(59 986)
Write-offs	-	164	164
Balance at the end of the year	**(76 450)**	**(9 792)**	**(86 242)**

Purchased loans to legal entities

During 2009 the Bank purchased from another Russian bank a portfolio of loans to legal entities which was initially recorded at fair value. Subsequently, during the year ended 31 December 2010, repayments in excess of that anticipated at the purchase date amounting to RUR 52 655 thousand were made and are recognized as net gain on purchased loans in the statement of comprehensive income (2009: RUB 46 335 thousand).

Credit quality of loans to customers

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans %
Loans to legal entities				
Loans to large corporates				
Loans without individual signs of impairment	466 183	(34 031)	432 152	7.30%
Total loans to large corporates	**466 183**	**(34 031)**	**432 152**	**7.30%**
Loans to small and medium size companies				
Loans without individual signs of impairment	2 165 334	(158 070)	2 007 264	7.30%
Impaired loans:				
- overdue more than 90 days and less than 1 year	52 930	(3 864)	49 066	7.30%
- overdue more than 1 year	60 688	(36 590)	24 098	60.29%
Total impaired loans	113 618	(40 454)	73 164	35.61%
Total loans to small and medium size companies	**2 278 952**	**(198 524)**	**2 080 428**	**8.71%**
Total loans to legal entities	**2 745 135**	**(232 555)**	**2 512 580**	**8.47%**
Loans to individuals				
Consumer loans				
- not overdue	56 082	(7 300)	48 782	13.02%
- overdue more than 360 days	21 287	(21 287)	-	100.00%
Total consumer loans	**77 369**	**(28 587)**	**48 782**	**36.95%**
Mortgage loans				
- not overdue	60 035	(7 814)	52 221	13.02%
Total mortgage loans	**60 035**	**(7 814)**	**52 221**	**13.02%**
Other loans to individuals				
- not overdue	368	(47)	321	12.77%
Total other loans to individuals	**368**	**(47)**	**321**	**12.77%**
Total loans to individuals	**137 772**	**(36 448)**	**101 324**	**26.46%**
Total loans to customers	**2 882 907**	**(269 003)**	**2 613 904**	**9.33%**

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

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans %
Loans to legal entities				
Loans to small and medium size companies				
Loans without individual signs of impairment	1 020 099	(74 199)	945 900	7.27%
Impaired loans:				
- not overdue	36 096	(723)	35 373	2.00%
- overdue less than 90 days	60 529	(1 528)	59 001	2.52%
Total impaired loans	96 625	(2 251)	94 374	2.33%
Total loans to small and medium size companies	**1 116 724**	**(76 450)**	**1 040 274**	**6.85%**
Total loans to legal entities	**1 116 724**	**(76 450)**	**1 040 274**	**6.85%**
Loans to individuals				
Consumer loans				
- not overdue	6 003	(240)	5 763	4.00%
- overdue less than 30 days	18 374	(9 234)	9 140	50.26%
- overdue more than 360 days	300	(300)	-	100.00%
Total consumer loans	**24 677**	**(9 774)**	**14 903**	**39.61%**
Mortgage loans				
- not overdue	330	(13)	317	3.94%
Total mortgage loans	**330**	**(13)**	**317**	**3.94%**
Other				
- not overdue	115	(5)	110	4.35%
Total other	**115**	**(5)**	**110**	**4.35%**
Total loans to individuals	**25 122**	**(9 792)**	**15 330**	**38.98%**
Total loans to customers	**1 141 846**	**(86 242)**	**1 055 604**	**7.55%**

As at 31 December 2010 there are no renegotiated loans to legal entities and individuals that would otherwise be past due (2009: nil and RUB 87 318 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

Key assumptions and judgments for estimating the loan impairment

Loans to legal entities

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to legal entities include the following:

- overdue payments under the loan agreement
- significant deterioration in the financial condition of the borrower
- deterioration in business environment or negative changes in the borrower's markets.

Management estimates loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its loss experience for the past 3 years, portfolio delinquency, collection rates and current economic conditions for portfolios of loans for which no indications of impairment has been identified. Management does not take into account value of collateral when estimating loan impairment allowance.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to legal entities as of 31 December 2010 would be RUB 25 126 thousand lower/higher (31 December 2009: RUB 10 403 thousand).

Loans to individuals

The Bank estimates loan impairment based on its past historical loss experience and market information for these types of loans.

Management estimates loan impairment for loans to individuals based on an analysis of the future cash flows for impaired loans and based on its loss experience for the past 3 years, portfolio delinquency, collection rates and current economic conditions for portfolios of loans for which no indications of impairment has been identified. Management does not take into account value of collateral when estimating loan impairment allowance.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to individuals as of 31 December 2010 would be RUB 3 040 thousand lower/higher (31 December 2009: RUB 460 thousand).

Analysis of collateral

Loans to legal entities

The following table provides the analysis of loans to legal entitites portfolio, net of impairment, by types of collateral as at 31 December:

	2010 RUB'000	% of loan portfolio	2009 RUB'000	% of loan portfolio
Sureties	1 372 162	54.61%	248 416	23.88%
Real estate	197 408	7.86%	36 147	3.47%
Inventories	190 222	7.57%	398 352	38.30%
Promissory notes of the Bank	98 238	3.91%	-	-
Equipment	36 600	1.46%	36 433	3.50%
Motor vehicles	-	-	911	0.09%
No collateral	617 950	24.59%	320 015	30.76%
	2 512 580	**100.00%**	**1 040 274**	**100.00%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

As at 31 December 2010 impaired loans to legal entities with a gross value of RUB 49 066 thousand (31 December 2009: RUB 26 828 thousand) are secured by collateral with a fair value of RUB 70 450 thousand (31 December 2009: RUB 51 944 thousand). For the remaining impaired loans of RUB 64 552 thousand (31 December 2009: RUB 69 797 thousand) there is no collateral or it is impracticable to determine fair value of collateral.

Loans to individuals

Mortgage loans are secured by the underlying housing real estate. Consumer and other loans are not secured.

As at 31 December 2010 overdue loans to individuals with a gross value of RUB 21 287 thousand (31 December 2009: RUB 18 374 thousand) are secured by collateral with a fair value of RUB 40 669 thousand (31 December 2009: RUB 40 540 thousand). For the remaining overdue loans of RUB 300 thousand as at 31 December 2009 these is no collateral or it is impracticable to determine fair value of collateral.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors as at 31 December:

	2010	**2009**
	RUB'000	**RUB'000**
Trade	2 171 476	643 657
Transport	245 095	269 913
Loans to individuals	137 772	25 122
Mining	81 069	19 846
Construction	64 774	-
Finance sector	52 559	-
Telecommunication	41 985	59 335
Manufacturing	26 973	-
Real estate	20 080	110 215
Food industry	11 472	11 463
Other	29 652	2 295
	2 882 907	**1 141 846**
Impairment allowance	(269 003)	(86 242)
	2 613 904	**1 055 604**

During the year ended 31 December 2010 the Group did not obtain any assets by taking control of collateral securing loans to customers (2009: nil).

Significant credit exposures

As at 31 December 2010 the Bank has no borrowers or groups of connected borrowers (2009: four borrowers), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2009 is RUB 390 646 thousand.

Loan maturities

The maturity of the loan portfolio is presented in note 23, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

15 Available-for-sale assets

	2010 RUB'000	2009 RUB'000
Debt and other fixed-income instruments		
- Promissory notes		
Not rated	57 098	52 395
Total promissory notes	**57 098**	**52 395**
Impairment allowance	-	(524)
Total net promissory notes	**57 098**	**51 871**
- Loans available for sale under AIZK mortgage program	**70 495**	**6 306**
Equity investments		
- Corporate shares	15	15
	127 608	**58 192**

None of available-for-sale assets are impaired or past due.

Analysis of movement in the impairment allowance

	2010 RUB'000	2009 RUB'000
Balance at the beginning of the year	(524)	(905)
Net recovery	524	381
Balance at the end of the year	**-**	**(524)**

16 Property, equipment and intangible assets

RUB'000	Computers	Office equipment	Motor vehicles	Intangible assets	Other	Total
Cost						
At 1 January 2010	**2 565**	**11 196**	**2 300**	**2 265**	**1 080**	**19 406**
Additions	1 960	3 676	3 624	1 237	2 121	12 618
Disposals	-	-	-	(150)	-	(150)
At 31 December 2010	**4 525**	**14 872**	**5 924**	**3 352**	**3 201**	**31 874**
Depreciation and amortisation						
At 1 January 2010	**1 938**	**4 131**	**1 462**	**1 261**	**49**	**8 841**
Depreciation and amortisation charge	265	2 784	427	1 281	294	5 051
Disposals	-	-	-	(21)	-	(21)
At 31 December 2010	**2 203**	**6 915**	**1 889**	**2 521**	**343**	**13 871**
Carrying value at 31 December 2010	**2 322**	**7 957**	**4 035**	**831**	**2 858**	**18 003**

RUB'000	Computers	Office equipment	Motor vehicles	Intangible assets	Other	Total
Cost						
At 1 January 2009	**1 904**	**11 717**	**1 580**	**2 082**	**390**	**17 673**
Additions	661	1 297	720	332	1 080	4 090
Disposals	-	(1 818)	-	(149)	(390)	(2 357)
At 31 December 2009	**2 565**	**11 196**	**2 300**	**2 265**	**1 080**	**19 406**
Depreciation and amortisation						
At 1 January 2009	**1 840**	**3 338**	**1 273**	**530**	**201**	**7 182**
Depreciation and amortisation charge	98	2 540	189	880	238	3 945
Disposals	-	(1 747)	-	(149)	(390)	(2 286)
At 31 December 2009	**1 938**	**4 131**	**1 462**	**1 261**	**49**	**8 841**
Carrying value at 31 December 2009	**627**	**7 065**	**838**	**1 004**	**1 031**	**10 565**

17 Other assets

	2010 RUB'000	2009 RUB'000
Prepayments	4 091	1 888
Trade receivables	1 117	786
Other	859	88
	6 067	**2 762**

18 Deposits and balances from banks and other financial institutions

	2010 RUB'000	2009 RUB'000
Vostro accounts	238 414	115 529
Term deposits	263 079	40 000
	501 493	**155 529**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2010 the Bank has one financial institution (31 December 2009: one financial institution), whose balances exceed 10% of equity. The gross value of these balances as of 31 December 2010 is RUB 159 665 thousand (31 December 2009: RUB 155 529 thousand).

19 Current accounts and deposits from customers

	2010 RUB'000	2009 RUB'000
Current accounts and demand deposits		
- Individuals	61 682	218 233
- Legal entities	737 034	453 586
Term deposits		
- Individuals	962 155	95 436
- Legal entities	102 376	16 922
	1 863 247	**784 177**

As at 31 December 2010 the Bank maintained customer deposit balances of RUB 148 thousand (31 December 2009: RUB 1 309 thousand) that serve as collateral for unrecognised credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2010 the Bank has one customer (31 December 2009: two customers), whose balances exceed 10% of equity. The total amount of these balances as at 31 December 2010 is RUB 284 128 thousand (31 December 2009: RUB 333 005 thousand).

20 Debt securities issued

	2010 RUB'000	2009 RUB'000
Demand promissory notes	249	1 019
Term promissory notes	164 489	6 016
	164 738	**7 035**

21 Other liabilities

	2010 RUB'000	2009 RUB'000
Settlements of legal cases	8 214	-
Settlements under foreign currency contracts	5 426	-
Trade creditors	5 251	1 238
Settlements with employees	1 447	686
Other taxes payable	433	296
Deferred income	104	68
Finance lease liabilities	55	3 122
Other	737	16
	21 667	**5 426**

22 Share capital

Issued capital and share premium

The authorised, issued and outstanding share capital comprises 7 426 000 ordinary shares (2009: 2 664 000). All shares have a nominal value of RUB 50. During 2010 4 762 000 ordinary shares (2009: 1 998 000) were issued.

As at 31 December 2010 share capital and share premium comprised the following:

	Nominal value	Hyperinflation adjustment	Total
Share capital (ordinary shares)	371 300	46 979	418 279
Share premium	695 212	100 499	795 711
Total share capital	**1 066 512**	**147 478**	**1 213 990**

As at 31 December 2009 share capital and share premium comprised the following:

	Nominal value	Hyperinflation adjustment	Total
Share capital (ordinary shares)	133 200	46 979	180 179
Share premium	433 302	100 499	533 801
Total share capital	**566 502**	**147 478**	**713 980**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as at the reporting date, reserves available for distribution amount to RUB 24 163 thousand (2009: RUB 10 185 thousand).

The Bank has not declared any dividends for 2010 and 2009.

23 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Compliance Control Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Head of the Management Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled by the Management Board and the Credit Financial Committee (CFC).

Both external and internal risk factors are identified and managed throughout the organisation. Apart from the standard credit and market risk analysis, the Compliance Control Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

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

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

Overall authority for market risk is vested in the CFC. Market risk limits are approved by the CFC based on recommendations of the Compliance Control Department.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates on interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010 Average effective interest rate, %			2009 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents						
- Nostro accounts with other banks and financial institutions	4. 55%	-	-	-	-	-
Placements with banks and other financial institutions	3.14%	0.22%	0.25%	-	-	-
Loans to customers	14.16%	8.90%	12.30%	17.20%	17.70%	-
Available-for-sale assets	8.67%	-	-	10.30%	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Vostro accounts	4.55%	-	-	2.00%	-	-
- Term deposits	6.66%	-	-	9.50%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.32%	1.57%	-	0.10%	-	-
- Term deposits	9.97%	8.74%	8.19%	14.90%	9.50%	10.30%
Debt securities issued	7.50%	-	-	9.30%	-	-
Other liabilities						
- Finance lease liabilities	24.60%	-	-	24.60%	-	-

Interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel rise	7 330	7 330	(1 778)	(1 778)
100 bp parallel fall	(7 330)	(7 330)	1 778	1 778

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

	2010		2009	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
100 bp parallel rise	-	(337)	-	(155)
100 bp parallel fall	-	341	-	155

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the currency exposure structure of assets and liabilities as at 31 December 2010:

	RUB	USD	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS				
Cash and cash equivalents	323 472	91 632	84 471	499 575
Mandatory cash balances with the Central Bank of the Russian Federation	14 613	-	-	14 613
Placements with banks and other financial institutions	422 233	38 434	72 605	533 272
Loans to customers	2 177 543	309 595	126 766	2 613 904
Available-for-sale assets	127 608	-	-	127 608
Property, equipment and intangible assets	18 003	-	-	18 003
Other assets	6 067	-	-	6 067
Current income tax receivable	284	-	-	284
Total assets	**3 089 823**	**439 661**	**283 842**	**3 813 326**
LIABILITIES				
Deposits and balances from banks and other financial institutions	394 386	107 059	48	501 493
Current accounts and deposits from customers	1 146 543	368 092	348 612	1 863 247
Debt securities issued	164 738	-	-	164 738
Other liabilities	20 762	-	905	21 667
Deferred tax liability	9 083	-	-	9 083
Total liabilities	**1 735 512**	**475 151**	**349 565**	**2 560 228**
Net position as of 31 December 2010	**1 354 311**	**(35 490)**	**(65 723)**	**1 253 098**

The following table shows the currency exposure structure of assets and liabilities as at 31 December 2009:

	RUB	USD	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS				
Cash and cash equivalents	421 204	51 351	49 129	521 684
Mandatory cash balances with the Central Bank of the Russian Federation	11 018	-	-	11 018
Placements with banks and other financial institutions	5 478	3 729	-	9 207
Loans to customers	1 043 632	11 972	-	1 055 604
Available-for-sale assets	58 192	-	-	58 192
Property, equipment and intangible assets	10 565	-	-	10 565
Other assets	2 762	-	-	2 762
Total assets	**1 552 851**	**67 052**	**49 129**	**1 669 032**
LIABILITIES				
Deposits and balances from banks and other financial institutions	155 277	184	68	155 529
Current accounts and deposits from customers	643 765	86 468	53 944	784 177
Debt securities issued	7 035	-	-	7 035
Other liabilities	5 298	49	79	5 426
Current income tax payable	282	-	-	282
Deferred tax liability	14 505	-	-	14 505
Total liabilities	**826 162**	**86 701**	**54 091**	**966 954**
Net position as of 31 December 2009	**726 689**	**(19 649)**	**(4 962)**	**702 078**

A strengthening of the RUB, as indicated below, against the following currencies as at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on a simplified scenario of a 10% change in exchange rates of the USD and other currencies against RUB.

	2010		2009	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% depreciation of USD against RUB	2 839	2 839	1 572	1 572
10% depreciation of other currencies against RUB	5 258	5 258	397	397

A weakening of the RUB against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

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

The credit policy establishes:

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

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

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

Retail loan credit applications are reviewed by the Loan Department through the use of scoring models and application data verification procedures developed together with the Compliance Control Department.

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

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

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

	2010 RUB'000	2009 RUB'000
ASSETS		
Cash and cash equivalents	334 055	393 690
Mandatory cash balances with the Central bank of Russian Federation	14 613	11 018
Placements with banks and other financial institutions	533 272	9 207
Loans to customers	2 613 904	1 055 604
Available-for-sale assets	127 593	58 177
Other assets	1 976	874
Total maximum exposure to credit risk	**3 625 413**	**1 528 570**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 14.

The maximum exposure to unrecognised credit risk at the reporting date is presented in note 25.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Accounting and Statutory Reporting Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Accounting and Statutory Reporting Department and the Compliance Control Department then provide for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Management Board and implemented by the Compliance Control Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following tables show the undiscounted cash flows on financial liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table below in the category of “Demand and less than 1 month”.

The maturity analysis for financial liabilities and credit related commitments as at 31 December 2010 is as follows:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Deposits and balances from banks and other financial institutions	339 799	42 319	74 485	59 625	516 228	501 493
Current accounts and deposits from customers	1 826 429	-	39 131	-	1 865 560	1 863 247
Debt securities issued	249	-	1 070	193 964	195 283	164 738
Other liabilities	6 855	105	14 170	-	21 130	21 130
Total financial liabilities	**2 173 332**	**42 424**	**128 856**	**253 589**	**2 598 201**	**2 550 608**
Credit related commitments	**772 803**	**-**	**-**	**-**	**772 803**	**772 803**

The maturity analysis for financial liabilities and credit related commitments as at 31 December 2009 is as follows:

RUB’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Deposits and balances from banks and other financial institutions	115 852	625	42 842	-	159 319	155 529
Current accounts and deposits from customers	768 007	7 198	9 840	-	785 045	784 177
Debt securities issued	1 019	6 159	-	-	7 178	7 035
Other liabilities	1 414	965	3 381	81	5 841	5 062
Total financial liabilities	**886 292**	**14 947**	**56 063**	**81**	**957 383**	**951 803**
Credit related commitments	**14 003**	**-**	**-**	**-**	**14 003**	**14 003**

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The tables below show an analysis of the amounts recognised in the statement of financial position as at 31 December 2010 and 2009, by expected maturities, with the exception of available-for-sale assets represented by loans available for sale under the AIZK mortgage program that are shown in the categories "from 1 to 3 months" or "from 3 to 12 months", because the management believes that all of these assets will be sold within 3 months or 1 year in the normal course of business.

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

2010 RUB'000	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	499 575	-	-	-	-	-	-	499 575
Mandatory cash balances with the Central bank of the Russian Federation	-	-	-	-	-	14 613	-	14 613
Placements with banks and other financial institutions	529 584	-	3 688	-	-	-	-	533 272
Loans to customers	163 724	360 866	1 535 452	429 328	51 370	-	73 164	2 613 904
Available-for-sale assets	-	66 530	61 063	-	-	15	-	127 608
Property equipment and intangible assets	-	-	-	-	-	18 003	-	18 003
Other assets	2 076	3 016	975	-	-	-	-	6 067
Current income tax receivable	284	-	-	-	-	-	-	284
Total assets	**1 195 243**	**430 412**	**1 601 178**	**429 328**	**51 370**	**32 631**	**73 164**	**3 813 326**
LIABILITIES								
Deposits and balances from banks and other financial institutions	338 424	40 000	69 023	54 046	-	-	-	501 493
Current accounts and deposits from customers	885 002	235 140	738 018	5 087	-	-	-	1 863 247
Debt securities issued	249	-	1 029	163 460	-	-	-	164 738
Other liabilities	7 289	208	14 170	-	-	-	-	21 667
Deferred tax liability	-	-	-	-	-	9 083	-	9 083
Total liabilities	**1 230 964**	**275 348**	**822 240**	**222 593**	**-**	**9 083**	**-**	**2 560 228**
Net position as at 31 December 2010	**(35 721)**	**155 064**	**778 938**	**206 735**	**51 370**	**23 548**	**73 164**	**1 253 098**

2009 RUB'000	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	521 684	-	-	-	-	-	-	521 684
Mandatory cash balances with the Central bank of the Russian Federation	-	-	-	-	-	11 018	-	11 018
Placements with banks and other financial institutions	6 688	-	2 519	-	-	-	-	9 207
Loans to customers	218 288	107 700	573 695	84 337	3 443	-	68 141	1 055 604
Available-for-sale assets	-	4 016	54 161	-	-	15	-	58 192
Property equipment and intangible assets	-	-	-	-	-	10 565	-	10 565
Other assets	866	187	547	1 162	-	-	-	2 762
Total assets	**747 526**	**111 903**	**630 922**	**85 499**	**3 443**	**21 598**	**68 141**	**1 669 032**
LIABILITIES								
Deposits and balances from banks and other financial institutions	115 529	-	40 000	-	-	-	-	155 529
Current accounts and deposits from customers	681 179	47 438	53 491	2 069	-	-	-	784 177
Debt securities issued	1 019	6 016	-	-	-	-	-	7 035
Other liabilities	1 323	786	3 254	63	-	-	-	5 426
Current income tax payable	282	-	-	-	-	-	-	282
Deferred tax liability	-	-	-	-	-	14 505	-	14 505
Total liabilities	**799 332**	**54 240**	**96 745**	**2 132**	**-**	**14 505**	**-**	**966 954**
Net position as at 31 December 2009	**(51 806)**	**57 663**	**534 177**	**83 367**	**3 443**	**7 093**	**68 141**	**702 078**

24 Capital management

The CBR sets and monitors capital requirements for the Bank.

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

	2010	2009
Statutory capital ratio (N1)	32.00%	58.40%
Statutory capital (RUB thousand)	1 167 735	642 132

25 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments and financial guarantees as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010	**2009**
	RUB'000	**RUB'000**
Contracted amount		
Guarantees	682 960	13 089
Loan and credit line commitments	49 942	3
Undrawn overdraft facilities	39 901	911
	772 803	**14 003**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

26 Operating leases

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2010	**2009**
	RUB'000	**RUB'000**
Less than 1 year	20 685	9 257
Between 1 and 5 years	5 975	-
	26 660	**9 257**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2010 RUB 22 016 thousand is recognised as an expense in profit or loss in respect of operating leases (2009: RUB 14 880 thousand).

27 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

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

28 Custody activities

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

29 Related party transactions

Control relationships

Ms E.V.Vlasova holds the shares in the Bank on behalf of Mr O.G.Karchev, the ultimate controlling party.

Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in “Personnel expenses” (refer to note 9) are as follows:

	2010 RUB’000	**2009 RUB’000**
Members of the Management Board	3 344	3 249
	3 344	**3 249**

The outstanding balances and average interest rates as of 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2010 RUB’000	**Average interest rate, %**	**2009 RUB’000**	**Average interest rate, %**
Statement of financial position				
ASSETS				
Loans to customers	2 864	12.00%	-	-
LIABILITIES				
Customer accounts	693	9.00%	476	11.20%
Unrecognised commitments				
Undrawn overdraft facilities	30	-	30	-

Other amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December 2010 and 2009 are as follows:

	2010 RUB'000	2009 RUB'000
Profit or loss		
Interest income	73	-
Interest expense	(62)	(15)

Transactions with other related parties

Other related parties comprise mainly the shareholders and companies controlled by the ultimate controlling party. The outstanding balances and the related average interest rates as at 31 December 2010 and profit or loss transactions for the year ended 31 December 2010 with other related parties are as follows:

	Shareholder		Other related parties		Total
	RUB'000	Average interest rate, %	RUB'000	Average interest rate, %	RUB'000
Statement of financial position					
ASSETS					
Loans to customers					
- Gross amount	-	-	47 136	13.67%	47 136
- Impairment allowance	-	-	(3 441)	-	(3 441)
LIABILITIES					
Current accounts and deposits from customers	243	11.50%	18 911	-	19 154
Debt securities issued	-	-	1 029	7.00%	1 029
Unrecognised commitments					
Guarantees issued	-	-	67 000	-	67 000
Undrawn overdraft facilities	246	-	369	-	615
Profit or loss					
Interest income	-	-	11 775	-	11 775
Interest expense	(2 999)	-	(168)	-	(3 167)
Impairment losses	-	-	(454)	-	(454)
Fee and commission income	10	-	3 231	-	3 241
General administrative expenses	-	-	(2 360)	-	(2 360)

The outstanding balances and the related average interest rates as at 31 December 2009 and profit or loss transactions for the year ended 31 December 2009 with other related parties are as follows:

	Shareholder		Other related parties		Total
	RUB'000	Average interest rate, %	RUB'000	Average interest rate, %	RUB'000
Statement of financial position					
ASSETS					
Loans to customers					
- Gross amount	-	-	79 182	15.00%	79 182
- Impairment allowance	-	-	(2 987)	-	(2 987)
LIABILITIES					
Current accounts and deposits from customers	170 859	-	31 710	-	202 569
Debt securities issued	-	-	1 019	7.60%	1 019
Unrecognised commitments					
Guarantees issued	-	-	500	-	500
Undrawn overdraft facilities	246	-	361	-	607

	Shareholder		Other related parties		Total
	RUB'000	Average interest rate, %	RUB'000	Average interest rate, %	RUB'000
Profit or loss					
Interest income	-	-	5 546	-	5 546
Interest expense	-	-	(44)	-	(44)
Fee and commission income	374	-	1 005	-	1 379
Net foreign exchange income	1 405	-	-	-	1 405
Impairment losses	-	-	(1 786)	-	(1 786)
General administrative expenses	-	-	(533)	-	(533)

30 Fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, including available-for-sale assets, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Based on this assessment the Bank has concluded that the fair value of its financial assets and financial liabilities is not materially different from their carrying values.

The table below analyses financial instruments measured at fair value at 31 December, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2010	2009
RUB'000	**Level 2**	**Level 2**
Available-for-sale assets	127 608	58 192
	127 608	**58 192**

31 Subsiquent events

In May 2011 the shareholder of the Bank approved increase of the share capital by mean of share premium capitalisation. In accordance with this decision a total of 7 426 000 ordinary shares with nominal value of 50 RUB each will be exchanged for 7 426 000 of newly-issued ordinary shares with nominal value of 140 RUB each and the share premium of RUB 668 340 thousand will be capitalised into the share capital.

On 24 June 2011 this issue was registered by CBR.