Natixis Bank (ZAO)

Financial Statements

For the year ended
December 31, 2010

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and the independent auditors in relation to the financial statements of Natixis Bank (ZAO) (the "Bank").

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation (the "RF");
- Taking reasonably available steps to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2010 were approved by the Bank's Management Board on June 16, 2011.

On behalf of the Management Board:

E.A. Hodakova	I.A. Komarova
Deputy Chairman of the Management Board	Chief Accountant
June 16, 2011	June 16, 2011
Moscow	Moscow

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company Natixis Bank:

Report on the financial statements

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

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 16, 2011 Deloitte & Touche
Moscow

(in thousands of Russian Rubles)

	Notes	2010	2009
Assets			
Cash and cash equivalents	5, 23	1 047 285	1 583 144
Minimum reserve deposits with the Central Bank of the Russian Federation		121 010	112 915
Financial assets at fair value through profit or loss	6	1 422 767	1 417 548
Loans and advances to banks	7, 23	7 311 477	3 967 002
Loans to customers	8	6 557 942	8 466 597
Property, equipment and intangible assets	9	11 742	12 224
Other assets	12	200 069	131 406
Deferred income tax assets	19	11 964	29 240
Total assets		**16 684 256**	**15 720 076**
Liabilities			
Financial liabilities at fair value through profit or loss	6, 23	94 703	90 997
Due to banks	10, 23	13 425 188	12 586 511
Customer accounts	11	289 135	406 433
Other liabilities	12, 23	41 463	50 866
Subordinated loan	13, 23	609 538	604 884
Total liabilities		**14 460 027**	**13 739 691**
Equity			
Share capital	14	1 153 089	1 153 089
Share premium		50 367	50 367
Retained earnings	15	1 020 773	776 929
Total equity		**2 224 229**	**1 980 385**
Total liabilities and equity		**16 684 256**	**15 720 076**

E.A. Hodakova
Deputy Chairman of the Management Board

June 16, 2011

I.A. Komarova
Chief Accountant

June 16, 2011

"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

The notes on pages 7-54 form an integral part of these financial statements.

(in thousands of Russian Rubles)

	Notes	2010	2009
Interest income	16, 23	709 933	719 539
Interest expense	16, 23	(155 079)	(399 684)
Net interest income before provision for impairment losses on interest bearing assets		**554 854**	**319 855**
Recovery/(provision) for impairment losses on interest bearing assets	8	53 446	(37 914)
Net interest income		**608 300**	**281 941**
Net (loss)/gain on financial assets at fair value through profit or loss		(26 302)	7 314
Net gain on foreign exchange operations	23	152 487	236 235
Net (loss)/gain on foreign currency revaluation		(164 654)	33 297
Fee and commission income	17	59 513	79 592
Fee and commission expense	17, 23	(48 893)	(63 122)
Provision for impairment losses on other assets	12	(66)	(111)
Other income		1 226	6 751
Operating income		**581 611**	**581 897**
Operating expenses	18	(259 156)	(255 839)
Profit before income tax		**322 455**	**326 058**
Income tax expense	19	(78 611)	(74 750)
Net profit for the period		**243 844**	**251 308**
Comprehensive income for the period		**243 844**	**251 308**

E.A. Hodakova
Deputy Chairman of the Management Board

June 16, 2011

I.A. Komarova
Chief Accountant

June 16, 2011

"Натиксис Банк"
Natixis Bank (ZAO)
ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
ОГРН 1037739055180
МОСКВА

The notes on pages 7-54 form an integral part of these financial statements.

(in thousands of Russian Rubles)

	Share capital	Share premium	Retained earnings	Total equity
Balance at December 31, 2008	**1 153 089**	**50 367**	**525 621**	**1 729 077**
Comprehensive income	-	-	251 308	251 308
Balance at December 31, 2009	**1 153 089**	**50 367**	**776 929**	**1 980 385**
Comprehensive income	-	-	243 844	243 844
Balance at December 31, 2010	**1 153 089**	**50 367**	**1 020 773**	**2 224 229**

E.A. Hodakova
Deputy Chairman of the Management Board

June 16, 2011

"Натиксис Банк"
Natixis Bank (ZAO)

I.A. Komarova
Chief Accountant

June 16, 2011

The notes on pages 7-54 form an integral part of these financial statements.

(in thousands of Russian Rubles)

	Notes	2010	2009
Cash flows from operating activities			
Interest received		636 193	635 053
Interest paid		(150 396)	(435 975)
Gain on foreign exchange operations		144 815	522 527
Gain/(loss) on financial assets at fair value through profit or loss		14 157	(5 321)
Fee and commission received		56 236	76 495
Fee and commission paid		(48 892)	(63 122)
Other operating income		1 228	6 754
Other operating expenses paid		(256 865)	(222 660)
Income tax paid		(94 895)	(94 706)
Cash inflow from operating activities before changes in operating assets and liabilities		**301 581**	**419 045**
Changes in operating assets and liabilities			
Net increase in minimum reserve deposits with the Central Bank of the Russian Federation		(8 095)	(79 289)
Net increase in financial assets at fair value through profit or loss		(30 652)	(1 162 042)
Net increase in due from banks		(3 352 070)	(1 602 057)
Net decrease in loans to customers		2 045 907	6 524 553
Net increase in other assets		(38 666)	(34 110)
Net decrease in due to banks		668 868	(4 040 399)
Net (decrease)/increase in customer accounts		(119 188)	53 076
Net (decrease)/increase in other liabilities		(5 039)	33
Net cash inflows from operating activities		**(537 354)**	**78 810**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	9	(4 272)	(1 156)
Net cash outflow from investing activities		**(4 272)**	**(1 156)**
Effect of exchange rate changes on cash and cash equivalents		**5 767**	**33 442**
Net (decrease)/increase in cash and cash equivalents		**(535 859)**	**110 096**
Cash and cash equivalents, beginning of the period	5	1 583 144	1 472 048
Cash and cash equivalents, end of the period	5	**1 047 285**	**1 583 144**

E.A. Hodakova
Deputy Chairman of the Management Board

June 16, 2011

"Натиксис Банк"
Natixis Bank (ZAO)
МОСКВА

I.A. Komarova
Chief Accountant

June 16, 2011

The notes on pages 7-54 form an integral part of these financial statements.

1 Principal activities

Natixis Bank (ZAO) (the "Bank") is a commercial bank incorporated as a closed joint stock company in 2002. The Bank conducts its business under banking license No. 3390 issued by the Central Bank of the Russian Federation. The Bank's primary business consists of commercial banking activities in the territory of the Russian Federation. The Bank holds a license for securities transactions and participates in the deposit insurance scheme.

The Bank is a subsidiary of Natixis, a legal entity incorporated under the laws of France (the "Parent Bank"), which holds a 100% stake in the Bank's share capital.

The Bank is registered at: 23, bld. 1, 1-st Tverskaya-Yamskaya street, Moscow, Russia. The Bank has no branches or representative offices.

These financial statements were authorized for issue by the Bank's Management Board on June 16, 2011.

2 Operating environment

The Russian economy has features of emerging markets, such as a currency that is not freely convertible in most countries outside the Russian Federation, relatively high inflation and risks not typical for other markets. Tax, currency and customs legislation is subject to frequent changes and various interpretations. Besides, the necessity to further develop bankruptcy legislation, lack of a formalized procedure for registration and realization of collateralized property and other tax and legislative deficiencies complicate the work of financial institutions in the Russian Federation. Further direction of economic development of the Russian Federation depends very much on the efficiency of economic, tax and monetary policies of the Russian government.

The accompanying financial statements represent management's assessment of possible impact of the existing operating environment on the Bank's operational and financial performance. Subsequent changes in the operating environment may differ from management's judgment.

3 Basis of preparation

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

The Bank maintains its accounting records in accordance with the banking legislation of the Russian Federation ("RAS") and France. These financial statements have been prepared from the Russian statutory accounting records and adjusted to conform to IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate items in the statement of financial position and the statement of comprehensive income.

These financial statements have been prepared and presented in the national currency of the Russian Federation, Russian Rubles. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to Bank (the "functional currency"). The functional currency of the financial statements is the Russian Ruble ("RUB").

Adoption of new and revised standards. The accounting policy is the same as the policy applied in the previous financial year. New and revised standards obligatory for application in the period from January 1, 2010 to December 31, 2010 had no impact on the Bank's financial statements.

Standards and interpretations issued and not yet adopted. A number of new standards obligatory for application in the annual reporting periods beginning on or after January 1, 2011 and not yet adopted by the Bank are issued:

IAS 24 "Related Party Disclosures" ("IAS 24") (revised in November 2009; effective for annual periods beginning on or after January 1, 2011). Revised IAS 24 simplifies the requirements to disclosures on entities related to government authorities and specifies the definition of related parties. Currently the Bank is assessing the impact of IAS 24 on the financial statements.

3 Basis of preparation (continued)

IFRS 9 "Financial Instruments" ("IFRS 9") (issued in November 2009; effective for annual periods beginning on or after January 1, 2013). IFRS 9 will gradually replace IAS 39 "Financial Instruments: Recognition and Measurement". Entities can early apply IFRS 9 for annual periods ending on or after December 31, 2009. IFRS 9 introduces new requirements to classification and measurement of financial assets. In particular, for the purposes of further measurement all financial assets should be classified as measured at amortised cost or at fair value through profit or loss, therewith it is possible to irrevocably choose the recognition of revaluation of equity financial instruments not held for trading through other comprehensive income in the statement of comprehensive income. Currently, the Bank is assessing the impact of IFRS 9 on the financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" ("IAS 32") – "Classification of Rights Issues" (issued in October 2009; effective for annual periods beginning on or after February 1, 2010). In accordance with the amendments, the definition of a financial liability provided in IAS 32 is changed so that the rights issues and certain options will be classified as equity instruments. It is applicable if all holders of non-derivative equity financial instruments of an entity of the same class are granted, on a pro rata basis, the rights to a fixed number of additional shares in exchange for a fixed amount of cash in any currency. The Bank is currently evaluating the potential effect such amendments may have on its financial statements.

Amendments to IFRS 7 "Financial Instruments: Disclosures" – "Disclosures – Transfer of Financial Assets" (issued in October 2010; effective for annual periods beginning on or after July 1, 2011, with earlier application permitted). In accordance with the amendments, the information on risks arising in connection with the transfer of financial assets by the reporting entity, including during securitization, should be disclosed in the notes to the financial statements. The Bank is currently evaluating the potential effect such amendments may have on its financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (issued in November 2009; effective for annual periods beginning on or after July 1, 2010). This Interpretation provides guidance for recognition of equity instruments issued to extinguish the financial liabilities by the debtor. The Bank is currently evaluating the potential effect this Interpretation may have on its financial statements.

Improvements to IFRS (issued in May 2010; the majority of amendments come into effect for annual reporting periods beginning on or after January 1, 2011). The International Accounting Standards Board issued a number of amendments to IFRS intended mainly for elimination of internal discrepancies and specification of definitions:

Amendment to IFRS 7 "Financial Instruments: Disclosures" specifies the interaction between qualitative and quantitative disclosures on the nature and level of risks arising in connection with financial instruments. The Bank is currently evaluating the potential effect this amendment may have on its financial statements.

Amendment to IAS 1 "Presentation of Financial Statements" specifies disclosures in the statement of changes in equity. The Bank is currently evaluating the potential effect this amendment may have on its financial statements.

Amendment to IAS 7 "Statement of Cash Flows" specifies that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The Bank is currently evaluating the potential effect this amendment may have on its financial statements.

The Bank believes that adoption of the above IFRSs will not effect materially the Bank's financial statements during the first-time adoption.

Key assumptions. The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

3 Basis of preparation (continued)

Allowance for impairment of loans

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

Valuation of financial instruments

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

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

If the Bank's management had used different assumptions regarding interest rates, volatility, exchange rates, credit rating of the counterparty and valuation adjustments, it would have result in greater or smaller changes in the valuation of financial instruments where quoted market prices are not available, which could have had a material impact on the Bank's reported net income.

4 Significant accounting policies

Key valuation techniques. The Bank uses the following methods for recognition and measurement of financial instruments: at fair value, at amortised cost or at cost.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction. A financial instrument has a quoted market price in an active market if the quotes for such instruments are regularly determined and related information is available at the stock exchange through information and analytical systems or from other information sources, and if such quotes reflect real and regular market transactions carried out on an arm's length basis.

The fair value of financial instruments quoted at an active market is determined based on:

- Stock market quotations (quoted market prices), generally, for financial instruments traded through trade organizers;
- Demand prices for financial assets and supply prices for financial liabilities, and estimated fair value determined based on the data from information and analytic systems (e.g., Reuters and Bloomberg), market dealers and other sources.

With absence of current quoted market prices to determine the fair value the following information may be used:

- The latest quoted market price (demand/supply price) according to external independent sources, if no material changes occurred in the economic environment between the date of estimation and the reporting date;
- The actual price of the transaction performed by the Bank on typical terms and conditions, if there were no significant changes in the economic environment between the transaction date and the reporting date.

In case of a material change in the economic environment, the latest quoted market price (price of the transaction) should be adjusted based on changes in the quoted market price (price of the transaction) for similar financial instruments. For debt securities, the latest quoted market price (price of the transaction) may be adjusted based on changes in maturity of such debt security.

Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the Bank would receive in a forced transaction, involuntary liquidation or distress sale.

The model of discounted cash flows and the analysis of financial information on investees are used for determination of the fair value of financial instruments when the information on their quoted market prices is unavailable from external sources. If there is a method for valuation of a financial instrument widely applicable by market participants, which confirms the valuation results with the prices of actual market transactions, it can be used to determine the price of such financial instrument.

Such method may be selected for each particular case of fair value determination, and unless otherwise substantiated, valuation methods based on stock market prices and demand/supply quoted prices should be applied.

The Bank classifies the information used for determination of the fair value of a financial instrument based on the significance of the input data used for valuation, as follows:

- The current market prices for financial instruments identical with the financial instrument under evaluation (level 1);
- If the information on current quoted market prices is unavailable – the most recent market transaction price, if no significant changes in the operating environment occurred from the date of transaction, and current quoted market prices on comparable financial instruments, if the operating environment changed from the date of transaction, and the information based on observable market data (level 2);
- The prices calculated using valuation techniques with inputs not based on observable market data (level 3).

Amortised cost of a financial asset or a financial liability is the amount at which the financial instrument was measured at initial recognition, less cash received or paid (principal amount, interest income (expense) or other payments under agreement) adjusted for accumulated depreciation charged on the difference between the initially recognised amount and actually received (paid) amount on the financial instrument, and for financial asset impairment loss recognised. This difference is depreciated using the effective interest rate. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premiums or discounts to maturity amount using the effective interest rate method. Accrued interest expenses, including accrued coupon income and amortised discount, are not presented separately but included in the carrying value of respective assets and liabilities.

4 Significant accounting policies (continued)

With respect to variable financial assets and liabilities cash flows and effective interest rate are recalculated at the date of establishment of a new coupon (interest) rate. The effective interest rate is recalculated based on the current amortised cost and expected future payments. Current amortised cost of the financial instrument does not change, and the amortised cost is measured applying the newly established effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, if applicable, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Bank estimates cash flows taking into account all contractual terms and conditions relating to the financial instrument, but not future credit losses.

Such calculation includes all fees and commission paid or received by parties to the contract and are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those cases when it is not possible to estimate the cash flows or the expected life of a financial instrument, the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of its acquisition and includes transaction costs.

Investments in equity instruments, which have no quoted market prices and the fair value of which can not be measured reliably, are measured at cost as well as financial instruments related to such equity instruments and which are subject to extinguishment with such equity instruments are also measured at cost. Transaction costs are additional costs directly related to the acquisition, issue or disposal of a financial instrument and include fees and commissions paid to agents, advisers, brokers, and dealers; levies paid to regulatory agencies and stock exchanges, and taxes and duties levied on the transfer of assets. Transaction costs do not include debt premium or discount, financing costs, internal administrative or holding costs.

Initial recognition of financial instruments. When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, in case of a financial asset or financial liability measured not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Gains and losses at initial recognition of a financial asset or a financial liability are only recognised if there is a difference between the transaction price and the fair value that may be substantiated through other current market transactions with the same instrument or a valuation method which is based on the available market data.

Subject to standard terms and conditions of settlements, the purchase and sale of financial assets is recognised at the transaction date, i.e. the date when the Bank must buy or sell the asset, or at the date of settlement, i.e. the date of delivery of the financial asset by the Bank or to the Bank. The selected method is applied by the Bank consistently to all purchases and sales of financial assets related to the same category of financial assets. For this purpose financial assets held for trading form a category separate from financial assets at fair value through profit or cost.

When accounting for at the transaction date, it is provided for:

- The recognition of a financial asset receivable and the liability for its payment at the transaction date;
- The derecognition of an asset which is the subject of sale, recognition of any gain or loss on its disposal and recognition of receivables from the customer which is repayable at the transaction date.

When accounting for at the date of settlements, it is stipulated:

- The recognition of an asset at the date of transfer to the Bank;
- The derecognition of an asset and recognition of any gain or loss on its disposal at the date of delivery by the Bank.

4 Significant accounting policies (continued)

When accounting at the date of settlements, the Bank recognises any change in fair value of a financial asset receivable during the period between the transaction and the date of settlements, the same as it accounts for changes in value of an acquired asset, i.e. changes in value are not recognised in relation to the assets recorded at cost or amortised cost. Changes in value are included in profit or loss with respect to assets classified as financial assets at fair value through profit or loss and recognised in other comprehensive income of the statement of comprehensive income with respect to available-for-sale assets.

When accounting for at the date of settlements before settlements all transactions are classified as operations with derivative financial instruments.

Impairment of financial assets. For objective recognition of risks accepted the Bank makes allowances for loans to customers and due from banks.

A financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events occurred after the initial recognition of the asset (a 'loss event') and if this loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be measured reliably.

The key indicators of impairment of a financial asset (a 'loss event') are as follows:

- A regular payment was overdue and the delay did not result from breakdowns in the payment system;
- The borrower or the issuer has significant financial problems, which may be confirmed by the borrower's/issuer's financial statements received by the Bank;
- The borrower or the issuer considers possible bankruptcy;
- There are unfavorable changes in the borrower's/issuer's solvency caused by changes in the national and regional economy, which have impact on the borrower or issuer;
- The cost of collateral decreased considerably due to unfavorable market conditions;
- Due to economic or legal factors, the lender granted privileges to the borrower, which could hardly happen otherwise;
- Assets are provided to the borrower to settle the debt on a previously provided asset;
- The lack of an active market for this financial asset due to financial difficulties of the issuer (not because the asset is no longer traded in the market);
- There is the information available on breaches by the issuer/borrower of contractual terms and conditions relating to similar financial assets.

Impairment losses on financial assets at amortised cost are recognised included profit and loss as incurred as a result of one or more events (a "loss event") occurred after the initial recognition of the financial asset.

The Bank does not recognise impairment losses on initial recognition of financial assets.

If the Bank has no impartial evidence of impairment for an individually evaluated asset, regardless its materiality, this asset is included in a group of financial assets with similar parameters of credit risk and assessed for impairment in aggregate with those assets.

For the purposes of an aggregate assessment, financial assets are grouped by similar characteristics of credit risk. These characteristics relate to the assessment of future cash flows for groups of such assets and are evidence of the debtors' ability to repay all due amounts related to the assessed assets in accordance with contractual terms and conditions.

Impairment loss on a financial asset either decreases directly carrying value of the asset or is recognised by means of making allowances for impairment losses in the amount necessary to decrease the carrying value of the asset to the current value of estimated future cash flows (which does not include a future loss on the loan which, presently, have not yet been incurred) discounted using the initial effective interest rate on this asset. The calculation of the discounted value of estimated future cash flows from a secured financial asset includes cash flows which may be generated as a result of realization of the collateral less selling costs, regardless of the probability of such sale.

If in the subsequent period the impairment loss on financial asset decreases, and the decrease may be related objectively to an event occurring after the impairment was recognised, and the previously recognised impairment loss is reversed in profit or loss through adjusting the allowance.

4 Significant accounting policies (continued)

After adjustment of a loan as a result of impairment to recoverable amount, the interest income is recorded based on the interest rate which was used for discounting future cash flows in order to assess the impairment loss.

Financial assets that cannot be repaid and in relation to which the company has completed all the required procedures for partial or complete compensation and determined the total amount of loss, are written off against the allowance for impairment losses included in the statement of financial position.

If in case of a revision of the terms relating to impaired financial assets showed that the revised terms materially differ from the previous ones, the new asset is recorded at fair value.

Derecognition of financial instruments. The Bank only derecognises a financial asset if one of the following requirements is met:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank transfers the financial asset and this transfer complies with de-recognition criteria;

A financial asset is considered as transferred by the Bank only if one of the following requirements is met:

- The Bank transfers the contractual rights to receive cash flows related to the financial asset;
- The Bank retains its contractual rights to receive cash flows related to the financial asset, but assumes a contractual obligation to pay cash to one or more recipients, and subject to the following requirements:
- The Bank has no obligation to pay cash to ultimate customers, unless the Bank received the equivalent amounts from the original customer (short-term advance payments made by the Bank with the right of full recovery of borrowed funds plus interest accrued at market rates do not violate this requirement);
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to ultimate customers for the obligation to pay them cash flows;
- The Bank has an obligation to remit any cash flows it collects on behalf of ultimate customers without a material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to ultimate customers, and the interest income from such investments is subject to allocation to ultimate customers.

When transferring a financial asset the Bank shall evaluate the extent to which it retains the risks and rewards related to ownership of the financial asset. If the Bank:

- Transfers substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall be derecognised. The rights and obligations arisen or retained upon transferring a financial asset are recognised separately as assets and liabilities.
- Retains substantially all the risks and rewards related to ownership of a financial asset, this financial asset shall continue to be recognised;
- Neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Bank shall determine whether it retains the control over the financial asset. If the control is not retained, the Bank derecognises the transferred financial asset. The rights and obligations arisen or retained upon transferring a financial asset are recognised separately as assets and liabilities. If the Bank retains the control over a financial asset, the Bank continues to recognise the transferred asset to the degree it continues to participate in this asset.

If financial assets are re-registered with material changes in conditions, such assets are derecognised and further recognised in the statement of financial position as a newly acquired.

If financial assets are re-registeredwithout material changes in conditions, such assets are recognised at the carrying value of the transferred financial asset.

A financial liability is derecognised in case of repayment, cancellation or expiry of this liability. If one existing financial liability is replaced with another liability to the same lender at materially different conditions or in case of making material changes in the terms of the existing liability, the original liability is derecognised and the new liability is recognised charging the difference in their carrying values to profit or loss.

4 Significant accounting policies (continued)

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with commercial banks, accounts with the Central Bank of the Russian Federation and overnight deposits. All short-term interbank placements, beyond overnight deposits, are included in advances to banks.

Minimum reserve deposits with the Central Bank of the Russian Federation. Minimum reserve deposits with the Central Bank of the Russian Federation are recorded at amortised cost and represent non-interest bearing reserves with the CBR which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Financial assets and liabilities at fair value through profit or loss. Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling or repurchasing them in the near future, (2) which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) are designated as derivatives (except the case when the derivative is defined as an effective hedging instrument).

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or; (2) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Initially and subsequently financial assets measured at fair value through profit or loss are valued at fair value which is calculated either based on quoted market prices or applying various valuation techniques using assumptions on possibility to realize these financial assets in future. Various valuation techniques can be used depending on the circumstances. Availability of published quoted market prices is the best source for determination of fair value of a financial instrument. If the market for certain instruments is not active, the techniques based on the information about recent market transactions between knowledgeable, willing, well-informed and non-related parties are usually applied, as well as the current fair value of other, to a greater degree identical, instrument, results of analysis of discounted cash flows and option price models. If there is an evaluation technique widely applied by the market participants for determination of price of an instrument and which proved that prices obtained as a result of actual market transactions are reliable, it is this technique that is used for evaluation.

Realized and non-realized income and expenses on operations with financial assets at fair value through profit or loss are recognised in the statement of comprehensive income in the period when they were received or incurred, included in income less expenses on the operations with financial assets at fair value through profit or loss. Interest income from financial assets at fair value through profit or loss is measured using the effective interest rate method and recognised in the statement of comprehensive income as interest income on financial assets at fair value through profit or loss.

The Bank classifies financial assets at fair value through profit or loss in an appropriate category at the date of acquisition. Derivative financial assets classified into this category and other financial assets classified as measured at fair value through profit or loss at initial recognition are not reclassified.

Securities repurchase and reverse repurchase agreements. Transactions on sale and repurchase of securities ("repos") which actually ensure for the counterparty income of the lender are considered as borrowing operations secured by securities. Securities transferred under repo agreements are included in financial assets at fair value through profit or loss. If terms of the transaction allow the recipient of financial assets to sell or re-pledge them, such financial assets are recorded separately in the statement of financial position as financial assets transferred without de-recognition in accordance with categories from which they were transferred. Respective liabilities on borrowed funds are recorded in due to banks. The difference between the sale price of the security and its repurchase price is recognised as an interest expense and accrued throughout the term of the repo using the effective interest rate method.

Transactions on purchase and resale of securities ("reverse repos") which actually ensure for the Bank income of the lender are considered as lending operations secured by securities. Securities purchased under reverse repo agreements are not recognised in the statement of financial position. Respective receivables on loans issued are included in due from banks or loans to customers.

4 Significant accounting policies (continued)

The difference between the purchase price of the security and its resale price is recognised as interest income and accrued throughout the term of the repo agreement using the effective interest rate method. Securities provided by the Bank as loans to counterparties continue to be recognised as securities in the original line in the statement of financial position. If terms of the transaction allow the recipient of the financial assets to sell or re-pledge them, such financial assets are reclassified in a separate item of the statement of financial position.

Securities received as a loan are not recognised in the financial statements. If such securities are sold to third parties, the financial result of purchase and sale of these securities is recorded in the statement of comprehensive income in income less expenses on operations with financial assets at fair value through profit or loss. A liability for return of these securities is recorded as held for trading at the fair value and included in financial liabilities at fair value through profit or loss.

Due from banks. Due from banks include non-derivative financial assets with fixed or defined payments not quoted in an active market issued by the Bank to counterparty banks (including the Central Bank of the Russian Federation), except for:

- Overnight deposits;
- Financial assets the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Financial assets designates as available-for-sale upon initial recognition;
- Financial assets, for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.

Due from other banks are recognised from the date of issuance (placement). Due from other banks are initially recognised at fair value. Financial assets reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of reclassification. Gains or losses already recognised in the statement of comprehensive income as at the date of reclassification of financial assets from "at fair value through profit or loss" are not recovered. Further, loans issued and deposits placed are carried at amortised cost net of any allowance for impairment losses. Amortised cost is based on fair value of loan issued or deposit placed calculated using prevalent interest rates for similar loans and deposits as at the date of loan issuance or deposit placement. The difference between the fair value and the nominal amount of loan (deposit) arising at the origination of loans (placement of deposits) at interest rates above or below the prevailing rates is recognised in the statement of comprehensive income at the date of loan issuance (deposit placement) in income (expenses) from assets placed at the rates above (below) market rates. Consequently, the carrying value of these loans (deposits) is adjusted by depreciation amount of this income/(expense), and the interest income is recognised in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is presented in section 'Impairment of financial assets'.

Loans to customers. Loans to customers include non-derivative financial assets with fixed or defined payments that are not quoted in an active market, other than:

- Financial assets that the Bank intends to sell immediately or in the near future, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Financial assets designated as available-for-sale upon initial recognition;
- Financial assets for which the holder will not be able to recover substantially all of its initial investment, other than because of credit quality deterioration, and which shall be classified as available-for-sale.

Loans to customers are initially recognised at fair value plus transaction costs (i.e. fair value of the recovery paid or received). Financial assets that are reclassified from the category "at fair value through profit or loss" or from "available-for-sale" are stated at fair value as at the date of reclassification. Gains or losses already recognised in the statement of comprehensive income as at the date of reclassification of financial assets from the category "at fair value through profit or loss" are not recovered.

Subsequently, loans and receivables are measured at amortised cost using the effective interest rate method.

4 Significant accounting policies (continued)

Loans to customers are recognised from the date of issuance to borrowers. Loans issued at interest rates different from the market interest rates are measured as at the date of issuance at fair value which consists of future cash flows and principal debt amount discounted applying market interest rates for similar loans. The difference between the fair value and the nominal value of a loan is recognised in the statement of comprehensive income as income from the assets placed at interest rates above the market rates, or as an expense on the assets placed at interest rates below the market rates. Consequently, the carrying value of these loans is adjusted for depreciation of income/(expense), and the respective income is recognised in the statement of comprehensive income using the effective interest rate method.

The procedure for assessment of impairment of financial assets is provided in section 'Impairment of financial assets".

Renegotiated loans. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms are renegotiated, any impairment is measured using the original effective interest rate calculated before such renegotiation, while the loan is no longer considered past due. The Bank's management continually reviews the renegotiated loans to ensure that all criteria are met and future payments are likely to be received. The loans are still subject to individual or collective impairment assessment at the original effective interest rate.

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

Property, equipment and intangible assets. Property, equipment and intangible assets acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and amortisation (for intangible assets). Property, equipment and intangible assets acquired before January 1, 2003 are carried at historical cost restated to the equivalent purchasing power of the Russian Ruble as at December 31, 2002, less accumulated depreciation.

At each reporting date the Bank assesses whether there is any indication of impairment of property and equipment and intangible assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of comprehensive income as an impairment loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of property, equipment and intangible assets are determined by reference to the carrying amount and included in the statement of comprehensive income. Repairs and maintenance costs are charged to the statement of comprehensive income as incurred.

Depreciation and amortisation. Depreciation and amortisation of property, equipment and intangible assets are applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

- Motor vehicles – 14% per annum;
- Furniture – 5-33% per annum;
- Office and computer equipment – 14-48% per annum; and
- Intangible assets – 10-33% per annum.

Operating leases. Where the Bank is the lessee, the total lease payments are charged by the lessee to the statement of comprehensive income on a straight-line basis over the period of the lease.

Borrowings. Borrowings include customer accounts and due to other banks. Borrowings are initially recorded at the fair value of the funds received, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between the proceeds and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

4 Significant accounting policies (continued)

Borrowings at interest rates different from the market rates are measured as at the date of the receipt at fair value which includes future interest payments and the principal debt amount discounted using market interest rates for similar loans. The difference between the fair value and the nominal amount of borrowings is recognised in the statement of comprehensive income as income from borrowings issued at interest rates below the market rates, or as expense from borrowings issued at the rates above the market rates. Consequently, the carrying value of these borrowings is adjusted for depreciation of initial income/(expense) from borrowings, and the respective expenses are recognised as interest expenses in the statement of comprehensive income using the effective interest rate method.

Credit commitments. The Bank assumes credit commitments including letters of credit and financial guarantees. Financial guaranties are irrevocable commitments to make payments in case a client fails to fulfill its obligations to third parties, and exposed to the same credit risk as loans.

Commitments to issue loans with interest rates lower than market rates and financial guarantees are initially recognised at fair value which is confirmed by the amount of fee and commission received. This amount is amortised on a straight line basis over the term of the commitment, with the exception to a commitment to issue a loan if there is a probability that the Bank will enter into a particular loan agreement and will not plan to realize this loan within a short period after the issuance; such commission income related to a commitment on origination of a loan is accounted for as deferred income and included in the carrying value of the loan at initial recognition. As at the end of each reporting period liabilities are measured at the greater of the two values: amortised cost of the initial recognition and the best estimation of the expenses on settlement of the liability as at the end of the reporting period.

An allowance is made on loan commitments, if there is a probability of incurring a loss.

Share capital. Share capital is recognised at cost adjusted for inflation.

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

Dividends. Dividends declared after the reporting period are recognised in the events after the reporting period. If dividends are declared by the holder of equity instruments after the reporting period, such dividends are not recognised as liabilities as at the reporting date. Dividends are reported as earnings distribution in the financial statements upon approval by the general meeting of shareholders.

Subordinated loan. Subordinated loan is initially recognised at fair value. Subsequently, subordinated loan is stated at amortised cost using the effective interest rate method.

Income and expense recognition. Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest method.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Other income and expenses are recognised on an accrual basis. Other income is recognised when services are provided. Other expenses are recognised as incurred.

Fee and commission income and other income and expense are recognised on an accrual basis during the period when the service is provided or received.

Loan origination fees are recognised as an adjustment to the effective interest rate of the loan. Commission income for extending loans, not yet originated but probable, is included in other liabilities and subsequently capitalized and taken into account when calculating effective yield of the loan. Where it is probable that a loan commitment will lead to the provision of funds, the loan commitment fees are deferred, together with the related direct costs, and subsequently recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in the statement of comprehensive income over the remaining period of the loan commitment.

Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the statement of comprehensive income on expiry. Loan servicing fees are recognised as the services are provided. Loan syndication fees are recognised in the statement of comprehensive income when the syndication has been completed.

4 Significant accounting policies (continued)

Income tax. Tax expenses are presented in the financial statements in accordance with the RF legislation currently in force. Income tax expense in the statement of comprehensive income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the reporting period using income tax rates in effect during that period. Other tax expense, other than income tax, is included in operating expenses.

Deferred income tax is assessed using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent it is likely that future taxable profit will allow the deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes are levied by the same taxation authority.

Foreign currency revaluation. Items included in the Bank's financial statements are measured using the currency of primary economic environment where the Bank operates (the "functional currency"). The financial statements are presented in the currency of the Russian Federation which is the Bank's functional currency and the currency of presentation.

Transactions denominated in foreign currency are recorded at the official exchange rate established by the Central Bank of the Russian Federation at the date of transaction.

The date of transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS.

A foreign exchange difference arising on settlements of transactions denominated in foreign currencies at exchange rates different from the official CBR rate are included in the statement of comprehensive income within income less expenses on foreign exchange operations.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian rubles at the official CBR exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies are translated into Russian rubles at the official CBR exchange rate at the date of initial recognition.

As at December 31, 2010, the official exchange rate used for revaluating foreign currency account balances was as follows:

- RUB 30.4769 to USD 1 (December 31, 2009: RUB 30.2442 to USD 1);
- RUB 40.3331 to EUR 1 (December 31, 2009: RUB 43.3883 to EUR 1).

At present, the currency of the Russian Federation is not a freely convertible currency in most countries outside the Russian Federation.

4 Significant accounting policies (continued)

Derivative financial instruments. Derivative financial instruments are financial instruments which meet all of the following criteria:

- Their value changes in response to the change in an underlying variable, provided that in case of a non-financial variable this variable does not specifically relate to a party to the agreement;
- No initial investment or small initial investment is required for their acquisition;
- They are settled at a future date.

Derivative financial instruments, including forward foreign exchange contracts, are initially recognised in the statement of financial position at fair value and are subsequently remeasured to fair value.

Fair value is estimated using quoted market prices, discounted cash flow models, or spot rates at the year-end, depending on the type of transaction. Derivative financial instruments with positive fair values are offset against derivative financial instruments with negative fair values only when there is a legally enforceable right to offset.

Derivative financial instruments are recognised in the statement of financial position in the line “Financial assets at fair value through profit or loss” if their fair value is positive, or in the line “Financial liabilities at fair value through profit or loss”, if their fair value is negative.

Changes in the fair value of derivatives are recognised as income less expenses on foreign exchange operations.

The Bank does not enter into transactions designated as hedge transactions under IAS 39.

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

Retirement and other benefit obligations. The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which provides for calculating current contributions by the employer as a percentage of current total payments to staff. Such expense is charged in the period when the related salaries are earned. The Bank has no post-retirement benefits or other significant compensated benefits requiring accrual. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees.

Transactions with related parties. The Bank enters into related party transactions. Parties are considered to be related, inter alia, if one party has the ability to control the other party, is under common control with the other party, is under joint control of the other party and a third party, or may exercise significant influence over the other party in making financial or operational decisions. In considering related party relationships, the Bank pays attention to the economic substance of such relationships and not merely their legal form.

(in thousands of Russian Rubles)

5 Cash and cash equivalents

	2010	2009
Cash on hand	2 245	10 635
Balances with the Central Bank of the Russian Federation (other than minimum reserve deposit)	394 163	632 785
Correspondent accounts and overnight deposits with the banks of		
- the Russian Federation	239	495
- other countries	650 638	939 229
Total cash and cash equivalents	**1 047 285**	**1 583 144**

Geographical, currency and interest rate analyses of cash and cash equivalents, and analysis of counterparties by assigned ratings are disclosed in Note 20.

As at December 31, 2010 included in cash and cash equivalents was the interest accrued on correspondent accounts in the amount of RUB 133 thousand (2009: RUB 127 thousand).

6 Financial assets and financial liabilities at fair value through profit or loss

	Note	2010	2009
Financial assets at fair value through profit or loss			
Corporate bonds		1 337 192	1 343 351
Derivative financial instruments	21	85 575	74 197
Total financial assets at fair value through profit or loss		**1 422 767**	**1 417 548**
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	21, 23	94 703	90 997
Total financial liabilities at fair value through profit or loss		**94 703**	**90 997**

Corporate bonds. Corporate bonds are debt securities of Russian banks and companies denominated in Russian rubles freely tradable in the Russian Federation in organized security markets.

The following table presents the terms of corporate bonds as at December 31, 2010:

	Maturity		**Coupon rate, % per annum**		**Yield to maturity/offer, % per annum**	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	January 2011	April 2019	7.10%	16.70%	3.08%	11.48%

The following table presents the terms of corporate bonds as at December 31, 2009:

	Maturity		**Coupon rate, % per annum**		**Yield to maturity/offer, % per annum**	
	Min.	**Max.**	**Min.**	**Max.**	**Min.**	**Max.**
Corporate bonds	June 2010	June 2018	7.85%	19.00%	7.84%	15.29%

Information on derivative financial instruments is presented in Note 21.

Geographical and currency analyses and analysis of financial assets at fair value through profit or loss by assigned ratings are disclosed in Note 20.

(in thousands of Russian Rubles)

7 Due from banks

All due from banks are current and unimpaired.

As at December 31, 2010 and 2009 due from banks included accrued interest income in the amount of RUB 28 092 thousand and RUB 37 059 thousand, respectively.

As at December 31, 2010 and 2009 deposits in the amount of RUB 613 466 thousand and RUB 1 593 352 thousand, respectively, were placed with the Parent Bank, which is 8% and 40%, respectively, of due from banks.

In addition, as at December 31, 2010 and 2009 the Bank placed loans with 11 and 5 banks totaling RUB 6 546 989 thousand and RUB 2 079 010 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at December 31, 2010, in order to mitigate the credit risk, the Bank received guarantees from the Parent Bank for certain due from banks in the amount of RUB 1 310 507 thousand (2009: RUB 211 709 thousand) (Note 23).

Geographical, currency, maturity and interest rate analyses of due from banks, and analysis of counterparties by assigned ratings are disclosed in Note 20.

8 Loans to customers

	2010	**2009**
Loans to customers	6 557 942	8 520 043
Less: allowance for impairment losses	-	(53 446)
Total loans to customers	**6 557 942**	**8 466 597**

Movements in the allowance for impairment of the loan portfolio are analyzed below:

	2010	**2009**
Allowance for impairment of the loan portfolio at January 1	**53 446**	**15 532**
(Recovery of allowance)/allowance for impairment	(53 446)	37 914
Allowance for impairment of the loan portfolio at December 31	**-**	**53 446**

The structure of the Bank's loan portfolio by industry:

	2010		**2009**	
	Amount	**%**	**Amount**	**%**
Metallurgy	2 744 173	42	2 524 900	30
Energy	1 863 937	28	710 389	8
Production	760 385	12	1 289 325	15
Food production	607 846	9	-	-
Communication	497 014	8	995 247	12
Financial sector	84 588	1	247 631	3
Trade	-	-	2 068 096	25
Transportation	-	-	454 424	5
Publishing	-	-	176 585	2
Total loans to customers	**6 557 942**	**100**	**8 466 597**	**100**

(in thousands of Russian Rubles)

8 Loans to customers (continued)

Information about security for the loan portfolio is provided below:

	2010	2009
Loans collateralized by guarantees	3 763 475	4 761 329
Loans collateralized by pledge of:		
-securities	1 285 639	-
-goods in turnover	655 209	213 926
-real estate	194 561	89 358
-property	167 886	-
-receivables under export contracts	39 807	-
Unsecured loans	451 365	3 401 984
Total loans to customers	**6 557 942**	**8 466 597**

As at December 31, 2010 and 2009 the Bank granted loans to 6 and 13 borrowers (groups of borrowers) totaling RUB 6 442 915 thousand and RUB 7 652 843 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at December 31, 2010 and 2009 loans to customers included accrued interest income in the amount of RUB 36 261 thousand and RUB 18 241 thousand, respectively.

As at December 31, 2010 the Bank had no loans to customers which were determined to be impaired (2009: RUB 4 403 759 thousand).

In 2009 impaired loans were collateralized by pledge of goods in turnover measured at fair value of RUB 123 039 thousand and guarantees by the Parent Bank and third parties with fair value of RUB 3 221 521 thousand. Individually impaired loans were current and not overdue.

The analysis of financial assets individually determined to be impaired is provided below:

	2010			2009		
	Initial carrying value	**Allowance for impairment**	**Carrying value after allowance**	**Initial carrying value**	**Allowance for impairment**	**Carrying value after allowance**
Loans to customers individually impaired	-	-	-	4 403 759	(53 446)	4 350 313

As at December 31, 2010 and 2009 the Bank's maximum exposure to credit risk on loans to customers was RUB 6 557 942 thousand and RUB 8 466 597 thousand, respectively.

As at December 31, 2010 and 2009 most of the loans were granted to companies operating in the Russian Federation, which is a significant risk concentration in one geographic region.

Geographical, currency, maturity and interest rate analyses of loans to customers and the analysis of borrowers by assigned ratings are disclosed in Note 20.

(in thousands of Russian Rubles)

9 Property, equipment and intangible assets

	Note	Motor vehicles	Furniture	Office and computer equipment	Intangible assets	Total
Net book value at December 31, 2008		**1 561**	**6 129**	**7 315**	**437**	**15 442**
Initial cost/indexed cost						
Balance, beginning of the year		2 428	7 623	15 125	10 152	35 328
Additions		-	-	1 156	-	1 156
Disposals		-	-	(40)	-	(40)
Balance, end of the year		**2 428**	**7 623**	**16 241**	**10 152**	**36 444**
Accumulated depreciation and amortisation						
Balance, beginning of the year		867	1 494	7 810	9 715	19 886
Charge for the year	18	347	1 256	2 649	119	4 371
Disposals		-	-	(37)	-	(37)
Balance, end of the year		**1 214**	**2 750**	**10 422**	**9 834**	**24 220**
Net book value at December 31, 2009		**1 214**	**4 873**	**5 819**	**318**	**12 224**
Initial cost/indexed cost						
Balance, beginning of the year		2 428	7 623	16 241	10 152	36 444
Additions		-	1 362	2 910	-	4 272
Disposals		-	(51)	-	-	(51)
Balance, end of the year		**2 428**	**8 934**	**19 151**	**10 152**	**40 665**
Accumulated depreciation and amortisation						
Balance, beginning of the year		1 214	2 750	10 422	9 834	24 220
Charge for the year	18	347	1 407	2 881	119	4 754
Disposals		-	(51)	-	-	(51)
Balance, end of the year		**1 561**	**4 106**	**13 303**	**9 953**	**28 923**
Net book value at December 31, 2010		**867**	**4 828**	**5 848**	**199**	**11 742**

Intangible assets comprise software and information systems.

As at December 31, 2010 and 2009 the carrying amount of fully depreciated property and equipment and fully amortised intangible assets used by the Bank was RUB 15 285 thousand and RUB 14 705 thousand, respectively.

(in thousands of Russian Rubles)

10 Due to banks

	2010	2009
Current term loans and deposits from banks	13 393 038	12 581 655
Correspondent accounts	32 150	4 856
Total due to banks	**13 425 188**	**12 586 511**

As at December 31, 2010 and 2009 due to banks included accrued interest expense in the amount of RUB 13 219 thousand and RUB 8 588 thousand, respectively.

As at December 31, 2010 and 2009 due to banks included RUB 12 622 470 thousand and RUB 11 036 083 thousand, respectively, received from the Parent Bank (Note 23), which is 94% and 88%, respectively, of due to banks.

Geographical, currency, maturity and interest rate analyses of due to banks are disclosed in Note 20.

11 Customer accounts

	2010	2009
Legal entities		
- Current/settlement accounts	249 084	406 433
- Term deposits	40 051	-
Total customer accounts	**289 135**	**406 433**

Allocation of customer accounts by industry:

	2010		2009	
	Amount	**%**	**Amount**	**%**
Transportation	111 669	39	144 083	35
Financial sector	86 682	30	71 952	18
Energy	50 049	17	64 861	16
Information systems	11 729	4	4 535	1
Metallurgy	6 492	2	2 778	1
Trade	5 037	2	88 489	22
Machinery construction	3 642	1	3 633	1
Other	13 835	5	26 102	6
Total customer accounts	**289 135**	**100**	**406 433**	**100**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 20.

(in thousands of Russian Rubles)

12 Other assets and other liabilities

	2010	2009
Other financial assets		
Funds on stock exchanges	154 724	114 529
Prepayments and other debtors	12 592	16 988
Less: allowance for impairment losses	(177)	(111)
Other non-financial assets		
Prepaid income tax	32 930	-
Total other assets	**200 069**	**131 406**
Other financial liabilities		
Bonuses payable	37 852	42 102
Other non-financial liabilities		
Deferred income	584	3 861
Tax liabilities, other than income tax	667	289
Income tax liabilities	-	630
Other liabilities	2 360	3 984
Total other liabilities	**41 463**	**50 866**

Movements in the allowance for impairment losses on other assets are analyzed below:

	2010	2009
Allowance for impairment losses on other assets at January 1	**111**	**-**
Provision for impairment losses	66	111
Allowance for impairment losses on other assets at December 31	**177**	**111**

13 Subordinated loan

In May 2006 the Bank raised a subordinated loan from the Parent Bank in the amount of USD 20 million, maturing not later than May 2013. The interest rate on the subordinated loan equals LIBOR (for USD deposits maturing within six months) +1.5 pct pts, or 1.94% as at December 31, 2010 (2009: 2.02%).

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

14 Share capital

Share capital authorized, issued and fully paid comprises:

	2010			2009		
	Number of shares	Par value	Inflation adjusted amount	Number of shares	Par value	Inflation adjusted amount
Ordinary shares	111 618	1 116 180	1 153 089	111 618	1 116 180	1 153 089
Total share capital	**111 618**	**1 116 180**	**1 153 089**	**111 618**	**1 116 180**	**1 153 089**

All ordinary shares have a par value of RUB 10 thousand per share. Each share carries one vote.

(in thousands of Russian Rubles)

15 Retained earnings

In accordance with the Russian legislation, the Bank distributes profit as dividends or transfers it to reserves on the basis of financial statements prepared in accordance with RAS. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's Charter which provides for creation of a reserve for such purposes in the amount of at least 15% of the Bank's share capital reported in the Bank's accounting records in accordance with RAS. Annual contributions to the reserve amount to 5% of the Bank's net profit in accordance with RAS, until the minimum reserve amount is reached. As at December 31, 2010 and 2009 the Bank's reserve fund under RAS comprised RUB 48 282 thousand and RUB 22 352 thousand, respectively.

16 Interest income and expense

	2010	2009
Interest income		
Interest income on assets recorded at amortised cost		
- interest income on unimpaired assets	455 285	465 512
- interest income on impaired assets	107 831	216 158
Interest income on assets at fair value through profit or loss	146 817	37 869
Total interest income	**709 933**	**719 539**
Interest income on assets recorded at amortised cost comprises		
Interest on loans to customers	391 692	489 448
Interest on due from banks	171 424	192 222
Total interest income on assets recorded at amortised cost	**563 116**	**681 670**
Interest expense		
Interest expense on liabilities recorded at amortised cost	155 079	399 684
Total interest expense	**155 079**	**399 684**
Interest expense on liabilities recorded at amortised cost comprises		
Interest on due to banks	130 556	377 506
Interest on subordinated debt	12 726	21 174
Interest on customer accounts	11 797	1 004
Total interest expense on liabilities recorded at amortised cost	**155 079**	**399 684**
Net interest income before provision for impairment losses on interest-bearing assets	**554 854**	**319 855**

(in thousands of Russian Rubles)

17 Fee and commission income and expense

	2010	2009
Fee and commission income		
Opened letters of credit	23 938	23 215
Lending operations	17 995	45 678
Currency control	12 472	6 071
Settlements	5 108	4 199
Other	-	429
Total fee and commission income	**59 513**	**79 592**
Fee and commission expense		
Guarantees received	44 513	58 470
Settlements	2 263	3 947
Other	2 116	705
Total fee and commission expense	**48 892**	**63 122**

18 Operating expenses

	Note	2010	2009
Staff costs		162 456	155 585
Professional services		24 330	24 361
Leases		15 119	20 443
Repairs and maintenance of property and equipment		12 893	8 223
Other taxes, other than income tax		10 768	10 139
Unified social tax		7 246	10 071
Business development and business trip expenses		7 201	7 643
Communication		6 894	7 181
Depreciation and amortisation	9	4 754	4 371
Insurance		2 633	2 731
Security		232	1 166
Other		4 630	3 925
Total operating expenses		**259 156**	**255 839**

(in thousands of Russian Rubles)

19 Income tax

Income tax expense comprises:

	2010	2009
Current income tax expense	61 335	66 814
Deferred taxation movements due to origination and reversal of temporary differences	17 276	7 936
Income tax expense for the year	**78 611**	**74 750**

Current income tax rate applicable to the Bank's profit for 2010 and 2009 is 20% (2009: 20%). The comparison of theoretical and actual income tax expenses is presented below.

	2010	2009
Profit before tax	**322 455**	**326 058**
Theoretical tax expenses at statutory rate 20%	64 492	65 212
Adjustments for non-taxable and non-deductible income and expenses		
- Non-deductible expenses	14 119	9 533
- Other non-temporary differences	-	5
Income tax expense for the year	**78 611**	**74 750**

Differences between IFRS and the RF tax legislation give rise to certain temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and for income tax purposes.

	2009	Movement	2010
Tax effect of deductible temporary differences			
Effect of calculation of amortised cost of loans to customers	22 965	(20 713)	2 252
Effect of accrued expenses and financial result of term transactions	6 680	3 409	10 089
Total amount of deferred tax asset	**29 645**	**(17 304)**	**12 341**
Tax effect of taxable temporary differences			
Property, equipment and intangible assets	(368)	15	(353)
Other	(37)	13	(24)
Total amount of deferred tax liability	**(405)**	**28**	**(377)**
Total net deferred income tax assets	**29 240**	**(17 276)**	**11 964**

Net deferred income tax assets represent income taxes which can be utilized against future income and are recognised in the statement of financial position. A deferred tax asset arising from the carryforward of tax losses is recognised only to the extent it is probable to utilize the appropriate tax benefit.

(in thousands of Russian Rubles)

20 Financial risk management

Management of risk is fundamental to the Bank's business. The main risks inherent in the Bank's operations include financial risks (credit, market, geographical, currency, liquidity and interest rate risks), operational and legal risks.

The Bank's risk management activities include identifying, measuring and controlling the above risks and making management decisions to avoid or minimize such risks.

Credit risk

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

The Bank controls the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers.

The Bank has a Credit Committee which makes decisions on credit risk-bearing operations.

The Bank's credit structural subdivisions monitor the credit risk level by analyzing market information, financial performance and counterparties' activities and inform the Credit Committee about the monitoring results.

Credit risk is also managed through setting and consolidating requirements to the borrowers on collateral for credit liabilities, collateral valuation and insurance, and the procedure of repossession of collateral.

The Department of Loan Administration and Documentary Operations controls observance of lending authorities and limits on an ongoing basis.

Subsequent control over customer lending is exercised by the Internal Control Service during internal audits conducted according to the audit plan approved by the Bank's Supervisory Board.

Maximum exposure to credit risk

The Bank's maximum exposure to credit risk depends greatly on individual exposures of borrowers and risks inherent in the state of market economy**.**

The following table presents the Bank's maximum exposure to credit risk with respect to financial assets and credit-related commitments. For financial assets, the maximum exposure to credit risk corresponds to the current value of an asset before taking account of any offsets or received collateral. For credit-related commitments, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if they were to be called upon by counterparties as at December 31, 2010:

	Maximum exposure to credit risk	**Collateral**	**Net exposure to credit risk after collateral**
Cash and cash equivalents, less cash on hand	1 045 040	-	1 045 040
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	121 010
Due from banks	7 311 477	1 310 507	6 000 970
Loans to customers	6 557 942	6 106 577	451 365
Financial assets at fair value through profit or loss	1 422 767	-	1 422 767
Other financial assets	154 724	-	154 724
Credit-related commitments	2 798 413	-	2 798 413

(in thousands of Russian Rubles)

20 Financial risk management (continued)

Provided below is the analysis of the Bank's maximum exposure to credit risk of its assets and credit-related commitments as at December 31, 2009:

	Maximum exposure to credit risk	Collateral	Net exposure to credit risk after collateral
Cash and cash equivalents, less cash on hand	1 572 509	-	1 572 509
Minimum reserve deposits with the Central Bank of the Russian Federation	112 915	-	112 915
Due from banks	3 967 002	211 709	3 755 293
Loans to customers	8 466 597	5 064 613	3 401 984
Financial assets at fair value through profit or loss	1 417 548	-	1 417 548
Other financial assets	114 529	-	114 529
Credit-related commitments	1 037 042	333 967	703 075

Financial assets are graded based on the current rating assigned by leading international rating agencies. The highest possible rating is *AAA*. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The table below discloses the groups of the Bank's current financial assets and credit-related commitments which are neither past due nor impaired as at December 31, 2010:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	36 108	614 530	18	-	394 384	1 045 040
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	121 010	-	-	121 010
Due from banks	-	613 466	1 819 274	2 267 505	2 611 232	7 311 477
Loans to customers	-	-	-	581 602	5 976 340	6 557 942
Financial assets at fair value through profit or loss	-	52 462	1 065 803	291 577	12 925	1 422 767
Credit-related commitments	-	2 000 000	-	798 413	-	2 798 413

An analysis of unimpaired financial assets and credit-related commitments by assigned ratings as at December 31, 2009 is provided below:

	AAA/AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents, less cash on hand	330 414	608 815	176	318	632 786	1 572 509
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	112 915	-	-	112 915
Due from banks	-	1 593 352	590 265	1 783 385	-	3 967 002
Loans to customers	-	-	-	1 449 671	2 666 613	4 116 284
Financial assets at fair value through profit or loss	-	57 290	975 020	385 238	-	1 417 548
Credit-related commitments	-	-	-	975 273	61 769	1 037 042

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

(in thousands of Russian Rubles)

20 Financial risk management (continued)

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

A model of the borrower's scoring assessment has been developed by the Bank to assess and decide on loans to small and medium enterprises. The scoring model is developed for standard loan products and includes key performance indicators: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

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

The Bank applies internal methodologies to specific corporate loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the separate statement of financial position. Therefore, more detailed information is not presented.

Financial assets other than loans to customers are graded according to the current credit ratings assigned by internationally recognised agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table provides an analysis of neither past due nor impaired loans to corporate customers that are classified in three categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have unexceptionable credit history with the Bank and other creditors; which proved to be profitable and well performing businesses with no signs of decline of their financial stability;
- The "Moderately performing" category with moderate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Bank and other creditors with minor exceptions in the past; which proved to be well performing businesses in the past but are characterized by average financial performance at the moment.

	December 31, 2010	**December 31, 2009**
Top performing loans	4 857 720	1 440 860
Moderately performing loans	1 118 620	1 225 753
Total	**5 976 340**	**2 666 613**

The banking industry is generally exposed to credit risk through loans to customers and inter bank deposits. With regard to loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on an ongoing basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are observed.

(in thousands of Russian Rubles)

20 Financial risk management (continued)

Geographic risk. Geographical analysis of the Bank's assets and liabilities as at December 31, 2010 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	396 647	614 530	36 108	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	-	121 010
Financial assets at fair value through profit or loss	1 370 305	52 462	-	1 422 767
Due from banks	6 698 011	613 466	-	7 311 477
Loans to customers	6 557 942	-	-	6 557 942
Other financial assets	166 659	112	368	167 139
Total financial assets	**15 310 574**	**1 280 570**	**36 476**	**16 627 620**
Property, equipment and intangible assets	11 742	-	-	11 742
Deferred income tax assets	11 964	-	-	11 964
Other non-financial assets	32 930	-	-	32 930
Total non-financial assets	**56 636**	**-**	**-**	**56 636**
Total assets	**15 367 210**	**1 280 570**	**36 476**	**16 684 256**
Liabilities				
Financial liabilities at fair value through profit or loss	23 119	71 584	-	94 703
Due to banks	802 718	12 622 470	-	13 425 188
Customer accounts	276 654	1 608	10 873	289 135
Subordinated loan	-	609 538	-	609 538
Other financial liabilities	37 852	-	-	37 852
Total financial liabilities	**1 140 343**	**13 305 200**	**10 873**	**14 456 416**
Other non-financial liabilities	3 611	-	-	3 611
Total non-financial liabilities	**3 611**	**-**	**-**	**3 611**
Total liabilities	**1 143 954**	**13 305 200**	**10 873**	**14 460 027**
Net balance sheet position	**14 223 256**	**(12 024 630)**	**25 603**	**2 224 229**
Off-balance sheet credit-related commitments	**798 413**	**2 000 000**	**-**	**2 798 413**

(in thousands of Russian Rubles)

20 Financial risk management (continued)

Geographical analysis of the Bank's assets and liabilities as at December 31, 2009 is provided below:

	Russian Federation	France	Other countries	Total
Assets				
Cash and cash equivalents	643 915	608 815	330 414	1 583 144
Minimum reserve deposits with the Central Bank of the Russian Federation	112 915	-	-	112 915
Financial assets at fair value through profit or loss	1 360 258	57 290	-	1 417 548
Due from banks	2 373 650	1 593 352	-	3 967 002
Loans to customers	5 855 709	-	2 610 888	8 466 597
Other financial assets	129 933	677	796	131 406
Total financial assets	**10 476 380**	**2 260 134**	**2 942 098**	**15 678 612**
Property, equipment and intangible assets	12 224	-	-	12 224
Deferred income tax assets	29 240	-	-	29 240
Total non-financial assets	**41 464**	**-**	**-**	**41 464**
Total assets	**10 517 844**	**2 260 134**	**2 942 098**	**15 720 076**
Liabilities				
Financial liabilities at fair value through profit or loss	29 566	61 431	-	90 997
Due to banks	1 550 427	11 036 084	-	12 586 511
Customer accounts	393 996	2 055	10 382	406 433
Subordinated loan	-	604 884	-	604 884
Other financial liabilities	42 102	-	-	42 102
Total financial liabilities	**2 016 091**	**11 704 454**	**10 382**	**13 730 927**
Other non-financial liabilities	8 444	-	320	8 764
Total non-financial liabilities	**8 444**	**-**	**320**	**8 764**
Total liabilities	**2 024 535**	**11 704 454**	**10 702**	**13 739 691**
Net balance sheet position	**8 493 309**	**(9 444 320)**	**2 931 396**	**1 980 385**
Off-balance sheet credit-related commitments	**1 037 042**	**-**	**-**	**1 037 042**

Assets, liabilities and credit-related commitments are generally classified by the country where the counterparty is located. Cash and property and equipment are classified based on their physical location.

20 Financial risk management (continued)

Market risk

The Bank is exposed to market risk related to open positions on currency operations, money market transactions and debt instruments. The Bank's Assets and Liabilities Management Committee manages market risk by setting open position limits for specific financial instruments, stop-loss limits, and structural limits. The Bank also uses the "Value-at-Risk" method to control market risk exposure. The Value-at-Risk method is used for making quantitative risk assessment for each type of the Treasury Department transactions. Value-at-risk is defined as the maximum potential loss during a specific period of time (one day) estimated based on expected changes in the market prices at a set probability level (99%). This statistical method allows for comparing market risks of various portfolios and establishing the limit of value-at-risk for various types of transactions. The Market Risk Control Department controls compliance with the limits on a daily basis and informs the Bank's management and business units of their use.

Stock market risk

Stock market risk is the risk of potential losses due to unfavourable changes in the securities market, including changes in the market value of securities, changes in price ratios for various securities or stock indices, and changes in the amounts of dividends.

The Bank manages the stock market risk by means of a system of volume limits to the Bank's transactions in the stock market. The Bank is extremely conservative in its operations with securities and only trades in securities of the leading issuers.

Currency risk

The Bank is exposed to the effects of fluctuations in different exchange rates on its financial position and cash flows.

The Bank's Assets and Liabilities Management Committee sets limits to assumed risk categorized by currency both at end of each day and within a day, and controls compliance with such limits on a daily basis. Analysis of the Bank's currency risk as at December 31, 2010 is presented in the table below. The Bank's assets and liabilities are disclosed at carrying value, categorized by currency. Currency derivatives are usually used to minimize the Bank's risk in case of exchange rate fluctuations.

(in thousands of Russian Rubles)

20 Financial risk management (continued)

As at December 31, 2010 the Bank's position with regard to foreign currencies was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	396 050	646 565	4 670	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	121 010	-	-	121 010
Financial assets at fair value through profit or loss	1 422 767	-	-	1 422 767
Due from banks	5 174 021	2 137 456	-	7 311 477
Loans to customers	760 385	5 797 557	-	6 557 942
Other financial assets	43 405	83 328	40 406	167 139
Total financial assets	**7 917 638**	**8 664 906**	**45 076**	**16 627 620**
Property, equipment and intangible assets	11 742	-	-	11 742
Deferred income tax assets	11 964	-	-	11 964
Other non-financial assets	32 930	-	-	32 930
Total non-financial assets	**56 636**	**-**	**-**	**56 636**
Total assets	**7 974 274**	**8 664 906**	**45 076**	**16 684 256**
Liabilities				
Financial liabilities at fair value through profit or loss	94 703	-	-	94 703
Due to banks	1 034 868	12 349 987	40 333	13 425 188
Customer accounts	161 754	122 776	4 605	289 135
Subordinated loan	-	609 538	-	609 538
Other financial liabilities	37 852	-	-	37 852
Total financial liabilities	**1 329 177**	**13 082 301**	**44 938**	**14 456 416**
Other non-financial liabilities	1 575	2 023	13	3 611
Total non-financial liabilities	**1 575**	**2 023**	**13**	**3 611**
Total liabilities	**1 330 752**	**13 084 324**	**44 951**	**14 460 027**
Net balance sheet position	**6 643 522**	**(4 419 418)**	**125**	**2 224 229**

(in thousands of Russian Rubles)

20 Financial risk management (continued)

As at December 31, 2009 the Bank's position with regard to foreign currencies was as follows:

	RUB	USD	EUR	Total
Assets				
Cash and cash equivalents	643 321	936 080	3 743	1 583 144
Minimum reserve deposits with the Central Bank of the Russian Federation	112 915	-	-	112 915
Financial assets at fair value through profit or loss	1 417 548	-	-	1 417 548
Due from banks	2 361 755	1 605 247	-	3 967 002
Loans to customers	-	8 466 597	-	8 466 597
Other financial assets	36 104	51 763	43 539	131 406
Total financial assets	**4 571 643**	**11 059 687**	**47 282**	**15 678 612**
Property, equipment and intangible assets	12 224	-	-	12 224
Deferred income tax assets	29 240	-	-	29 240
Total non-financial assets	**41 464**	**-**	**-**	**41 464**
Total assets	**4 613 107**	**11 059 687**	**47 282**	**15 720 076**
Liabilities				
Financial liabilities at fair value through profit or loss	90 997	-	-	90 997
Due to banks	1 555 283	10 987 840	43 388	12 586 511
Customer accounts	211 156	193 089	2 188	406 433
Subordinated loan	-	604 884	-	604 884
Other financial liabilities	42 102	-	-	42 102
Total financial liabilities	**1 899 538**	**11 785 813**	**45 576**	**13 730 927**
Other non-financial liabilities	1 779	6 959	26	8 764
Total non-financial liabilities	**1 779**	**6 959**	**26**	**8 764**
Total liabilities	**1 901 317**	**11 792 772**	**45 602**	**13 739 691**
Net balance sheet position	**2 711 790**	**(733 085)**	**1 680**	**1 980 385**

The Bank extended loans denominated in foreign currencies. Depending on the borrower's cash inflows, the growth of foreign currency exchange rates against the Russian ruble may adversely affect the borrower's repayment ability, which, in its turn, increases the likelihood of future loan losses.

(in thousands of Russian Rubles)

20 Financial risk management (continued)

The table below presents changes in the financial results and equity resulting from potential changes in exchange rates prevailing as at the reporting date, provided that all other variables remain unchanged as at December 31, 2010:

	2010
	Effect on net profit and equity
Appreciation of USD by 20%	(30)
Depreciation of USD by 20%	30
Appreciation of EUR by 20%	20
Depreciation of EUR by 20%	(20)

Changes in the financial results and equity resulting from potential changes in exchange rates prevailing as at the reporting date, provided that all other variables remain unchanged as at December 31, 2009:

	2009
	Effect on net profit and equity
Appreciation of USD by 20%	(35 169)
Depreciation of USD by 20%	35 169
Appreciation of EUR by 20%	270
Depreciation of EUR by 20%	(270)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Liquidity risk. Liquidity risk arises when maturities of assets and liabilities do not match. The Bank is exposed to the risk as it has to use the cash resources on a daily basis in order to execute clients' transactions, redeem deposits, issue loans, redeem guarantees and derivatives that involve movement of cash resources. The Bank does not accumulate funds to provide for a necessity to meet all the above liabilities simultaneously, as the accumulated operational experience allows for forecasting the level of cash required to meet such liabilities with a reasonable degree of certainty.

The Bank uses the opportunity of raising additional funds and other resources from the only founder Natixis (France). Liquidity risk is therefore not material for the Bank.

The Assets and Liabilities Management Committee develops and implements the liquidity management policy and ensures that liquidity is efficiently managed.

The Treasury Department and its Transaction Documentation Division control the daily liquidity position and perform regular stress-tests to assess liquidity at different scenarios covering standard and less favourable market conditions.

The table below shows the distribution of liabilities as at December 31, 2010 by remaining contractual maturities. The amounts in the table represent contractual undiscounted cash flows on all financial liabilities. These undiscounted cash flows differ from the amounts recognised in the statement of financial position as the balance sheet amounts are based on discounted cash flows. Derivative financial instruments which are estimated on the net basis are recognised in the net amount payable. Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the reporting date. Currency payments are recalculated using the spot exchange rate as at the reporting date.

(in thousands of Russian Rubles)

20 Financial risk management (continued)

The table below presents the Bank's liquidity position as at December 31, 2010:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	6 852 493	1 900 520	815 643	3 965 822	-	13 534 478
Customer accounts	249 084	40 330	-	-	-	289 414
Subordinated loan	-	5 954	6 053	625 985	-	637 992
Deliverable forward contracts	8 995 993	5 608 138	-	-	-	14 604 131
Credit-related commitments	2 798 413	-	-	-	-	2 798 413

The table below presents the Bank's liquidity position as at December 31, 2009:

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	3 042 382	4 080 101	2 966 237	2 586 015	-	12 674 735
Customer accounts	406 433	-	-	-	-	406 433
Subordinated loan	1 051	5 086	18 613	621 836	-	646 586
Deliverable forwardcontracts	5 680 964	1 529 436	-	-	-	7 210 400
Credit-related commitments	1 037 042	-	-	-	-	1 037 042

Interest rate risk. The Bank is exposed to the effects of fluctuations in the market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses.

The Bank is exposed to interest rate risk mainly as a result of lending at fixed interest rates in the amounts and for the periods which differ from those of borrowings at fixed interest rates. In practice, interest rates are usually set for a short period of time. In addition, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement in accordance with the current market environment.

To manage the interest rate, the Bank's Assets and Liabilities Management Committee performs periodic assessments of the impact the market environment has on the Bank's financial results. The Bank's policy with regard to interest rates is subject to the analysis and approval by the Bank's Assets and Liabilities Management Committee.

(in thousands of Russian Rubles)

20 Financial risk management (continued)

The table below provides a general analysis of the Bank's liquidity risk as at December 31, 2010. The Bank's financial assets and liabilities are recorded at carrying amounts by dates of revision of interest rates under contracts or by maturities, depending on which is earlier.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Maturity undefined/ non-interest	Total
Assets							
Cash and cash equivalents	650 637	-	-	-	-	396 648	1 047 285
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	121 010	121 010
Financial assets at fair value through profit or loss	1 337 192	-	-	-	-	85 575	1 422 767
Due from banks	4 580 647	2 730 830	-	-	-	-	7 311 477
Loans to customers	1 973 455	4 584 487	-	-	-	-	6 557 942
Other financial assets	-	-	-	-	-	167 139	167 139
Total financial assets	**8 541 931**	**7 315 317**	**-**	**-**	**-**	**770 372**	**16 627 620**
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	94 703	94 703
Due to banks	7 938 731	5 486 457	-	-	-	-	13 425 188
Customer accounts	249 084	40 051	-	-	-	-	289 135
Subordinated loan	-	609 538	-	-	-	-	609 538
Other financial liabilities	-	-	-	-	-	37 852	37 852
Total financial liabilities	**8 187 815**	**6 136 046**	**-**	**-**	**-**	**132 555**	**14 456 416**
Liquidity gap	**354 116**	**1 179 271**	**-**	**-**	**-**	**637 817**	**2 171 204**
Cumulative liquidity gap	**354 116**	**1 533 387**	**1 533 387**	**1 533 387**	**1 533 387**	**2 171 204**	

(in thousands of Russian Rubles)

20 Financial risk management (continued)

The table below provides a general analysis of the Bank's interest rate risk as at December 31, 2009.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Maturity undefined/non-interest	Total
Assets						
Cash and cash equivalents	939 229	-	-	-	643 915	1 583 144
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	112 915	112 915
Financial assets at fair value through profit or loss	1 343 351	-	-	-	74 197	1 417 548
Due from banks	3 135 765	831 237	-	-	-	3 967 002
Loans to customers	6 309 727	2 119 193	37 677	-	-	8 466 597
Other financial assets	-	-	-	-	131 406	131 406
Total assets	**11 728 072**	**2 950 430**	**37 677**	**-**	**962 433**	**15 678 612**
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	90 997	90 997
Due to banks	8 292 100	4 294 411	-	-	-	12 586 511
Customer accounts	406 433	-	-	-	-	406 433
Subordinated loan	-	604 884	-	-	-	604 884
Other financial liabilities	-	-	-	-	42 102	42 102
Total liabilities	**8 698 533**	**4 899 295**	**-**	**-**	**133 099**	**13 730 927**
Liquidity gap	**3 029 539**	**(1 948 865)**	**37 677**	**-**	**829 334**	**1 947 685**
Cumulative liquidity gap	**3 029 539**	**1 080 674**	**1 118 351**	**1 118 351**	**1 947 685**	

The table below presents changes in net profit and equity as a result of potential changes in the effective interest rates applied as at the reporting date provided that all other variables remain unchanged:

	December 31, 2010		December 31, 2009	
	Interest rate increase by 200 basis points	Interest rate decrease by 200 basis points	Interest rate increase by 200 basis points	Interest rate decrease by 200 basis points
Cash and cash equivalents	10 408	(10 408)	15 036	(15 036)
Financial assets at fair value through profit or loss	20 898	(20 898)	21 494	(21 494)
Due from banks	116 534	(116 534)	63 472	(63 472)
Loans to customers	104 347	(104 347)	135 466	(135 466)
Due to banks	(214 077)	214 077	(201 384)	201 384
Subordinated loan	(9 753)	9 753	(9 678)	9 678
Total impact on net profit and equity	**28 357**	**(28 357)**	**24 406**	**(24 406)**

(in thousands of Russian Rubles)

20 Financial risk management (continued)

The table below provides an analysis of the effective average interest rates by main currencies for principal monetary financial instruments. The analysis was prepared based on the effective interest rates at period end used for interest income and expense accruals for appropriate categories of assets/liabilities.

	2010			2009		
	USD	**RUB**	**EUR**	**USD**	**RUB**	**EUR**
Assets						
Cash and cash equivalents	0.2%	-	0.6%	0.1%	-	0.4%
Financial assets at fair value through profit or loss	-	12.9%	-	-	11.8%	-
Due from banks	0.8%	3.4%	-	0.5%	8.1%	-
Loans to customers	5.0%	12.5%	-	4.7%	-	-
Liabilities						
Due to banks	0.7%	3.4%	0.6%	0.8%	16.2%	0.4%
Customer accounts						
- Current/settlement accounts	0%	0%	0%	0%	0%	0%
- Term deposits	-	3.4%	-	-	-	-
Subordinated loan	1.9%	-	-	2.0%	-	-

Operational Risk. Operational risk is the risk of loss arising from the absence or inadequate efficiency of internal controls, human error, or software failures. The Bank has an Operational Risk Management Committee. The Bank's authorized personnel monitors, analyzes and forecasts operational risk events on a daily basis and develops and implements measures to minimize operational risk exposure**.**

Legal risk. Legal risk may arise from both external and internal factors. External factors include, inter alia, imperfection of the legal system and violations by the Bank's clients and counterparties of the law and contractual terms and conditions. Internal factors include failure by the Bank to comply with the legislation of the Russian Federation, non-compliance of the Bank's internal documents with the RF legislation, and inadequate consideration by the Bank of legal aspects when developing and implementing new technologies and terms of conducting banking operations and other transactions.

The Bank pays increased attention to legal risk management:

- All provisions of the Bank's internal documents and requirements of the RF legislation are strictly observed when conducting banking operations and transactions;
- Changes in the RF legislation are monitored on an ongoing basis and prompt measures are taken to prevent the Bank from violating the effective legislation, including through amending the Bank's internal regulations;
- Legal risk is assessed for the Bank's main lines of business.

The Bank's Legal Department and Internal Control Service control compliance of documentation for the banking operations and other transactions with the RF legislation.

21 Contingent liabilities and forward deals

Litigation. At the moment of preparing the financial statements, the Bank had no litigations**.** Also, the Bank's management is not aware of any customer's intention to file a lawsuit. Accordingly, the Bank's management did not create any provision for losses on potential legal proceedings in the financial statements.

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

21 Contingent liabilities and forward deals (continued)

Such uncertainty could, in particular, occur with regard to tax treatment of financial instruments and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary tax differences occurred due to creation and recovery of provisions for losses on loans and loan equivalents being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates. Also, according to clarifications of the judicial bodies, the statute of limitation for tax liabilities may be extended if a court determines that the taxpayer has obstructed or hindered a tax inspection.

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

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

Ongoing global liquidity crisis. The financial markets, both globally and in the RF, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected the Russian economy. It has resulted in a decrease of Russia's GDP, significant declines in debt and equity prices and a substantial outflow of capital. In addition, Russia is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended December 31, 2010 and 2009 was 8.8% and 8.8%, respectively). Since Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2008-2010. The Russian government initiated the adoption of a package of legal and regulatory acts to restore investor confidence, provide liquidity and support the economy growth. However, at this stage there is no clarity with respect to the efficiency of these measures.

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

While the Russian government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there remains an uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could adversely affect the Bank's financial position, results of operations and business prospects.

Factors including increased unemployment in the RF, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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

(in thousands of Russian Rubles)

21 Contingent liabilities and forward deals (continued)

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

	2009
Up to 1 year	1 915
1 - 5 years	-
Total operating lease commitments	**1 915**

Credit-related commitments. At any time credit commitments may arise with the Bank. These commitments take the form of approved loans and overdraft facilities. The Bank also opens letters of credit to ensure that its customers fulfill their obligations to third parties. Said agreements set out the limits of the Bank's commitments.

	2010	**2009**
Unused credit lines	-	61 769
Overdraft limit	2 000 000	-
Import letters of credit	798 413	975 273
Total credit-related commitments	**2 798 413**	**1 037 042**

Contractual amounts of off-balance sheet commitments are shown in the table by types of transactions. The amounts disclosed in the table with regard to credit commitments suggest that the specified liabilities will be fully realised. The amounts shown in the table with regard to letters of credit represent the maximum amount of the Bank's loss for financial accounting purposes which may be recognised in financial statements if the Bank's counterparties fail to fulfill their contractual obligations.

Many of these commitments may expire without being fully or partially fulfilled. Therefore, the above commitments do not always represent an expected cash outflow.

As at December 31, 2010 the Bank had no guarantees received from the Parent Bank for the purposes of mitigating the risk associated with credit-related commitments (2009: RUB 333 967 thousand) (see Note 23).

The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving deals, using limits which mitigate the risk, and monitoring.

The Bank's management did not create any provisions for credit-related commitments.

Derivative financial instruments: forward deals. The table below presents an analysis of contractual or agreed amounts and fair values of forward deals. Disclosed in this table is the Bank's position before each counterparty position was offset by categories of financial instruments, including contracts with value date after December 31, 2010. These transactions were entered into in the period from January to December 2010 and are of short-term nature.

	Contracts with foreign counterparties			**Contracts with Russian counterparties**		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currency						
- purchase of foreign currency	4 287 263	(71 584)	3 397	5 592 949	(20 240)	5 357
- sale of foreign currency	2 218 070	-	49 065	3 233 660	(2 879)	27 756
Total	**6 505 333**	**(71 584)**	**52 462**	**8 826 609**	**(23 119)**	**33 113**

(in thousands of Russian Rubles)

21 Contingent liabilities and forward deals (continued)

In connection with these operations the Bank recorded net loss in the amount of RUB 9 128 thousand in the line "Net gain on foreign currency transactions".

The position as at December 31, 2009 is shown in the table below:

	Contracts with foreign counterparties			Contracts with Russian counterparties		
	Contractual amount	**Negative fair value**	**Positive fair value**	**Contractual amount**	**Negative fair value**	**Positive fair value**
Forward deals						
Foreign currency						
- purchase of foreign currency	2 450 409	(43 746)	40 052	1 507 870	(20 043)	12 070
- sale of foreign currency	2 648 450	(17 685)	17 238	598 750	(9 523)	4 837
Total	**5 098 859**	**(61 431)**	**57 290**	**2 106 620**	**(29 566)**	**16 907**

In connection with these operations the Bank recorded net loss in the amount of RUB 16 800 thousand in the line "Net gain on foreign currency transactions".

The Bank estimated the fair value of financial instruments using available market information (if any) and proper valuation techniques taking into account unobservable inputs. However, professional judgment is required for interpreting market data in order to estimate the fair value. The economy of the Russian Federation still displays certain features characteristic of emerging markets, while the economic environment continues to restrict the volume of activities in the financial markets. Market quotations may be outdated or reflect the value of selling at low prices and, therefore, not represent fair values of financial instruments. When determining the fair value of financial instruments, the Bank uses all available market information.

22 Fair value of financial instruments

Financial instruments at fair value

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are included in the statement of financial position at fair value. Fair value is estimated based on quoted market prices.

Cash and cash equivalents are stated at amortised cost which approximates their current fair value.

Due from banks and loans to customers

The Bank believes that the fair value of due from banks and loans to customers as at the end of the reporting period, December 31, 2010 and 2009, differs immaterially from their carrying amount. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

Financial liabilities at amortised cost

The Bank believes that the fair value of due to banks, customer accounts and the subordinated loan as at the end of the reporting period, December 31, 2010 and December 31, 2009, differs immaterially from their carrying amount. This can be explained by the existing practice of reconsidering interest rates to reflect current market conditions, which results in accruing interest on most balances at the rates approximating market interest rates.

(in thousands of Russian Rubles)

22 Fair value of financial instruments (continued)

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at December 31, 2010:

	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	1 337 192	85 575	-
Financial liabilities at fair value through profit or loss	-	94 703	-

The table below presents the fair values and applied techniques of valuation of financial instruments at fair value as at December 31, 2009:

	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	1 343 351	74 197	-
Financial liabilities at fair value through profit or loss	-	90 997	-

23 Transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering related party relationships, attention is directed to the economic substance of such relationships and not merely their legal form.

In the normal course of business, the Bank carries out transactions with the Parent Bank and management. These transactions included settlements, issue of loans, raising of deposits, issue of guarantees and foreign currency operations. These transactions were priced predominantly at the market rates. The balances at the year end and income and expense items, as well as other related party transactions for the years ended December 31, 2010 and 2009 are as follows:

	December 31, 2010		December 31, 209	
	Parent Bank	Total category as per the financial statements caption	Parent Bank	Total category as per the financial statements caption
Correspondent accounts of banks and overnight deposits	614 530	1 047 285	608 815	1 583 144
Due from banks	613 466	7 311 477	1 593 352	3 967 002
Due to banks				
Correspondent accounts	32 150	32 150	4 856	4 856
Term deposits of banks	12 590 320	13 393 038	11 031 227	12 581 655
Assets on forward contracts	52 462	85 575	57 289	74 197
Liabilities on forward contracts	71 584	94 703	61 431	90 997
Other liabilities	303	41 463	785	50 866
Subordinated loan	609 538	609 538	604 884	604 884
Overdraft limit issued	2 000 000	2 000 000	-	-

(in thousands of Russian Rubles)

23 Transactions with related parties (continued)

As at December 31, 2010 and 2009, guarantees were received from the Parent Bank in relation to loan operations totaling RUB 5 180 707 thousand and RUB 4 998 008 thousand, respectively.

In 2010 the amount of consideration to the members of the Bank's Management Board, including UST charges and one-time payments, was RUB 57 788 thousand (2009: RUB 56 712).

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

	Year ended December 31, 2010		Year ended December 31, 2009	
	Parent Bank	**Total category as per the financial statements caption**	**Parent Bank**	**Total category as per the financial statements caption**
Interest income	10 718	709 933	28 624	719 539
Interest expense	98 881	155 079	189 470	399 684
Commissions on guarantees paid	35 632	44 513	40 574	58 470
Income less expenses on foreign exchange operations	27 780	152 487	464 210	236 235

In 2010 the amount of consideration to the members of the Bank's Management Board, including UST charges and one-time payments, was RUB 57 788 thousand (2009: RUB 56 712 thousand).

24 Capital management

The Bank manages its capital to: (i) comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) ensure that the Bank continues as a going concern. Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by means of monthly reports containing the relevant calculations checked and signed by Deputy Chairman of the Management Board and Deputy Chief Accountant of the Bank. Other objectives of capital management are assessed annually.

In accordance with effective requirements to capital set by the Central Bank of the Russian Federation, banks shall maintain the capital/risk weighted assets ratio ("capital adequacy ratio") above the established minimum. During 2010 and 2009, the Bank complied with all externally imposed capital requirements.

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