

**Bank “National Clearing  
Centre” (Closed joint-stock  
company)**

**Financial Statements**

For the Year Ended December 31, 2010

# **BANK “NATIONAL CLEARING CENTRE” (CLOSED JOINT-STOCK COMPANY)**

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# **BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)**

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the 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;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

These financial statements for the year ended December 31, 2010 were authorized by the Bank's Management Board for issue on June 15, 2011.

**On behalf of the Management Board:**

  
**Chairman of the Management Board**  
**Alexey Sergeevich Khavin**

June 15, 2011  
Moscow



  
**Chief Accountant**  
**Marianna Petrovna Gorina**

June 15, 2011  
Moscow

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Bank "National Clearing Centre" (Closed joint-stock company)

### **Report on the financial statements**

We have audited the accompanying financial statements of Bank "National Clearing Centre" (Closed joint-stock company) (hereinafter, the "Bank"), which comprise the statement of financial position as at December 31, 2010, 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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

*Deloitte & Touche*

June 15, 2011  
Moscow

# BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)

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

|  | Notes | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|-------|------------------------------------|------------------------------------|
| Interest income  | 4, 20 | 1,287,965                          | 811,888                            |
| Interest expense   | 4, 20 | (227,456)                          | (126,441)                          |
| <b>NET INTEREST INCOME BEFORE RECOVERY OF PROVISION<br/>FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b> |       | <b>1,060,509</b>                   | <b>685,447</b>                     |
| Recovery of provision for impairment losses on interest bearing<br>assets                                    | 5     | 6,839                              | 6,815                              |
| <b>NET INTEREST INCOME</b>   |       | <b>1,067,348</b>                   | <b>692,262</b>                     |
| Commission income from clearing services   | 20    | 537,924                            | 604,620                            |
| Net (loss)/gain on financial assets at fair value through profit or loss                                     | 6     | (55,695)                           | 43,667                             |
| Net gain on foreign exchange operations  |       | 506                                | 2,715                              |
| Other income   |       | 831                                | 7,903                              |
| <b>NET NON-INTEREST INCOME</b>   |       | <b>483,566</b>                     | <b>658,905</b>                     |
| <b>OPERATING INCOME</b>  |       | <b>1,550,914</b>                   | <b>1,351,167</b>                   |
| <b>OPERATING EXPENSES</b>  | 7, 20 | <b>(473,248)</b>                   | <b>(505,230)</b>                   |
| <b>PROFIT BEFORE INCOME TAX</b>  |       | <b>1,077,666</b>                   | <b>845,937</b>                     |
| Income tax expense   | 8     | (203,104)                          | (167,697)                          |
| <b>NET PROFIT</b>  |       | <b>874,562</b>                     | <b>678,240</b>                     |
| <b>OTHER COMPREHENSIVE EXPENSE</b>   |       |                                    |                                    |
| Revaluation of available-for-sale investments  |       | (72,511)                           | -                                  |
| Deferred income tax attributable to other comprehensive income   |       | 14,502                             | -                                  |
| <b>OTHER COMPREHENSIVE LOSS AFTER INCOME TAX</b>   |       | <b>(58,009)</b>                    | <b>-</b>                           |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |       | <b>816,553</b>                     | <b>678,240</b>                     |

On behalf of the Management Board:

  
Chairman of the Management Board  
Alexey Sergeevich Khavin

June 15, 2011  
Moscow



  
Chief Accountant  
Marianna Petrovna Gorina

June 15, 2011  
Moscow

The notes on pages 9-39 form an integral part of these financial statements.

# BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)

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

|   | Note   | December 31,<br>2010 | December 31,<br>2009<br>(restated) |
|---|--------|----------------------|------------------------------------|
| <b>ASSETS:</b>  |        |                      |                                    |
| Cash and cash equivalents                             | 9, 20  | 108,589,620          | 135,274,482                        |
| Financial assets at fair value through profit or loss | 10, 20 | 995,551              | 2,442,815                          |
| Due from banks  | 11, 20 | 3,291,737            | 2,344,135                          |
| Central counterparty financial assets                 | 20     | 560,489              | 1,641,905                          |
| Available-for-sale investments                        | 12, 20 | 10,505,625           | 581                                |
| Held-to-maturity investments                          | 13     | 1,564,752            | 1,418,786                          |
| Other assets  | 14, 20 | 73,130               | 39,700                             |
| <b>TOTAL ASSETS</b>                                   |        | <b>125,580,904</b>   | <b>143,162,404</b>                 |
| <b>LIABILITIES AND EQUITY</b>                         |        |                      |                                    |
| <b>LIABILITIES:</b>                                   |        |                      |                                    |
| Customer accounts                                     | 15, 20 | 116,864,609          | 136,881,091                        |
| Central counterparty financial liabilities            | 20     | 560,489              | 1,641,905                          |
| Other liabilities                                     | 16, 20 | 59,450               | 59,605                             |
| Subordinated debt                                     | 17, 20 | 1,776,545            | 1,776,545                          |
| <b>Total liabilities</b>                              |        | <b>119,261,093</b>   | <b>140,359,146</b>                 |
| <b>EQUITY:</b>  |        |                      |                                    |
| Share capital   | 18     | 4,435,000            | 1,735,000                          |
| Additional paid-in capital                            |        | 21,095               | 21,095                             |
| Investments revaluation reserve                       |        | (58,009)             | -                                  |
| Retained earnings                                     |        | 1,921,725            | 1,047,163                          |
| <b>Total equity</b>                                   |        | <b>6,319,811</b>     | <b>2,803,258</b>                   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                   |        | <b>125,580,904</b>   | <b>143,162,404</b>                 |

On behalf of the Management Board:

  
Chairman of the Management Board  
Alexey Sergeevich Khavin

June 15, 2011  
Moscow



  
Chief Accountant  
Marianna Petrovna Gorina

June 15, 2011  
Moscow

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# BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)

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

|   | Share capital    | Additional paid-in capital | Investments revaluation reserve | Retained earnings | Total equity     |
|---|------------------|----------------------------|---------------------------------|-------------------|------------------|
| December 31, 2008   | 1,735,000        | 21,095                     | -                               | 368,923           | 2,125,018        |
| Comprehensive income  | -                | -                          | -                               | 678,240           | 678,240          |
| December 31, 2009   | 1,735,000        | 21,095                     | -                               | 1,047,163         | 2,803,258        |
| Share capital increase through the issue of ordinary shares | 2,700,000        | -                          | -                               | -                 | 2,700,000        |
| Comprehensive income  | -                | -                          | (58,009)                        | 874,562           | 816,553          |
| December 31, 2010   | <u>4,435,000</u> | <u>21,095</u>              | <u>(58,009)</u>                 | <u>1,921,725</u>  | <u>6,319,811</u> |

On behalf of the Management Board:

  
Chairman of the Management Board  
Alexey Sergeevich Khavin

June 15, 2011  
Moscow



  
Chief Accountant  
Marianna Petrovna Gorina

June 15, 2011  
Moscow

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# BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)

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

|  | Note | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009<br>(restated) |
|--|------|------------------------------------|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |      |                                    |  |
| Profit before taxation   |      | 1,077,666                          | 845,937  |
| Adjustments:   |      |                                    |  |
| Translation difference   |      | 7,975                              | (6,276)  |
| Provision for held-to-maturity investments   |      | (6,839)                            | (6,815)  |
| Depreciation and amortization  |      | 5,025                              | 6,953  |
| Change in accrued interest, net  |      | (104,200)                          | (13,654)   |
| Change in other accruals, net  |      | 2,657                              | 1,108  |
| Unrealized loss /( gain) on financial assets at fair value through profit or loss        |      | <u>25,056</u>                      | <u>(43,900)</u>                                  |
| Cash inflow from operating activities before changes in operating assets and liabilities |      | 1,007,340                          | 783,353  |
| Changes in operating assets and liabilities  |      |                                    |  |
| (Increase)/decrease in operating assets:   |      |                                    |  |
| Minimum reserve deposits with the Central Bank of the Russian Federation                 |      | (24,910)                           | 14   |
| Financial assets at fair value through profit or loss                                    |      | 1,378,461                          | (1,475,389)                                      |
| Due from banks   |      | (930,279)                          | (2,235,138)                                      |
| Central counterparty financial assets  |      | 1,081,416                          | 1,641,905  |
| Other assets   |      | 446,956                            | 23,540   |
| Increase/(decrease) in operating liabilities   |      |                                    |  |
| Customer accounts  |      | (21,531,964)                       | (61,046,649)                                     |
| Central counterparty financial liabilities   |      | (1,081,416)                        | (1,641,905)                                      |
| Other liabilities  |      | <u>(2,849)</u>                     | <u>(10,921)</u>                                  |
| Cash outflow from operating activities before taxation                                   |      | (19,657,245)                       | (63,961,190)                                     |
| Income tax paid  |      | <u>(201,229)</u>                   | <u>(185,813)</u>                                 |
| Net cash outflow from operating activities   |      | <u>(19,858,474)</u>                | <u>(64,147,003)</u>                              |

# BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)

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

|  | Note | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009<br>(restated) |
|--|------|------------------------------------|--|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                 |      |                                    |  |
| Purchase of property and equipment and intangible assets     |      | (5,753)                            | (3,575)  |
| Purchase of available-for-sale investments                   |      | (10,420,381)                       | (581)  |
| Purchase of held-to-maturity investments                     |      | (102,039)                          | (1,035,532)                                      |
| Net cash outflow from investing activities                   |      | (10,528,173)                       | (1,039,688)                                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                 |      |                                    |  |
| Issue of ordinary shares                                     |      | 2,700,000                          | -  |
| Subordinated debt received                                   |      | -                                  | 1,735,000  |
| Net cash inflow from financing activities                    |      | 2,700,000                          | 1,735,000  |
| Effect of exchange rate changes on cash and cash equivalents |      | 1,001,785                          | 9,850,394  |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                    |      | (26,684,862)                       | (53,601,297)                                     |
| CASH AND CASH EQUIVALENTS, beginning of year                 | 9    | 135,274,482                        | 188,875,779                                      |
| CASH AND CASH EQUIVALENTS, end of year                       | 9    | 108,589,620                        | 135,274,482                                      |

Interest paid and received during the year ended December 31, 2010 amounted to RUB 207,461 thousand and RUB 1,163,770 thousand, respectively.

Interest paid and received during the year ended December 31, 2009 amounted to RUB 85,338 thousand and RUB 757,131 thousand, respectively.

On behalf of the Management Board:

  
Chairman of the Management Board  
Alexey Sergeevich Khavin

June 15, 2011  
Moscow



  
Chief Accountant  
Marianna Petrovna Gorina

June 15, 2011  
Moscow

The notes on pages 9-39 form an integral part of these financial statements.

# **BANK "NATIONAL CLEARING CENTRE" (CLOSED JOINT-STOCK COMPANY)**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of Russian Rubles)**

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### **1. ORGANIZATION**

Bank "National Clearing Centre" (Closed joint-stock company) (hereinafter, the "Bank") is a joint-stock bank, which was incorporated in the Russian Federation (hereinafter, "RF") in 2006. The Bank is regulated by the Central Bank of the RF (hereinafter, the "CBR") and the Federal Service for Financial Markets and conducts its banking business and clearing activities under general license number 3466 and license number 7540, respectively. The principal Bank activities consist of clearing operations on the foreign exchange market, including determining and calculating obligations of clearing participants, bringing these obligations to net and settling them in accordance with the RF legislation by acting as a central counterparty.

The registered office of the Bank is located at: 13, Bolshoy Kislovsky per., Moscow, 125009, Russian Federation.

As at December 31, 2010 and 2009 CJSC Moscow Interbank Currency Exchange (hereinafter, "CJSC MICEX") owned 100% of the Bank's shares.

These financial statements were authorized for issue by the Management Board of the Bank on June 15, 2011.

### **2. BASIS OF PRESENTATION**

#### **Accounting basis**

##### ***Statement of compliance***

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

##### ***Other basis of presentation criteria***

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"). These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the statutory accounting records and have been 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, and income and expenses.

The principal accounting policies are set out below.

#### **Recognition of revenue**

##### ***Commission income***

Commission income is recognized as services are provided.

### ***Recognition of interest income***

Interest income on assets measured at amortized cost is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset.

Income is recognized on an effective interest basis for debt instruments.

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

Interest earned on assets at fair value is classified within net gain on financial assets at fair value through profit or loss.

### ***Financial instruments***

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### ***Financial assets***

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

### ***Financial assets at FVTPL***

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

A financial asset is classified as held for trading if:

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset that is included in the 'other income' line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 21.

### ***Held-to-maturity investments***

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

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

### ***Available-for-sale financial assets***

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

Listed bonds held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 21. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

### ***Accounts receivables***

Accounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as "accounts receivable". Accounts receivable are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### ***Impairment of financial assets***

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

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

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

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

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

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

#### ***Derecognition of financial assets***

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

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

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

#### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, balances with the Central Bank of the Russian Federation, unrestricted balances on correspondent and deposit accounts with banks maturing within 1 business day (with respect to December 31, 2010 and 2009, respectively, to January 11, 2011 and 2010 due to Russian statutory holidays). Amounts that are subject to any restrictions on their availability (minimum reserve deposits with the Central Bank of the Russian Federation, in particular) are not included in cash and cash equivalents.

#### ***Central counterparty financial assets and liabilities***

The Bank acts as a central counterparty and guarantees settlements of certain exchange currency transactions. These transactions are only executed between the Bank and a clearing member. Receivables and liabilities on such deals that may be offset against a clearing member are reported net in accordance with IAS 32 and are recognized in the consolidated statement of financial position at the net fair value based on daily settlement prices.

#### ***Collateral of central counterparty***

The Bank guarantees the settlement of certain traded contracts and applies a multi-level approach to securing such contracts. The key component of this approach is to daily determine the overall exposure of a clearing participant (margin) that should be covered by cash collateral.

In addition to these daily security deposits a clearing participant, being a member of the risk-covering fund, is obliged to make contributions to this fund as described in Note 15.

#### ***Financial Liabilities***

##### ***Classification as debt or equity***

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

### ***Other financial liabilities***

Other financial liabilities, including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### ***Derecognition of financial liabilities***

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

### ***Property and equipment***

#### ***Useful lives of property and equipment***

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

|                         | 2010 | 2009 |
|-------------------------|------|------|
| Furniture and equipment | 20%  | 10%  |

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

### ***Intangible assets***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### ***Taxation***

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

#### ***Current tax***

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

### ***Deferred tax***

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

### ***Current and deferred tax for the year***

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

### ***Operating taxes***

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

### ***Contingencies***

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

### ***Foreign currencies***

Monetary assets and liabilities that are denominated in foreign currencies are translated into the Russian Rubles at the appropriate spot rates prevailing at the reporting date. Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

### ***Exchange rates***

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

|                 | December 31,<br>2010 | December 31,<br>2009 |
|-----------------|----------------------|----------------------|
| RUB/1 US Dollar | 30.4769              | 30.2442              |
| RUB/1 Euro      | 40.3331              | 43.3883              |



## **Equity reserves**

The reserves recorded in equity (other comprehensive income) at the Bank's statement of financial position include investments revaluation reserve which comprises changes in fair value of available-for-sale investments.

## **Leases**

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

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

## **Critical accounting judgments and key sources of estimation uncertainty**

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

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

### ***Critical judgments in applying accounting policies***

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

### ***Valuation of financial instruments***

As described in Note 21, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 21 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

### ***Held-to-maturity financial assets***

The directors have reviewed held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity. As at December 31, 2010 the carrying amount of the held-to-maturity financial assets is RUB 1,564,752 thousand. Details of these assets are set out in Note 13.

### ***Recoverability of deferred tax assets***

Management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to RUB 18,631 thousand as at December 31, 2010 (Note 8).

### ***Useful lives of property and equipment***

As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period. During the 2010 financial year, management determined that the useful lives of certain items of equipment should be shortened, due to the existing practice of using certain categories of property and equipment.

The Bank reviewed its estimates relating to expected useful lives of certain categories of property and equipment, which has had no material impact on these financial statements.

### ***New and revised IFRSs affecting presentation and disclosure only***

|   |  |
|---|--|
| Amendments to IFRS 5<br><i>Non-current Assets Held-for-Sale and Discontinued Operations</i><br>(as part of <i>Improvements to IFRSs</i> issued in 2010) | The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the financial statements. |
| Amendments to IAS 7<br><i>Statement of Cash Flows</i><br>(as part of <i>Improvements to IFRSs</i> issued in 2010)                                       | The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of amendments to IAS 7 has had no impact on the Bank's financial statements.   |
| Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i><br>(as part of <i>Improvements to IFRSs</i> issued in 2010)                              | The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Bank has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.  |
| Amendments to IAS 1 <i>Presentation of Financial Statements</i><br>(as part of <i>Improvements to IFRSs</i> issued in 2010)                             | The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Bank has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.   |

### ***New and revised IFRSs in issue but not yet effective***

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

|                             |  |
|-----------------------------|--|
| Amendments to IFRS 7        | Disclosures – Transfers of Financial Assets<br>(effective for annual periods beginning on or after July 1, 2010)     |
| IFRS 9 (as amended in 2010) | Financial Instruments<br>(effective for annual periods beginning on or after January 1, 2013)                        |
| IAS 24 (revised in 2009)    | Related Party Disclosures<br>(effective for annual periods beginning on or after January 1, 2011)                    |
| Amendments to IAS 32        | Classification of Right Issues<br>(effective for annual periods beginning on or after February 1, 2010)              |
| Amendments to IFRIC 14      | Prepayments of a Minimum Funding Requirement<br>(effective for annual periods beginning on or after January 1, 2011) |

*Improvements to IFRSs* issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28) become effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

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

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

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

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

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

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

Management does not anticipate that these amendments to IFRS 7 will have a significant effect on these financial statements.

IAS 24 *Related Party Disclosures* (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 do not significantly affect the Bank.

However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

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

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

### 3. RESTATEMENTS OF COMPARATIVE INFORMATION AND RECLASSIFICATIONS

Transactions where the Bank acts as a central counterparty are recognized in the Bank's financial statements for the year ended December 31, 2010 at fair value, calculated on the basis of day-to-day reference prices, after netting under IFRS 32. To ensure comparability, the data presented in the previous periods have been changed as follows:

|  | As previously<br>reported,<br>December 31,<br>2009<br>(RUB '000) | Amount of<br>adjustment<br>December 31,<br>2009<br>(RUB '000) | As restated<br>December 31,<br>2009<br>(RUB '000) |
|--|--|---|---|
| Central counterparty financial assets      | -  | 1,641,905   | 1,641,905   |
| Central counterparty financial liabilities | -  | 1,641,905   | 1,641,905   |

In 2010 the Bank changed the approach to determining cash and cash equivalents. As a result, as at December 31, 2010 amounts placed with banks for the period of 2 working days or more that are presented in due from banks are excluded from cash and cash equivalents (the Bank's policy for cash and cash equivalents is set out in Note 2). Therefore, 2009 information presented in these financial statements for comparative purposes was revised as follows:

| Statement of financial position | As previously<br>reported,<br>December 31,<br>2009<br>(RUB '000) | Amount of<br>adjustment<br>December 31,<br>2009<br>(RUB '000) | As restated<br>December 31,<br>2009<br>(RUB '000) |
|---------------------------------|--|---|---|
| Cash and cash equivalents       | 137,618,617  | (2,344,135)   | 135,274,482                                       |
| Due from banks                  | -  | 2,344,135   | 2,344,135   |

  

| Statement of cash flows                              | As previously<br>reported,<br>Year ended<br>December 31,<br>2009<br>(RUB '000) | Amount of<br>adjustment<br>Year ended<br>December 31,<br>2009<br>(RUB '000) | As restated<br>Year ended<br>December 31,<br>2009<br>(RUB '000) |
|--|--|---|---|
| Net cash outflow from operating activities           | (61,934,621)   | (2,212,382)   | (64,147,003)  |
| Net increase/(decrease) in cash and cash equivalents | (51,395,730)   | (2,205,567)   | (53,601,297)  |
| Cash and cash equivalents, beginning of year         | 189,014,347  | (138,568)   | 188,875,779   |
| Cash and cash equivalents, end of year               | 137,618,617  | (2,344,135)   | 135,274,482   |

To ensure the comparability of the financial information investments in shares of commercial entities of RUB 581 thousand as at December 31, 2009 were reclassified and presented in these financial statements as available-for-sale investments. In the financial statements for the year ended December 31, 2009 such investments were recognized as other assets.

#### 4. NET INTEREST INCOME

Net interest income comprises:

|  | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|------------------------------------|------------------------------------|
| <b>Interest income comprises:</b>  |                                    |                                    |
| Interest income on assets recorded at amortized cost:  | 720,098                            | 614,989                            |
| - interest on impaired assets  | -                                  | 12,055                             |
| - interest on unimpaired assets  | 720,098                            | 602,934                            |
| Interest income on assets recorded at fair value   | <u>567,867</u>                     | <u>196,899</u>                     |
| <b>Total interest income</b>   | <b><u>1,287,965</u></b>            | <b><u>811,888</u></b>              |
| <b>Interest income on assets recorded at amortized cost comprises:</b>   |                                    |                                    |
| Interest on balances due from banks  | 519,033                            | 499,456                            |
| Interest on held-to-maturity investments   | <u>201,065</u>                     | <u>115,533</u>                     |
| Total interest income on assets recorded at amortized cost   | <u>720,098</u>                     | <u>614,989</u>                     |
| <b>Interest income on financial assets at fair value through profit or loss comprises:</b>                         |                                    |                                    |
| Interest on financial assets at fair value through profit or loss  | 243,143                            | 196,899                            |
| Interest on financial assets available-for-sale  | <u>324,724</u>                     | <u>-</u>                           |
| Total interest income on financial assets at fair value  | <u>567,867</u>                     | <u>196,899</u>                     |
| <b>Interest expense comprises:</b>   |                                    |                                    |
| Interest expense on financial liabilities recorded at amortized cost comprises:                                    |                                    |                                    |
| Interest on subordinated debt  | (164,825)                          | (126,441)                          |
| Interest on time deposits from customers   | <u>(62,631)</u>                    | <u>-</u>                           |
| <b>Total interest expense</b>  | <b><u>(227,456)</u></b>            | <b><u>(126,441)</u></b>            |
| <b>Net interest income before recovery of provision for impairment losses on interest bearing financial assets</b> | <b><u>1,060,509</u></b>            | <b><u>685,447</u></b>              |

#### 5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

|                          | Held-to-maturity<br>investments |
|--------------------------|---------------------------------|
| <b>December 31, 2008</b> | <b>13,654</b>                   |
| Recovery of provisions   | <u>(6,815)</u>                  |
| <b>December 31, 2009</b> | <b>6,839</b>                    |
| Recovery of provisions   | <u>(6,839)</u>                  |
| <b>December 31, 2010</b> | <b><u>-</u></b>                 |

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

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

|  | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|------------------------------------|------------------------------------|
| <b>Net (loss)/gain on financial assets at fair value through profit or loss comprises:</b> |                                    |                                    |
| Fair value adjustment  | (25,056)                           | 43,900                             |
| Dealing  | <u>(30,639)</u>                    | <u>(233)</u>                       |
| <b>Total net (loss)/gain on financial assets at fair value through profit or loss</b>      | <b><u>(55,695)</u></b>             | <b><u>43,667</u></b>               |

## 7. OPERATING EXPENSES

Operating expenses comprise:

|   | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|---|------------------------------------|------------------------------------|
| Staff costs   | 151,716                            | 133,833                            |
| Information and technological services on the foreign exchange market | 134,778                            | 162,707                            |
| Operating lease   | 54,625                             | 53,937                             |
| Taxes, other than income tax  | 41,464                             | 51,416                             |
| Intermediary services under brokerage and similar agreements          | 22,825                             | 44,430                             |
| Settlement and cash services and account servicing                    | 18,620                             | 20,222                             |
| Communications  | 12,196                             | 5,778                              |
| Professional services   | 5,145                              | 2,231                              |
| Depreciation and amortization   | 5,025                              | 6,953                              |
| Property and equipment maintenance                                    | 3,711                              | 3,368                              |
| Advertising costs   | 3,123                              | 4,038                              |
| Stationery  | 1,020                              | 1,212                              |
| Other expenses  | 19,000                             | 15,105                             |
| <b>Total operating expenses</b>                                       | <b>473,248</b>                     | <b>505,230</b>                     |

Expenses for information and technological services on the foreign exchange market comprise amounts paid to CJSC MICEX for comprehensive information and technological services required by the Bank to perform clearing activities on the interbank foreign exchange market.

## 8. INCOME TAXES

The Bank measures and records its current tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the RF, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

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

The tax rate used for the 2010 and 2009 reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under the RF tax law.

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

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| <b>Deductible temporary differences:</b>                                     |                      |                      |
| Available-for-sale investments   | 83,442               | -                    |
| Other liabilities  | 5,992                | 3,383                |
| Other assets   | 2,009                | 1,678                |
| Financial assets at fair value through profit or loss                        | 1,089                | -                    |
| Property, plant and equipment  | 624                  | 422                  |
| <b>Total deductible temporary differences</b>                                | <b>93,156</b>        | <b>5,483</b>         |
| <b>Taxable temporary differences:</b>  |                      |                      |
| Financial assets at fair value through profit or loss                        | -                    | (42,548)             |
| Held-to-maturity investments   | -                    | (7,605)              |
| <b>Total taxable temporary differences</b>                                   | <b>-</b>             | <b>(50,153)</b>      |
| <b>Net deductible/(taxable) temporary differences</b>                        | <b>93,156</b>        | <b>(44,670)</b>      |
| <b>Net deferred income tax asset/(liability) at the statutory rate (20%)</b> | <b>18,631</b>        | <b>(8,934)</b>       |

Reconciliation of income tax expense and accounting profit for the years ended December 31, 2010 and 2009 are explained below:

|  | Year ended<br>December 31,<br>2010          | Year ended<br>December 31,<br>2009          |
|--|---|---|
| Profit before income tax   | <u>1,077,666</u>                            | <u>845,937</u>                              |
| Tax at the statutory tax rate (20%)  | 215,533                                     | 169,187                                     |
| Income tax expense for prior periods   | (9,438)                                     | -   |
| Tax effect of permanent differences  | 3,976                                       | 3,754                                       |
| Tax effect of income taxed at rates other than the 20% rate                      | <u>(6,967)</u>                              | <u>(5,244)</u>                              |
| <b>Income tax expense</b>  | <b><u>203,104</u></b>                       | <b><u>167,697</u></b>                       |
| Current income tax expense   | 216,167                                     | 157,922                                     |
| Changes in deferred income tax balances recognized in profit or loss             | <u>(13,063)</u>                             | <u>9,775</u>                                |
| <b>Income tax expense</b>  | <b><u>203,104</u></b>                       | <b><u>167,697</u></b>                       |
| <b>Deferred income tax asset/(liability)</b>                                     | <b>Year ended<br/>December 31,<br/>2010</b> | <b>Year ended<br/>December 31,<br/>2009</b> |
| As at January 1 – deferred tax assets  | -   | 841   |
| As at January 1 – deferred tax liabilities                                       | (8,934)                                     | -   |
| Changes in deferred income tax balances recognized in other comprehensive income | 14,502                                      | -   |
| Changes in deferred income tax balances recognized in profit or loss             | <u>13,063</u>                               | <u>(9,775)</u>                              |
| <b>As at December 31- deferred tax assets</b>                                    | <b>18,631</b>                               | <b>-</b>                                    |
| <b>As at December 31- deferred tax liabilities</b>                               | <b><u>-</u></b>                             | <b><u>(8,934)</u></b>                       |

## 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

|  | December 31,<br>2010      | December 31,<br>2009<br>(restated) |
|--|---------------------------|------------------------------------|
| Correspondent accounts with other banks                              | 97,515,955                | 42,338,946                         |
| Current accounts with the Central Bank of the Russian Federation     | 7,262,285                 | 90,978,043                         |
| Deposits with the Central Bank of the Russian Federation             | 2,800,386                 | 900,153                            |
| Current accounts in settlement centers of the Regulated Stock Market | 613,222                   | 387,903                            |
| Current accounts on brokerage operations                             | 386,641                   | 152,076                            |
| Time deposits with other banks                                       | 8,908                     | 516,763                            |
| Cash   | <u>2,223</u>              | <u>598</u>                         |
| <b>Total cash and cash equivalents</b>                               | <b><u>108,589,620</u></b> | <b><u>135,274,482</u></b>          |

As at December 31, 2010 and 2009 cash and cash equivalents include advances to three counterparties totaling RUB 94,946,654 thousand and RUB 135,039,728 thousand, respectively, which represents a significant concentration.

See also Note 3.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise investments in securities held for trading as follows:

|  | Coupon rate, % | December 31,<br>2010 | Coupon rate, % | December 31,<br>2009 |
|--|----------------|----------------------|----------------|----------------------|
| Corporate debt securities of Russian issuers                       | 5.87%-8.6%     | 995,551              | 7.35%-15%      | 1,492,751            |
| Russian government debt securities                                 |                | -                    | 0%-5.8%        | 584,388              |
| Debt securities of Russian local authorities                       |                | -                    | 7.89%-10%      | 365,676              |
| <b>Total financial assets at fair value through profit or loss</b> |                | <b>995,551</b>       |                | <b>2,442,815</b>     |

## 11. DUE FROM BANKS

Due from banks comprise:

|                                   | December 31,<br>2010 | December 31,<br>2009<br>(restated) |
|-----------------------------------|----------------------|------------------------------------|
| Time deposits                     | 2,832,755            | 1,907,360                          |
| Risk-covering fund (Notes 15, 23) | 458,982              | 436,775                            |
| <b>Total due from banks</b>       | <b>3,291,737</b>     | <b>2,344,135</b>                   |

See also Note 3.

## 12. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

|  | December 31, 2010 |                   | December 31, 2009 |                |
|--|-------------------|-------------------|-------------------|----------------|
|  | Coupon rate, %    | Carrying value    | Coupon rate, %    | Carrying value |
| Bonds of Russian companies   | 5.87%-16.75%      | 4,395,728         | -                 | -              |
| Bonds of commercial banks  | 6.90%-13.5%       | 2,468,848         | -                 | -              |
| Bonds of Vnesheconombank   | 1.48%             | 1,527,852         | -                 | -              |
| Bonds of Russian local authorities                                   | 6.5%-13.25%       | 1,425,202         | -                 | -              |
| Russian government bonds   | 4.59%-6.10%       | 387,635           | -                 | -              |
| Discount-bearing bonds of the Central Bank of the Russian Federation | -                 | 299,820           | -                 | -              |
| Shares of commercial entities  |                   | 540               |                   | 581            |
| <b>Total available-for-sale investments</b>                          |                   | <b>10,505,625</b> |                   | <b>581</b>     |



### 13. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments comprise:

|  | December 31, 2010 |                         | December 31, 2009 |                         |
|--|-------------------|-------------------------|-------------------|-------------------------|
|  | Coupon rate, %    | Carrying value          | Coupon rate, %    | Carrying value          |
| Russian government debt securities           | 7.95%-13.25%      | 596,221                 | 5.80%-11.90%      | 605,799                 |
| Debt securities of Russian local authorities | 7%-16.75%         | 555,113                 | 7.95%-11.64%      | 466,214                 |
| Corporate debt securities of Russian issuers | 7.95%-13.25%      | 413,418                 | 7%-9.30%          | 353,612                 |
|  |                   | <u>1,564,752</u>        |                   | <u>1,425,625</u>        |
| Allowance for loan impairment losses         |                   | <u>-</u>                |                   | <u>(6,839)</u>          |
| <b>Total securities held-to-maturity</b>     |                   | <b><u>1,564,752</u></b> |                   | <b><u>1,418,786</u></b> |

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

In accordance with amendments to IAS 39 and IFRS 7 on October 15, 2008 the Bank reclassified a portion of debt securities out of financial assets at fair value through profit or loss to held-to-maturity investments.

As at December 31, 2010 and 2009 carrying value of the securities thus reclassified amounted to RUB 138,733 thousand and RUB 351,715 thousand, respectively. If this reclassification had not been made, the Bank's statement of comprehensive income for 2010 would have included positive revaluation of securities in the amount of RUB 8,901 thousand (2009: negative revaluation in the amount of RUB 5,230 thousand).

### 14. OTHER ASSETS

Other assets comprise:

|  | December 31, 2010    | December 31, 2009    |
|--|----------------------|----------------------|
| <b>Other financial assets:</b>   |                      |                      |
| Minimum reserve deposits with the Central Bank of the Russian Federation | 25,216               | 306                  |
| Receivables on other transactions  | <u>1,553</u>         | <u>6,210</u>         |
|  | <u>26,769</u>        | <u>6,516</u>         |
| <b>Other non-financial assets:</b>                                       |                      |                      |
| Property and equipment and intangible assets                             | 18,443               | 17,715               |
| Deferred income tax assets   | 18,631               | -                    |
| Prepayments and other receivables  | 3,466                | 1,649                |
| Capital investments  | 3,235                | -                    |
| Taxes, other than income tax   | 2,586                | 500                  |
| Current income tax assets  | <u>-</u>             | <u>13,320</u>        |
|  | <u>46,361</u>        | <u>33,184</u>        |
| <b>Total other assets</b>  | <b><u>73,130</u></b> | <b><u>39,700</u></b> |

As at December 31, 2010 and 2009, property and equipment and intangible assets comprise:

|  | <b>Furniture and<br/>equipment</b> | <b>Intangible<br/>assets</b> | <b>Total</b> |
|--|------------------------------------|------------------------------|--------------|
| <b>At initial cost</b>                           |                                    |                              |              |
| December 31, 2008                                | 2,609                              | 22,875                       | 25,484       |
| Additions  | 146                                | 3,429                        | 3,575        |
| Disposals  | -                                  | (3,983)                      | (3,983)      |
| December 31, 2009                                | 2,755                              | 22,321                       | 25,076       |
| Additions  | 57                                 | 5,696                        | 5,753        |
| Disposals  | -                                  | (2,983)                      | (2,983)      |
| December 31, 2010                                | 2,812                              | 25,034                       | 27,846       |
| <b>Accumulated depreciation and amortization</b> |                                    |                              |              |
| December 31, 2007                                | 264                                | 4,127                        | 4,391        |
| Charge for the year                              | 599                                | 6,354                        | 6,953        |
| Eliminated on disposal                           | -                                  | (3,983)                      | (3,983)      |
| December 31, 2009                                | 863                                | 6,498                        | 7,361        |
| Charge for the year                              | 593                                | 4,432                        | 5,025        |
| Eliminated on disposal                           | -                                  | (2,983)                      | (2,983)      |
| December 31, 2010                                | 1,456                              | 7,947                        | 9,403        |
| <b>Net book value</b>                            |                                    |                              |              |
| December 31, 2010                                | 1,356                              | 17,087                       | 18,443       |
| December 31, 2009                                | 1,892                              | 15,823                       | 17,715       |

## 15. CUSTOMER ACCOUNTS

Customer accounts comprise:

|  | <b>December 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|------------------------------|------------------------------|
| Accounts of market participants                  | 69,786,783                   | 85,561,472                   |
| Cash collateral by market participants (Note 23) | 44,185,712                   | 50,674,230                   |
| Time deposits                                    | 2,355,457                    | 19                           |
| Risk-covering fund                               | 458,982                      | 436,775                      |
| Current accounts                                 | 77,675                       | 208,595                      |
| <b>Total customer accounts</b>                   | <b>116,864,609</b>           | <b>136,881,091</b>           |

The risk-covering fund is created through contributions made by clearing participants that transfer monetary funds to the Bank's special accounts as per the Rules on trade operations and thus maintain minimum balances in the amounts not less than those set by the Bank for this purpose. All amounts contributed by market participants to the risk-covering fund are held by the Bank with high credit quality financial institutions (Note 11) and may only be used to cover the Bank's losses arising as a result of non-performance of obligations by unscrupulous clearing market participants.

## 16. OTHER LIABILITIES

Other liabilities comprise:

|   | December 31,<br>2010 | December 31,<br>2009 |
|---|----------------------|----------------------|
| <b>Other financial liabilities:</b>     |                      |                      |
| Settlements on business transactions    | 18,211               | 19,075               |
| Payables to staff for unused vacations  | 6,040                | 3,383                |
| Other                                   | 5,007                | 2,232                |
|   | <u>29,258</u>        | <u>24,690</u>        |
| <b>Other non-financial liabilities:</b> |                      |                      |
| Taxes payable, other than income tax    | 28,574               | 25,981               |
| Current income tax liabilities          | 1,818                | -                    |
| Deferred income tax liabilities         | -                    | 8,934                |
|   | <u>30,192</u>        | <u>34,915</u>        |
| <b>Total other liabilities</b>          | <u><b>59,450</b></u> | <u><b>59,605</b></u> |

## 17. SUBORDINATED DEBT

Subordinated debt comprises:

|                                      | Currency | Maturity date     | Interest rate<br>% | December 31,<br>2010 | December 31,<br>2009 |
|--------------------------------------|----------|-------------------|--------------------|----------------------|----------------------|
| Subordinated debt from<br>CJSC MICEX | RUB      | March 26,<br>2019 | 9.5%               | 1,776,545            | 1,776,545            |

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

## 18. SHARE CAPITAL

As at December 31, 2010 and 2009 the Bank's share capital consisted of 4,435,000 and 1,735,000 issued and fully paid ordinary shares with a nominal value of RUB 1 thousand each, respectively.

Reconciliation of the number of shares outstanding as at December 31, 2010 and 2009 is presented in the table below:

|                          | Number of<br>ordinary<br>shares |
|--------------------------|---------------------------------|
| December 31, 2008        | <u>1,735,000</u>                |
| December 31, 2009        | <u>1,735,000</u>                |
| Issue of ordinary shares | <u>2,700,000</u>                |
| <b>December 31, 2010</b> | <u><b>4,435,000</b></u>         |

As at December 31, 2010 and 2009, additional paid-in capital of RUB 21,095 thousand represents an excess of contributions received over the nominal value of shares issued.

The Bank's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve fund has been created in accordance with the Bank's statutes, that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in its statutory books. As at December 31, 2010 and 2009 the reserve fund amounted to RUB 221,750 thousand, and RUB 86,750 thousand, respectively.

## 19. COMMITMENTS AND CONTINGENCIES

**Operating lease commitments** – Where the Bank is the lessee, the future minimum lease payments under non cancelable operating leases of premises, parking slots and vehicles are as follows:

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Less than 1 year                             | 7,343                | 11,752               |
| Later than 1 year and not later than 5 years | -                    | 7,076                |
| <b>Total operating lease commitments</b>     | <b>7,343</b>         | <b>18,828</b>        |

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

**Taxation** – Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation which allows the Russian tax authorities to take decisions based on their own arbitrary interpretations 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”.

Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed. Such uncertainty could, in particular, be attributed to tax treatment of financial instruments and determination of market price of transactions for transfer pricing purposes.

Management believes its interpretation of the relevant legislation is appropriate and that the tax positions of the Bank will be confirmed. Accordingly, no provision was raised as at December 31, 2010 and 2009.

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

**Operating environment** – The Bank’s principal business activities are within the Russian Federation. Laws and regulations affecting the businesses environment in the Russian Federation are subject to rapid changes and the Bank’s assets and operations could be at risk due to negative changes in the political and business environment.

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

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

The global financial turmoil that has negatively affected the Russian financial and capital markets in 2008 and 2009 has receded and the Russian economy returned to growth in 2010. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, 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 position and prospects.

**Legal proceedings** – In the normal course of business, claims against the Bank may be received from customers and counterparties. Management believes that such claims may not have a material effect on the financial and operating activities of the Bank, the Bank is not exposed to material losses and accordingly no provisions were formed within its financial statements.

## 20. TRANSACTIONS WITH RELATED PARTY

Included in the statement of financial position as at December 31, 2010 and 2009 are the following amounts which arose due to transactions with related parties:

|   | December 31, 2010         |  | December 31, 2009         |  |
|---|---------------------------|--|---------------------------|--|
|   | Related party<br>balances | Total<br>category as per<br>the financial<br>statements<br>caption | Related party<br>balances | Total<br>category as per<br>the financial<br>statements<br>caption |
| <b>Cash and cash equivalents, including:</b>  | <b>12,312,897</b>         | <b>108,589,620</b>   | <b>92,266,394</b>         | <b>135,274,482</b>   |
| - entities with joint control or significant influence over the Bank                          | 11,699,679                |  | 91,878,502                |  |
| - other related parties   | 613,218                   |  | 387,892                   |  |
| <b>Financial assets initially recognized at fair value through profit or loss, including:</b> | <b>287,902</b>            | <b>995,551</b>   | <b>1,207,810</b>          | <b>2,442,815</b>   |
| - entities with joint control or significant influence over the Bank                          | 287,902                   |  | 1,207,810                 |  |
| <b>Due from banks, including:</b>   | <b>1,609,538</b>          | <b>3,291,737</b>   | <b>701,722</b>            | <b>2,344,135</b>   |
| - entities with joint control or significant influence over the Bank                          | 1,609,538                 |  | 701,722                   |  |
| <b>Central counterparty financial assets, including:</b>                                      | <b>196,806</b>            | <b>560,489</b>   | <b>179,718</b>            | <b>1,641,905</b>   |
| - entities with joint control or significant influence over the Bank                          | 196,806                   |  | 179,718                   |  |
| <b>Available-for-sale investments, including:</b>   | <b>2,197,415</b>          | <b>10,505,625</b>  | -                         | <b>581</b>   |
| - entities with joint control or significant influence over the Bank                          | 2,197,415                 |  | -                         |  |
| <b>Other assets, including:</b>   | <b>344</b>                | <b>73,130</b>  | -                         | <b>39,700</b>  |
| - CJSC MICEX  | 317                       |  | -                         |  |
| - entities with joint control or significant influence over the Bank                          | 27                        |  | -                         |  |
| <b>Customer accounts, including:</b>  | <b>17,267,526</b>         | <b>116,864,609</b>   | <b>18,278,585</b>         | <b>136,881,091</b>   |
| - CJSC MICEX  | 2,125,944                 |  | 208,595                   |  |
| - entities with joint control or significant influence over the Bank                          | 14,838,384                |  | 18,069,990                |  |
| - entities under common control and influence   | 303,198                   |  | -                         |  |
| <b>Central counterparty financial liabilities</b>   | <b>30,031</b>             | <b>560,489</b>   | <b>96,348</b>             | <b>1,641,905</b>   |
| - entities with joint control or significant influence over the Bank                          | 30,031                    |  | 96,348                    |  |
| <b>Other liabilities, including:</b>  | <b>17,080</b>             | <b>59,450</b>  | <b>15,574</b>             | <b>59,605</b>  |
| - CJSC MICEX  | 14,880                    |  | 15,574                    |  |
| - entities under common control and influence   | 2,200                     |  | -                         |  |
| <b>Subordinated debt, including:</b>  | <b>1,776,545</b>          | <b>1,776,545</b>   | <b>1,776,545</b>          | <b>1,776,545</b>   |
| - CJSC MICEX  | 1,776,545                 |  | 1,776,545                 |  |

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

|   | December 31, 2010         |  | December 31, 2009         |  |
|---|---------------------------|--|---------------------------|--|
|   | Related party<br>balances | Total<br>category as per<br>the financial<br>statements<br>caption | Related party<br>balances | Total<br>category as per<br>the financial<br>statements<br>caption |
| <b>Key management personnel compensation:</b> | <b>32,829</b>             | <b>151,716</b>   | <b>33,740</b>             | <b>133,833</b>   |
| Short-term employee benefits                  | 32,829                    |  | 33,740                    |  |

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

|  | Year ended<br>December 31, 2010 |  | Year ended<br>December 31, 2009 |  |
|--|---------------------------------|--|---------------------------------|--|
|  | Related party<br>balances       | Total<br>category as per<br>the financial<br>statements<br>caption | Related party<br>balances       | Total<br>category as per<br>the financial<br>statements<br>caption |
| <b>Interest income, including:</b>                                   | <b>180,991</b>                  | <b>1,287,965</b>   | <b>172,520</b>                  | <b>811,888</b>   |
| - entities with joint control or significant influence over the Bank | 180,991                         |  | 172,520                         |  |
| <b>Interest expense, including:</b>                                  | <b>227,456</b>                  | <b>227,456</b>   | <b>126,441</b>                  | <b>126,441</b>   |
| - CJSC MICEX   | 221,137                         |  | 126,441                         |  |
| - entities under common control and influence                        | 6,319                           |  | -                               |  |
| <b>Commission income from clearing services, including:</b>          | <b>61,442</b>                   | <b>537,924</b>   | <b>63,408</b>                   | <b>604,620</b>   |
| - CJSC MICEX   | 2,853                           | -  | -                               | -  |
| - entities with joint control or significant influence over the Bank | 58,563                          |  | 63,408                          |  |
| - entities under common control and influence                        | 26                              |  | -                               |  |
| <b>Operating expenses, including:</b>                                | <b>249,085</b>                  | <b>473,248</b>   | <b>254,338</b>                  | <b>505,230</b>   |
| - CJSC MICEX   | 190,474                         |  | 216,754                         |  |
| - entities under common control and influence                        | 25,782                          |  | 3,844                           |  |
| - key management personnel   | 32,829                          |  | 33,740                          |  |

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

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

|                              | December 31, 2010 |            | December 31, 2009 |            |
|------------------------------|-------------------|------------|-------------------|------------|
|                              | Carrying value    | Fair value | Carrying value    | Fair value |
| Held-to-maturity investments | 1,564,752         | 1,756,320  | 1,418,786         | 1,522,457  |

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions traded on active liquid markets are determined with reference to quoted market prices (includes listed bonds).
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

***Fair value measurements recognized in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

|   | December 31, 2010  |   |   |
|---|--|---|---|
|   | Quoted prices in<br>active market<br>(Level 1)<br>(RUB '000) | Valuation<br>techniques<br>based on<br>observable<br>market data<br>(Level 2)<br>(RUB '000) | Valuation<br>techniques<br>incorporating<br>information<br>other than<br>observable<br>market data<br>(Level 3)<br>(RUB '000) |
| Financial assets at fair value through profit or loss | 995,551  | -   | -   |
| Central counterparty financial assets                 | 560,489  | -   | -   |
| Available-for-sale investments                        | 10,505,085   | -   | -   |

  

|   | December 31, 2009  |   |   |
|---|--|---|---|
|   | Quoted prices in<br>active market<br>(Level 1)<br>(RUB '000) | Valuation<br>techniques<br>based on<br>observable<br>market data<br>(Level 2)<br>(RUB '000) | Valuation<br>techniques<br>incorporating<br>information<br>other than<br>observable<br>market data<br>(Level 3)<br>(RUB '000) |
| Financial assets at fair value through profit or loss | 2,442,815  | -   | -   |
| Central counterparty financial assets                 | 1,641,905  | -   | -   |

Investments into shares that are not quoted in an organized market classified as investments for sale were excluded from the above tables. As the fair value of such securities cannot be measured reliably due to the absence of market data, such investments are carried at acquisition cost of RUB 540 thousand and RUB 581 thousand as at December 31, 2010 and 2009.

## **22. CAPITAL RISK MANAGEMENT**

The Bank manages its capital to ensure that it will be able to continue as a going concern and keep the required balance between ensuring financial stability in any economic environment, minimizing expenses of the market players and ensuring the return to shareholders at a high level.

The Bank's capital structure consists of shareholders' equity, which includes capital issued, additional paid-in capital and retained earnings.

Issues related to the Bank's capital management are reviewed by the Supervisory Board. As part of this review, the Supervisory Board considers capital adequacy and the risks associated with classes of capital. Based on recommendations of the Board, the Bank adjusts its capital structure through payment of dividends, additional share issue or repurchase of treasury shares.

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

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

## **23. RISK MANAGEMENT POLICIES**

Risk management is fundamental to the Bank's business and is exercised with respect to the following main risks inherent in its operations: credit, market, geographic, currency, liquidity and interest rate risks. The main objective of financial risk management is to determine and assess risk zones and exposure, develop risk management policies, create risk controls, including setting of limits and further ensuring compliance with the established limits.

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

### **Credit risk**

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

The Bank's key methods of credit risk management are as follows:

- Continuous monitoring of the state of receivables and credit risk-bearing financial assets and instruments as well as financial position of counterparties;
- Setting limits with respect to counterparties and credit risk-bearing financial assets and instruments;
- Continuous monitoring of calculated indicators which characterize exposure to credit risk (credit risk indicators).

The Bank assesses the credit risks using calculated indicators which characterize exposure to credit risk and based on professional judgment about the counterparty's financial position.

The Bank uses the following credit risk indicators:

- Obligatory economic ratios introduced by the CBR to assess the credit risk;
- Indicators of asset quality assessment developed in accordance with the CBR methodologies for determining financial sustainability of credit institutions;
- The Bank's limits set with respect to counterparties, financial assets and instruments.

The credit risk is directly managed by the Asset Management Committee, Treasury and Risk Management Department. The limits with respect to counterparties, financial assets and instruments are approved by the Bank's Management Board. The list of acceptable assets approved by the Management Board is characterized by low credit risks and is limited to bonds of the Bank of Russia,



OFZ bonds, bonds of financially sustainable RF constituents and corporate bonds of issuers with high international credit ratings.

The Bank acts as a clearing center and central counterparty to all transactions entered into in the MICEX currency market and becomes a party to all transactions concluded by participants in various segments of the financial market; all net liabilities of market participants are calculated with respect to the Bank; the Bank is responsible for its obligations to participants regardless of whether or not other participants perform their obligations.

To avoid the risk of default of the Bank's clearing participants on their transactions, the terms of clearing require that clearing participants deposit margins and security in the form of cash or securities on a regular basis prior to or during trading in the amounts set by the Bank for each participant.

In addition to preliminary depositing of cash and security for current transactions, each clearing participant shall make a contribution to the risk-covering fund which reduces the Bank's exposure to potential financial implications of a default or losses incurred by a clearing participant beyond the individual margin of such participant. The Fund is intended to cover market (exchange) risks arising from potential non-performance by clearing participants who joined the Fund of their obligations under transactions concluded in the MICEX currency market.

**Maximum exposure to credit risk**

The Bank's maximum exposure to credit risk is represented by the carrying value of assets exposed to credit risk and may vary significantly, depending on both individual risks inherent in certain assets and general market economy risks.

Credit risks are not significant for the Bank's activities as the Bank does not issue loans and guarantees, settlement documents of customers are executed only if such customers have cash on accounts with the Bank, and customer accounts and own funds denominated in Russian rubles are recorded (stored) only on accounts of banks with high ratings.

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

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

|   | AAA    | AA         | A       | BBB        | <BBB-     | Not rated | Total       |
|---|--------|------------|---------|------------|-----------|-----------|-------------|
| Cash and cash equivalents                             | -      | 79,587,780 | 391,900 | 27,917,794 | -         | 689,923   | 108,587,397 |
| Financial assets at fair value through profit or loss | -      | -          | -       | 508,139    | 487,412   | -         | 995,551     |
| Due from banks  | -      | 458,982    | -       | 1,611,743  | 1,221,012 | -         | 3,291,737   |
| Central counterparty financial assets                 | 14,684 | 35,453     | -       | 191,098    | 172,467   | 146,787   | 560,489     |
| Investments held for sale                             | -      | -          | -       | 7,142,521  | 3,363,104 | -         | 10,505,625  |
| Held-to-maturity investments                          | -      | -          | -       | 1,179,639  | 385,113   | -         | 1,564,752   |
| Other financial assets                                | -      | -          | -       | 25,216     | -         | 1,553     | 26,769      |

As at December 31, 2009:

|   | AAA | AA         | A      | BBB         | <BBB-   | Not rated | Total       |
|---|-----|------------|--------|-------------|---------|-----------|-------------|
| Cash and cash equivalents                             | -   | 25,586,529 | -      | 109,299,832 | -       | 387,523   | 135,273,884 |
| Financial assets at fair value through profit or loss | -   | -          | -      | 1,503,998   | 364,519 | 574,298   | 2,442,815   |
| Due from banks  | -   | 436,775    | -      | 1,201,886   | 705,474 | -         | 2,344,135   |
| Central counterparty financial assets                 | -   | 386,256    | 65,180 | 649,212     | 347,986 | 193,271   | 1,641,905   |
| Investments held for sale                             | -   | -          | -      | -           | -       | 581       | 581         |
| Held-to-maturity investments                          | -   | -          | -      | 1,218,735   | 200,051 | -         | 1,418,786   |
| Other financial assets                                | -   | -          | -      | 306         | -       | 6,210     | 6,516       |

The Bank performs analyses of the financial standing of counterparty banks and the maturity of receivables on the basis of which impairment provision is created, if any.

As at December 31, 2010 and 2009 the Bank's assets did not include any past due financial assets carried at amortized cost.

### Geographical concentration

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

|  | RF                 | OECD<br>countries | Other      | December 31,<br>2010<br>Total |
|--|--------------------|-------------------|------------|-------------------------------|
| <b>FINANCIAL ASSETS</b>                    |                    |                   |            |                               |
| Cash and cash equivalents                  | 65,748,103         | 42,841,296        | 221        | 108,589,620                   |
| Financial assets at fair value             |                    |                   |            |                               |
| through profit or loss                     | 995,551            | -                 | -          | 995,551                       |
| Due from banks                             | 2,832,755          | 458,982           | -          | 3,291,737                     |
| Central counterparty financial assets      | 560,489            | -                 | -          | 560,489                       |
| Available-for-sale investments             | 10,505,085         | 540               | -          | 10,505,625                    |
| Held-to-maturity investments               | 1,564,752          | -                 | -          | 1,564,752                     |
| Other financial assets                     | 26,696             | 73                | -          | 26,769                        |
| <b>TOTAL FINANCIAL ASSETS</b>              | <b>82,233,431</b>  | <b>43,300,891</b> | <b>221</b> | <b>125,534,543</b>            |
| <b>FINANCIAL LIABILITIES</b>               |                    |                   |            |                               |
| Customer accounts                          | 116,864,609        | -                 | -          | 116,864,609                   |
| Central counterparty financial liabilities | 560,489            | -                 | -          | 560,489                       |
| Other financial liabilities                | 29,258             | -                 | -          | 29,258                        |
| Subordinated debt                          | 1,776,545          | -                 | -          | 1,776,545                     |
| <b>TOTAL FINANCIAL LIABILITIES</b>         | <b>119,230,901</b> | <b>-</b>          | <b>-</b>   | <b>119,230,901</b>            |

  

|  | RF                 | OECD<br>countries | Other      | December 31,<br>2009<br>Total |
|--|--------------------|-------------------|------------|-------------------------------|
| <b>FINANCIAL ASSETS</b>                    |                    |                   |            |                               |
| Cash and cash equivalents                  | 92,868,826         | 42,405,435        | 221        | 135,274,482                   |
| Financial assets at fair value             |                    |                   |            |                               |
| through profit or loss                     | 2,442,815          | -                 | -          | 2,442,815                     |
| Due from banks                             | 1,907,360          | 436,775           | -          | 2,344,135                     |
| Central counterparty financial assets      | 1,641,905          | -                 | -          | 1,641,905                     |
| Available-for-sale investments             | -                  | 581               | -          | 581                           |
| Held-to-maturity investments               | 1,418,786          | -                 | -          | 1,418,786                     |
| Other financial assets                     | 6,516              | -                 | -          | 6,516                         |
| <b>TOTAL FINANCIAL ASSETS</b>              | <b>100,286,208</b> | <b>42,842,791</b> | <b>221</b> | <b>143,129,220</b>            |
| <b>FINANCIAL LIABILITIES</b>               |                    |                   |            |                               |
| Customer accounts                          | 136,881,091        | -                 | -          | 136,881,091                   |
| Central counterparty financial liabilities | 1,641,905          | -                 | -          | 1,641,905                     |
| Other financial liabilities                | 24,690             | -                 | -          | 24,690                        |
| Subordinated debt                          | 1,776,545          | -                 | -          | 1,776,545                     |
| <b>TOTAL FINANCIAL LIABILITIES</b>         | <b>140,324,231</b> | <b>-</b>          | <b>-</b>   | <b>140,324,231</b>            |

### ***Liquidity risk***

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk arises when the maturity of assets and liabilities does not match. The Bank is exposed to the risk due to its daily calls on available cash resources for settlements of market participants.

Organization of liquidity risk management includes developing day-to-day liquidity management techniques as well as assessing and monitoring liquidity risk.

The key methods and techniques of liquidity risk management are as follows:

- Building the optimal structure of assets which helps to maintain the target profitability of assets and equity while minimizing the risk of failure by the Bank to fulfill its obligations;
- Performing quantitative assessment of liquidity risks and using the system of liquidity risk indicators;
- Setting limits with respect to operations or counterparties which are balanced according to the asset operations funding timelines;
- Availability of reliable mechanisms to support the payment positions with respect to the Bank's correspondent accounts;
- Developing long-range resource movement plans.

Long-range plans are developed complete with a breakdown by maturities or expected dates of asset realization. At the same time, account is taken of potential untimely settlement of assets as well as potential necessity to realize such assets ahead of schedule to support the payment positions with respect to the Bank's correspondent accounts.

The Bank maintains the required and sufficient amount of highly-liquid assets: cash on hand, balances on correspondent accounts with the CBR and other credit institutions, government securities and other debt securities with high liquidity. While managing liabilities, the Bank considers the possibility of raising interbank loans for day-to-day liquidity management and increasing equity through strategic liquidity management.

The Bank assesses the liquidity risk using the following liquidity risk indicators:

- Obligatory liquidity ratios introduced by the CBR;
- Parameters of payment positions with respect to NOSTRO correspondent accounts;
- Indicators of liquidity assessment developed in accordance with the CBR methodologies for determining financial sustainability of credit institutions and analyzing liquidity of credit institutions.

Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization. The Asset Management Committee and Risk Management Department control the liquidity risk by analyzing risk indicators, develop the strategy for asset operations and performs mid-term and long-term liquidity management.

An analysis of liquidity risk is presented below as follows:

- (a) Term to maturity of financial liabilities, calculated using the earliest of the dates when the Bank will have to settle the liability,
- (b) Estimated term to maturity of financial assets based on contractual maturities, except when the Bank expects that cash flows will be received at a different time. Available-for-sale investments, other than investments in share capitals and shares of commercial entities included in the "Maturity undefined" category, are classified as maturing within the period from 3 months to 1 year.

An analysis of balance sheet interest rate and liquidity risks is presented in the following table.  
The table below is based on the information provided to the Bank's key management.

|  | Up to<br>1 month   | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>5 years | Over<br>5 years    | Maturity<br>undefined | December<br>31, 2010<br>Total |
|--|--------------------|------------------------|-----------------------|----------------------|--------------------|-----------------------|-------------------------------|
| <b>FINANCIAL ASSETS</b>  |                    |                        |                       |                      |                    |                       |                               |
| Cash and cash equivalents  | 107,587,534        | -                      | -                     | -                    | -                  | -                     | 107,587,534                   |
| Financial assets at fair value through<br>profit or loss                                     | 995,551            | -                      | -                     | -                    | -                  | -                     | 995,551                       |
| Due from banks   | 2,070,773          | -                      | 1,220,964             | -                    | -                  | -                     | 3,291,737                     |
| Available-for-sale investments   | 10,505,085         | -                      | -                     | -                    | -                  | -                     | 10,505,085                    |
| Held-to-maturity investments   | 41,798             | -                      | 805,838               | 717,116              | -                  | -                     | 1,564,752                     |
| <b>Total interest bearing<br/>financial assets</b>   | <b>121,200,741</b> | <b>-</b>               | <b>2,026,802</b>      | <b>717,116</b>       | <b>-</b>           | <b>-</b>              | <b>123,944,659</b>            |
| Cash and cash equivalents  | 1,002,086          | -                      | -                     | -                    | -                  | -                     | 1,002,086                     |
| Due from banks   | -                  | -                      | -                     | -                    | -                  | -                     | -                             |
| Central counterparty financial assets  | 560,489            | -                      | -                     | -                    | -                  | -                     | 560,489                       |
| Available-for-sale investments   | -                  | -                      | -                     | -                    | -                  | 540                   | 540                           |
| Other financial assets   | 1,553              | -                      | -                     | -                    | -                  | 25,216                | 26,769                        |
| <b>Total financial assets</b>  | <b>122,764,869</b> | <b>-</b>               | <b>2,026,802</b>      | <b>717,116</b>       | <b>-</b>           | <b>25,756</b>         | <b>125,534,543</b>            |
| <b>FINANCIAL LIABILITIES</b>   |                    |                        |                       |                      |                    |                       |                               |
| Customer accounts  | 20,437             | 118,000                | 1,585,500             | 631,500              | -                  | -                     | 2,355,437                     |
| Subordinated debt  | -                  | -                      | -                     | -                    | 1,776,545          | -                     | 1,776,545                     |
| <b>Total interest bearing<br/>financial liabilities</b>                                      | <b>20,437</b>      | <b>118,000</b>         | <b>1,585,500</b>      | <b>631,500</b>       | <b>1,776,545</b>   | <b>-</b>              | <b>4,131,982</b>              |
| Customer accounts  | 114,509,172        | -                      | -                     | -                    | -                  | -                     | 114,509,172                   |
| Central counterparty financial<br>liabilities  | 560,489            | -                      | -                     | -                    | -                  | -                     | 560,489                       |
| Other financial liabilities  | 29,258             | -                      | -                     | -                    | -                  | -                     | 29,258                        |
| <b>Total financial liabilities</b>   | <b>115,118,358</b> | <b>118,000</b>         | <b>1,585,500</b>      | <b>631,500</b>       | <b>1,776,545</b>   | <b>-</b>              | <b>119,230,901</b>            |
| <b>Liquidity gap</b>   | <b>7,645,513</b>   | <b>(118,000)</b>       | <b>441,302</b>        | <b>85,616</b>        | <b>(1,776,545)</b> | <b>25,756</b>         |                               |
| <b>Cumulative liquidity gap</b>  | <b>7,645,513</b>   | <b>7,527,513</b>       | <b>7,968,815</b>      | <b>8,054,431</b>     | <b>6,277,886</b>   | <b>6,303,642</b>      |                               |
| <b>Interest sensitivity gap</b>  | <b>121,180,304</b> | <b>(118,000)</b>       | <b>441,302</b>        | <b>85,616</b>        | <b>(1,776,545)</b> | <b>-</b>              |                               |
| <b>Cumulative interest sensitivity gap</b>   | <b>121,180,304</b> | <b>121,062,304</b>     | <b>121,503,606</b>    | <b>121,589,222</b>   | <b>119,812,677</b> | <b>119,812,677</b>    |                               |
| <b>Cumulative interest sensitivity gap<br/>as a percentage of total<br/>financial assets</b> | <b>97%</b>         | <b>96%</b>             | <b>97%</b>            | <b>97%</b>           | <b>95%</b>         | <b>95%</b>            |                               |

|  | Up to<br>1 month   | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>5 years | Over<br>5 years    | Maturity<br>undefined | December<br>31, 2009<br>Total |
|--|--------------------|------------------------|-----------------------|----------------------|--------------------|-----------------------|-------------------------------|
| <b>FINANCIAL ASSETS</b>  |                    |                        |                       |                      |                    |                       |                               |
| Cash and cash equivalents  | 43,755,710         | -                      | -                     | -                    | -                  | -                     | 43,755,710                    |
| Financial assets at fair value through<br>profit or loss                                     | 2,442,815          | -                      | -                     | -                    | -                  | -                     | 2,442,815                     |
| Due from banks   | 1,788,681          | 555,474                | -                     | -                    | -                  | -                     | 2,344,135                     |
| Held-to-maturity investments   | -                  | 26,199                 | 77,212                | 1,315,375            | -                  | -                     | 1,418,786                     |
| <b>Total interest bearing<br/>financial assets</b>   | <b>47,987,186</b>  | <b>581,673</b>         | <b>77,212</b>         | <b>1,315,375</b>     | <b>-</b>           | <b>-</b>              | <b>49,961,446</b>             |
| Cash and cash equivalents  | 91,518,772         | -                      | -                     | -                    | -                  | -                     | 91,518,772                    |
| Central counterparty financial assets  | 1,641,905          | -                      | -                     | -                    | -                  | -                     | 1,641,905                     |
| Available-for-sale investments   | -                  | -                      | -                     | -                    | -                  | 581                   | 581                           |
| Other financial assets   | 6,210              | -                      | -                     | -                    | -                  | 306                   | 6,516                         |
| <b>Total financial assets</b>  | <b>141,154,073</b> | <b>581,673</b>         | <b>77,212</b>         | <b>1,316,375</b>     | <b>-</b>           | <b>887</b>            | <b>143,129,220</b>            |
| <b>FINANCIAL LIABILITIES</b>   |                    |                        |                       |                      |                    |                       |                               |
| Subordinated debt  | -                  | -                      | -                     | -                    | 1,776,545          | -                     | 1,776,545                     |
| <b>Total interest bearing<br/>financial liabilities</b>                                      | <b>-</b>           | <b>-</b>               | <b>-</b>              | <b>-</b>             | <b>1,776,545</b>   | <b>-</b>              | <b>1,776,545</b>              |
| Customer accounts  | 136,881,091        | -                      | -                     | -                    | -                  | -                     | 136,881,091                   |
| Central counterparty<br>financial liabilities  | 1,641,905          | -                      | -                     | -                    | -                  | -                     | 1,641,905                     |
| Other financial liabilities  | 24,690             | -                      | -                     | -                    | -                  | -                     | 24,690                        |
| <b>Total financial liabilities</b>   | <b>138,547,686</b> | <b>-</b>               | <b>-</b>              | <b>-</b>             | <b>1,776,545</b>   | <b>-</b>              | <b>140,324,231</b>            |
| <b>Liquidity gap</b>   | <b>2,606,387</b>   | <b>581,673</b>         | <b>77,212</b>         | <b>1,315,375</b>     | <b>(1,776,545)</b> | <b>887</b>            |                               |
| <b>Cumulative liquidity gap</b>  | <b>2,606,387</b>   | <b>3,188,060</b>       | <b>3,265,272</b>      | <b>4,580,647</b>     | <b>2,804,102</b>   | <b>2,804,989</b>      |                               |
| <b>Interest sensitivity gap</b>  | <b>47,987,186</b>  | <b>581,673</b>         | <b>77,212</b>         | <b>1,315,375</b>     | <b>(1,776,545)</b> | <b>-</b>              |                               |
| <b>Cumulative interest sensitivity gap</b>   | <b>47,987,186</b>  | <b>48,568,859</b>      | <b>48,646,071</b>     | <b>49,961,446</b>    | <b>48,184,901</b>  | <b>48,184,901</b>     |                               |
| <b>Cumulative interest sensitivity gap<br/>as a percentage of total<br/>financial assets</b> | <b>34%</b>         | <b>34%</b>             | <b>34%</b>            | <b>35%</b>           | <b>34%</b>         | <b>34%</b>            |                               |

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

|   | Up to<br>1 month   | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>5 years | Over<br>5 years  | December<br>31, 2010<br>Total |
|---|--------------------|------------------------|-----------------------|----------------------|------------------|-------------------------------|
| <b>FINANCIAL LIABILITIES</b>                        |                    |                        |                       |                      |                  |                               |
| Customer accounts                                   | 29,598             | 135,796                | 1,661,806             | 634,710              | -                | 2,461,910                     |
| Subordinated debt                                   | 13,999             | 26,643                 | 124,183               | 659,752              | 2,268,310        | 3,092,887                     |
| <b>Total interest bearing financial liabilities</b> | <b>43,597</b>      | <b>162,439</b>         | <b>1,785,989</b>      | <b>1,294,462</b>     | <b>2,268,310</b> | <b>5,554,797</b>              |
| Customer accounts                                   | 114,509,172        | -                      | -                     | -                    | -                | 114,509,172                   |
| Central counterparty financial liabilities          | 560,489            | -                      | -                     | -                    | -                | 560,489                       |
| Other financial liabilities                         | 29,258             | -                      | -                     | -                    | -                | 29,258                        |
| <b>Total financial liabilities</b>                  | <b>115,142,516</b> | <b>162,439</b>         | <b>1,785,989</b>      | <b>1,294,462</b>     | <b>2,268,310</b> | <b>120,653,716</b>            |

|   | Up to<br>1 month   | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>5 years | Over<br>5 years  | December<br>31, 2009<br>Total |
|---|--------------------|------------------------|-----------------------|----------------------|------------------|-------------------------------|
| <b>FINANCIAL LIABILITIES</b>                        |                    |                        |                       |                      |                  |                               |
| Subordinated debt                                   | 13,999             | 26,643                 | 124,183               | 659,752              | 2,433,135        | 3,257,712                     |
| <b>Total interest bearing financial liabilities</b> | <b>13,999</b>      | <b>26,643</b>          | <b>124,183</b>        | <b>659,752</b>       | <b>2,433,135</b> | <b>3,257,712</b>              |
| Customer accounts                                   | 136,881,091        | -                      | -                     | -                    | -                | 136,881,091                   |
| Central counterparty financial liabilities          | 1,641,905          | -                      | -                     | -                    | -                | 1,641,905                     |
| Other financial liabilities                         | 24,690             | -                      | -                     | -                    | -                | 24,690                        |
| <b>Total financial liabilities</b>                  | <b>138,561,685</b> | <b>26,643</b>          | <b>124,183</b>        | <b>659,752</b>       | <b>2,433,135</b> | <b>141,805,398</b>            |

#### ***Fair value interest rate risk***

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Assets of the Bank at fair value which are sensitive to fluctuations of market interest rates, consist of the trading portfolio of debt securities at fair value through profit or loss.

The limits with respect to financial assets and instruments are approved by the Bank's Management Board. The list of acceptable assets with regard to investments in bonds, which is approved by the Bank's Supervisory Board, is limited to bonds of the CBR, OFZ bonds, and bonds of RF constituents and corporate bonds of issuers with high international credit ratings.

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

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

|   | December 31, 2010   |                      | December 31, 2009   |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Interest rate<br>1% | Interest rate<br>-1% | Interest rate<br>1% | Interest rate<br>-1% |
| <b>Impact on profit before tax</b>                    |                     |                      |                     |                      |
| Financial assets at fair value through profit or loss | (28,483)            | 29,304               | (49,237)            | 52,249               |
| Financial assets held for sale                        | (173,159)           | 177,797              | -                   | -                    |

|   | December 31, 2010   |                      | December 31, 2009   |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Interest rate<br>1% | Interest rate<br>-1% | Interest rate<br>1% | Interest rate<br>-1% |
| <b>Impact on equity</b>                               |                     |                      |                     |                      |
| Financial assets at fair value through profit or loss | (22,786)            | 23,443               | (39,389)            | 41,799               |
| Financial assets held for sale                        | (138,527)           | 142,238              | -                   | -                    |

### ***Currency risk***

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

The Bank is a specific participant of the currency market; as a central counterparty to the currency market transactions, it participates in concluding transactions in a passive mode; the methods used to mitigate the Bank's currency risk in the foreign stock exchange market include exchange rate limitations with respect to foreign exchange trading, trading limits, margin system (transaction assurance through preliminary depositing of cash by market participants), assurance of open trading positions, "delivery vs. payment" principle, and replacement of dishonest clearing participants by the CBR.

While clearing transactions with foreign currencies, the Bank's market risks are mainly dependent on the volatility of currency pairs. Therefore, in order to manage the market risk the Bank monitors the condition of the domestic and foreign currency markets and sets the limits of daily fluctuations of exchange rate during trading in accordance with the market situation. Based on the set limits to cross rate fluctuations agreed with the CBR for each currency pair and each instrument, the Bank calculates the depositing standard, i.e. the amount of cash as a percentage of the planned volume of transactions to be transferred by the participants to enable them to conclude transactions during trading. The Bank's Management Board, as agreed with the CBR, sets parameters of the MICEX currency market risk management system, which determine the exchange rate limits for traded instruments and depositing standards.

Another mechanism for mitigating the Bank's exposure to market risk arising from non-performance by participants of their obligations on the results of clearing is an additional trading session with the CBR which allows for eliminating a participant's failure to deliver as it occurs.

The Bank's exposure to currency risk is as follows:

|   | RUB               | USD<br>USD 1 =<br>RUB 30.4769 | EUR<br>EUR 1 =<br>RUB 43.3310 | Other<br>currency | December<br>31, 2010<br>Total |
|---|-------------------|-------------------------------|-------------------------------|-------------------|-------------------------------|
| <b>Financial assets</b>   |                   |                               |                               |                   |                               |
| Cash and cash equivalents   | 11,064,757        | 76,361,988                    | 21,086,173                    | 76,702            | 108,589,620                   |
| Financial assets at fair value<br>through profit or loss                      | 995,551           | -                             | -                             | -                 | 995,551                       |
| Due from banks  | 2,223,217         | 1,068,520                     | -                             | -                 | 3,291,737                     |
| Central counterparty<br>financial assets                                      | 340               | 340,487                       | 219,662                       | -                 | 560,489                       |
| Available-for-sale investments  | 8,977,232         | 1,527,853                     | 540                           | -                 | 10,505,625                    |
| Held-to-maturity investments  | 1,564,752         | -                             | -                             | -                 | 1,564,752                     |
| Other financial assets  | 25,539            | 770                           | 460                           | -                 | 26,769                        |
| <b>Total financial assets</b>   | <b>24,851,388</b> | <b>79,299,618</b>             | <b>21,306,835</b>             | <b>76,702</b>     | <b>125,534,543</b>            |
| <b>Financial liabilities</b>  |                   |                               |                               |                   |                               |
| Customer accounts   | 16,782,947        | 78,935,335                    | 21,069,869                    | 76,458            | 116,864,609                   |
| Central counterparty financial<br>liabilities                                 | 553,289           | 7,200                         | -                             | -                 | 560,489                       |
| Other financial liabilities   | 26,333            | 2,925                         | -                             | -                 | 29,258                        |
| Subordinated debt   | 1,776,545         | -                             | -                             | -                 | 1,776,545                     |
| <b>Total financial liabilities</b>  | <b>19,139,114</b> | <b>78,945,460</b>             | <b>21,069,869</b>             | <b>76,458</b>     | <b>119,230,901</b>            |
| <b>NET POSITION</b>   | <b>5,712,274</b>  | <b>354,158</b>                | <b>236,966</b>                | <b>244</b>        |                               |
| <b>Central counterparty<br/>transactions before<br/>netting as per IAS 32</b> |                   |                               |                               |                   |                               |
| Assets  | 221,458,866       | 194,392,098                   | 30,793,870                    | -                 | 446,644,834                   |
| Liabilities   | 220,905,917       | 194,725,385                   | 31,013,532                    | -                 | 446,644,834                   |
| <b>NET POSITION</b>   | <b>552,949</b>    | <b>(333,287)</b>              | <b>(219,662)</b>              | <b>-</b>          | <b>-</b>                      |
| <b>TOTAL NET POSITION</b>   | <b>6,265,223</b>  | <b>20,871</b>                 | <b>17,304</b>                 | <b>244</b>        |                               |
|   | RUB               | USD<br>USD 1 =<br>RUB 30.2442 | EUR<br>EUR 1 =<br>RUB 43.3883 | Other<br>currency | December<br>31, 2009<br>Total |
| <b>Financial assets</b>   |                   |                               |                               |                   |                               |
| Cash and cash equivalents   | 9,460,810         | 97,684,439                    | 28,129,012                    | 221               | 135,274,482                   |
| Financial assets at fair value<br>through profit or loss                      | 2,442,815         | -                             | -                             | -                 | 2,442,815                     |
| Due from banks  | 1,907,360         | 436,775                       | -                             | -                 | 2,344,135                     |
| Central counterparty<br>financial assets                                      | 2,054             | 1,553,808                     | 86,043                        | -                 | 1,641,905                     |
| Available-for-sale investments  | -                 | -                             | 581                           | -                 | 581                           |
| Held-to-maturity investments  | 1,418,786         | -                             | -                             | -                 | 1,418,786                     |
| Other financial assets  | 6,516             | -                             | -                             | -                 | 6,516                         |
| <b>Total financial assets</b>   | <b>15,238,341</b> | <b>99,675,022</b>             | <b>28,215,636</b>             | <b>221</b>        | <b>143,129,220</b>            |
| <b>Financial liabilities</b>  |                   |                               |                               |                   |                               |
| Customer accounts   | 10,734,082        | 98,086,935                    | 28,060,074                    | -                 | 136,881,091                   |
| Central counterparty<br>financial liabilities                                 | 1,512             | 1,526,109                     | 114,284                       | -                 | 1,641,905                     |
| Other financial liabilities   | 24,690            | -                             | -                             | -                 | 24,690                        |
| Subordinated debt   | 1,776,545         | -                             | -                             | -                 | 1,776,545                     |
| <b>Total financial liabilities</b>  | <b>12,536,829</b> | <b>99,613,044</b>             | <b>28,174,358</b>             | <b>-</b>          | <b>140,324,231</b>            |
| <b>NET POSITION</b>   | <b>2,701,512</b>  | <b>61,978</b>                 | <b>41,278</b>                 | <b>221</b>        |                               |
| <b>Central counterparty<br/>transactions before<br/>netting as per IAS 32</b> |                   |                               |                               |                   |                               |
| Assets  | 221,457,152       | 193,178,777                   | 30,927,489                    | -                 | 445,563,418                   |
| Liabilities   | 221,457,694       | 193,206,476                   | 30,899,248                    | -                 | 445,563,418                   |
| <b>NET POSITION</b>   | <b>(542)</b>      | <b>(27,699)</b>               | <b>28,241</b>                 | <b>-</b>          | <b>-</b>                      |
| <b>TOTAL NET POSITION</b>   | <b>2,700,970</b>  | <b>34,279</b>                 | <b>69,519</b>                 | <b>221</b>        |                               |



### ***Currency risk sensitivity***

The following table details the Bank's sensitivity to a 10% increase and decrease in the RUB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Bank's key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number below indicates an increase in profit and other equity where the RUB strengthens 10% against the relevant currency. For a 10% weakening of the RUB against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

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

|                          | December 31, 2010 |                 | December 31, 2009 |                 |
|--------------------------|-------------------|-----------------|-------------------|-----------------|
|                          | RUB/USD<br>+10%   | RUB/USD<br>-10% | RUB/USD<br>+10%   | RUB/USD<br>-10% |
| Impact on profit or loss | 35,416            | (35,416)        | 3,428             | (3,428)         |
| Impact on equity         | 35,416            | (35,416)        | 2,742             | (2,742)         |

|                          | December 31, 2010 |                  | December 31, 2009 |                  |
|--------------------------|-------------------|------------------|-------------------|------------------|
|                          | RUB/Euro<br>+10%  | RUB/Euro<br>-10% | RUB/Euro<br>+10%  | RUB/Euro<br>-10% |
| Impact on profit or loss | 23,697            | (23,697)         | 6,952             | (6,952)          |
| Impact on equity         | 23,697            | (23,697)         | 5,562             | (5,562)          |

### ***Limitations of sensitivity analysis***

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

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

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

### ***Operational Risk***

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, use of reliable technical means, information and technological systems, well-tuned procedures for performing operations, staff education and operational risk assessment and management processes.