UNISTREAM COMMERCIAL BANK (JSC)

Financial Statements

for the year ended 31 December 2010

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Independent Auditors' Report

To the Board of Directors of UNISTREAM COMMERCIAL BANK (JSC)

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
20 June 2011

	Notes	2010 RUB'000	2009 RUB'000
Interest income		9 561	8 596
Interest expense		(12)	(47)
Net interest income	4	**9 549**	**8 549**
Fee and commission income	5	1 897 550	2 093 332
Fee and commission expense	6	(1 146 815)	(1 300 251)
Net fee and commission income		**750 735**	**793 081**
Net foreign exchange income	7	167 318	200 082
Net gain on available-for-sale financial assets		-	25
Other operating expenses		(20 581)	(3 955)
Operating income		**907 021**	**997 782**
Impairment recovery	8	1 185	1 881
Personnel expenses	9	(387 286)	(409 583)
Other general administrative expenses	10	(484 255)	(567 342)
Profit before income tax		**36 665**	**22 738**
Income tax expense	11	(18 292)	(9 868)
Profit for the period		**18 373**	**12 870**
Total comprehensive income for the period		**18 373**	**12 870**

The financial statements as set out on pages 4 to 38 were approved by the Management Board on 20 June 2011.

Seleznev M.I.
Chairman of the Management Board

Mosina M.A.
Chief Accountant

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

	Notes	2010 RUB'000	2009 RUB'000
ASSETS			
Cash		339 014	278 498
Due from the Central Bank of the Russian Federation	12	176 638	219 950
Loans and advances to banks and other financial institutions	13	1 254 413	968 856
Financial instruments at fair value through profit or loss	14	-	10
Available-for-sale financial assets	15	299	299
Property, equipment and intangible assets	16	147 018	160 010
Deferred tax assets	11	-	1 999
Other assets	17	22 094	23 533
Total assets		**1 939 476**	**1 653 155**
LIABILITIES			
Deposits and balances from banks and other financial institutions	18	1 309 509	1 059 109
Financial instruments at fair value through profit or loss	14	169	-
Deferred tax liabilities	11	4 500	-
Other liabilities	19	88 691	75 812
Total liabilities		**1 402 869**	**1 134 921**
EQUITY			
Share capital	20	208 999	208 999
Share premium		315 950	315 950
Retained earnings (accumulated losses)		11 658	(6 715)
Total equity		**536 607**	**518 234**
Total liabilities and equity		**1 939 476**	**1 653 155**

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

	Notes	2010 RUB'000	2009 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		9 457	8 501
Interest payments		(12)	(43)
Fee and commission receipts		1 897 550	2 093 332
Fee and commission payments		(1 146 815)	(1 300 251)
Net receipts from foreign exchange		196 448	216 547
Other income receipts		5 601	4 506
Other general administrative and personnel expenses paid		(844 569)	(935 196)
(Increase) decrease in operating assets			
Due from Central Bank of the Russian Federation (excluding cash and cash equivalents)		(1 813)	(4 831)
Loans and advances to banks and other financial institutions (excluding cash and cash equivalents)		(362 285)	(92 878)
Financial instruments at fair value through profit or loss		10	-
Other assets		3 678	26 163
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other financial instutions		227 633	511 436
Other liabilities		3 804	(3 995)
Net cash flows (used in) provided from operating activities before income tax paid		**(11 313)**	**523 291**
Income tax paid		(2 435)	(21 626)
Cash flows (used in) provided from operating activities		**(13 748)**	**501 665**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment and intangible assets		(43 118)	(47 131)
Cash flows used in investing activities		**(43 118)**	**(47 131)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(9 665)
Cash flows used in financing activities		**-**	**(9 665)**
Net (decrease) increase in cash and cash equivalents		**(56 866)**	**444 869**
Effect of changes in exchange rates on cash and cash equivalents		(4 963)	(44 042)
Cash and cash equivalents as at the beginning of the period		1 223 428	822 601
Cash and cash equivalents as at the end of the period	22	**1 161 599**	**1 223 428**

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

RUB'000	Share capital	Share premium	Retained earnings (accumulated losses)	Total
Balance as at 1 January 2009	**208 999**	**315 950**	**(9 920)**	**515 029**
Total comprehensive income				
Profit for the period			12 870	12 870
Total comprehensive income for the period			**12 870**	**12 870**
Transactions with owners, recorded directly in equity				
Dividends paid for 2008			(9 665)	(9 665)
Total transactions with owners			**(9 665)**	**(9 665)**
Balance as at 31 December 2009	**208 999**	**315 950**	**(6 715)**	**518 234**
Balance as at 1 January 2010	**208 999**	**315 950**	**(6 715)**	**518 234**
Total comprehensive income				
Profit for the period			18 373	18 373
Total comprehensive income for the period			**18 373**	**18 373**
Balance as at 31 December 2010	**208 999**	**315 950**	**11 658**	**536 607**

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

1 Background

(a) Organisation and operations

UNISTREAM COMMERCIAL BANK (JSC) (the "Bank") was established in the Russian Federation as a joint stock company in 2006 and was granted its banking licence #3467 for roubles and foreign currency operations on August 16, 2006. The principal activity is to provide money transfer services to individuals. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank registered address is 20, bldg. 2, Verkhnyaya Maslovka str., 127083, Moscow.

Shareholders	**2010**	**2009**
	Ownership,%	**Ownership, %**
Zakaryan G.T.	37.00%	37.00%
Piskov G.I.	37.00%	37.00%
AURORA RUSSIA LIMITED	26.00%	26.00%
	100.00%	**100.00%**

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates. With effect from 1 January 2010, the Bank changed accounting estimates in respect of depreciation rates for computers, furniture and other equipment (see Note 3(d)(iii)).

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

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

- intends to sell immediately or in the near term

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

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

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

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

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

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

- meet the definition of loans and receivables.

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

(v) Gains and losses on subsequent measurement

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

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

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

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

(vi) Derecognition

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

The Bank writes off assets deemed to be uncollectible.

(vii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

(iii) Depreciation

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

From 1 January 2010 Bank reduced depreciation rates for computer equipments, fixtures and other equipments due to increasing estimated useful life of these assets.

The estimated useful lives are as follows:

- equipment	7 years
- fixtures and fittings	3 to 10 years
- motor vehicles	6 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

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

(f) Impairment

(i) Financial assets carried at amortized cost

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

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

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

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

(iv) Non financial assets

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

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

(g) Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(h) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

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

(i) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(j) Income and expense recognition

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

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

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2011.

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

4 Net interest income

	2010 RUB'000	2009 RUB'000
Interest income		
Loans and advances to banks and other financial institutions	9 561	8 596
Interest expense		
Deposits and balances from banks and other financial institutions	(12)	(47)
	9 549	**8 549**

5 Fee and commission income

	2010 RUB'000	2009 RUB'000
Money transfer transactions	1 896 544	2 092 286
Cash operations	1 006	1 046
	1 897 550	**2 093 332**

6 Fee and commission expense

	2010 RUB'000	2009 RUB'000
Money transfer transactions	1 134 731	1 277 706
Cash operations	12 084	22 545
	1 146 815	**1 300 251**

7 Net foreign exchange income

	2010 RUB'000	2009 RUB'000
Income on spot and forward foreign exchange transactions	196 279	216 547
Loss from revaluation of financial assets and liabilities	(28 961)	(16 465)
	167 318	**200 082**

8 Impairment recovery

	2010 RUB'000	2009 RUB'000
Deposits and balances from banks and other financial institutions	388	(1 858)
Other assets	797	3 739
	1 185	**1 881**

9 Personnel expenses

	2010 RUB'000	2009 RUB'000
Employee compensation	322 721	340 592
Payroll related taxes	64 565	68 991
	387 286	**409 583**

10 Other general administrative expenses

	2010 RUB'000	2009 RUB'000
Rent	181 323	181 559
Advertising and marketing	98 943	182 158
Security	51 319	60 778
Communication and information services	45 680	41 571
Depreciation and amortization	29 928	31 717
Repairs and maintenance	13 751	10 414
Materials	10 296	9 228
Software maitenance	9 177	14 701
Taxes other than on profit	8 729	6 979
Professional services	5 144	4 660
Insurance	4 790	3 855
Travel expenses	3 602	3 683
Transport expenses	2 415	5 572
Other	19 158	10 467
	484 255	**567 342**

11 Income tax expense

	2010 RUB'000	2009 RUB'000
Current tax expense		
Current year	(11 793)	(9 371)
Deferred tax expense		
Origination of temporary differences	(6 499)	(497)
Total income tax expense	**(18 292)**	**(9 868)**

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

Reconciliation of effective tax rate:

	2010 RUB'000	%	2009 RUB'000	%
Profit before income tax	36 665		22 738	
Income tax at the applicable tax rate	(7 333)	20.00%	(4 548)	20.00%
Non-deductible costs net of non-taxable income	(10 959)	29.89%	(5 320)	23.40%
	(18 292)	**49.89%**	**(9 868)**	**43.40%**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2010 and net deferred tax assets as at 31 December 2009.

These deductible temporary differences, which have no expiry dates under current tax legislation, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
RUB'000	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Other liabilities	-	1 999	(4 500)	-	(4 500)	1 999
Total deferred tax assets (liabilities)	**-**	**1 999**	**(4 500)**	**-**	**(4 500)**	**1 999**

12 Due from the Central Bank of the Russian Federation

	2010 RUB'000	2009 RUB'000
Nostro accounts with the CBR	169 003	214 128
Mandatory reserve deposit	7 635	5 822
	176 638	**219 950**

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted.

13 Loans and advances to banks and other financial institutions

	2010 RUB'000	2009 RUB'000
Nostro accounts		
OECD banks	497 218	535 238
30 largest Russian banks	153 723	162 571
Other foreign banks	56 382	50 083
Other Russian banks	47 081	71 341
Total nostro accounts	**754 404**	**819 233**
Loans and deposits		
Other Russian banks	320 076	70 008
30 largest Russian banks	200 026	100 096
Total loans and deposits	**520 102**	**170 104**
Impairment allowance	**(20 093)**	**(20 481)**
Net loans and advances to banks and other financial institutions	**1 254 413**	**968 856**

The following table provides information on the credit quality of loans and advances to banks and other financial institutions as at 31 December 2010:

	Gross loans and advances RUB'000	Impairment allowance RUB'000	Net loans and advances RUB'000	Impairment allowance to gross loans and advances, %
Nostro accounts				
Nostro accounts without individual signs of impairment	689 351	(16)	689 335	0.00%
Impaired nostro accounts:				
- overdue less than 90 days	44 997	(21)	44 976	0.05%
- overdue more than 1 year	20 056	(20 056)	-	100.00%
Total impaired nostro accounts	65 053	(20 077)	44 976	30.86%
Total nostro accounts	**754 404**	**(20 093)**	**734 311**	**2.66%**
Loans and deposits				
Loans and deposits without individual signs of impairment	520 102	-	520 102	0.00%
Total loans and deposits	**520 102**	**-**	**520 102**	**0.00%**
Total loans and advances to banks and other financial institutions	**1 274 506**	**(20 093)**	**1 254 413**	**1.58%**

The following table provides information on the credit quality of loans and advances to banks and other financial institutions as at 31 December 2009:

	Gross loans and advances RUB'000	Impairment allowance RUB'000	Net loans and advances RUB'000	Impairment allowance to gross loans and advances, %
Nostro accounts				
Nostro accounts without individual signs of impairment	757 584	(17)	757 567	0.00%
Impaired nostro accounts:				
- not overdue	397	(397)	-	100.00%
- overdue less than 90 days	42 854	(1 669)	41 185	3.89%
- overdue more than 90 days and less than 1 year	18 398	(18 398)	-	100.00%
Total impaired nostro accounts	61 649	(20 464)	41 185	33.19%
Total nostro accounts	**819 233**	**(20 481)**	**798 752**	**2.50%**
Loans and deposits				
Loans and deposits without individual signs of impairment	170 104	-	170 104	0.00%
Total loans and deposits	**170 104**	**-**	**170 104**	**0.00%**
Total loans and advances to banks and other financial institutions	**989 337**	**(20 481)**	**968 856**	**2.07%**

Concentration of loans and advances to banks and other financial institutions

As at 31 December 2010 the Bank has 4 banks (2009: 4 banks), whose balances individually exceed 10% of total loans and advances to banks and other financial institutions. The gross value of these balances as at 31 December 2010 is RUB 870 178 thousand (2009: RUB 791 668 thousand).

Analysis of movements in the impairment allowance

	2010 RUB'000	2009 RUB'000
Balance at the beginning of the year	20 481	19 261
Net (recovery) charge	(388)	1 858
Write-offs	-	(638)
Balance at the end of the year	**20 093**	**20 481**

14 Financial instruments at fair value through profit or loss

	2010 RUB'000	2009 RUB'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	-	10
	-	**10**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	(169)	-
	(169)	**-**

None of financial assets at fair value through profit or loss are past due.

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2010 and 2009 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2010 RUB'000	2009 RUB'000	2010	2009
Buy USD sell RUB				
Less than 3 months	100 574	21 171	30.5280	30.2300
	100 574	**21 171**		

15 Available-for-sale financial assets

	2010 RUB'000	2009 RUB'000
Promissory note	299	299
	299	**299**

Availiable-for-sale financial assets are presented by a promissory note issued by AKB "FORA-BANK". This promissory note is pledged under lease commitments.

16 Property, equipment and intangible assets

RUB'000	Equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Construction in progress	Total
Cost						
Balance at 1 January 2010	37 122	152 138	13 694	9 484	3 983	216 421
Additions	10 061	13 964	2 159	17 225	322	43 731
Disposals	(1 080)	(38 844)	(1 286)	-	-	(41 210)
Balance at 31 December 2010	**46 103**	**127 258**	**14 567**	**26 709**	**4 305**	**218 942**
Depreciation						
Balance at 1 January 2010	(12 271)	(36 107)	(4 228)	(3 801)	-	(56 407)
Depreciation and amortization charge for the year	(5 735)	(18 344)	(2 856)	(2 993)	-	(29 928)
Disposals	395	13 388	628	-	-	14 411
Balance at 31 December 2010	**(17 611)**	**(41 063)**	**(6 456)**	**(6 794)**	**-**	**(71 924)**
Carrying amount						
At 31 December 2010	**28 492**	**86 195**	**8 111**	**19 915**	**4 305**	**147 018**

RUB'000	Equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Construction in progress	Total
Cost						
Balance at 1 January 2009	28 784	126 784	11 420	8 803	3 825	179 616
Additions	8 726	32 851	2 907	681	2 414	47 579
Disposals	(388)	(9 753)	(633)	-	-	(10 744)
Transfers	-	2 256	-	-	(2 256)	-
At 31 December 2009	**37 122**	**152 138**	**13 694**	**9 484**	**3 983**	**216 421**
Depreciation						
Balance at 1 January 2009	(5 808)	(16 665)	(2 161)	(1 950)	-	(26 584)
Depreciation and amortization charge for the year	(6 647)	(20 951)	(2 264)	(1 855)	-	(31 717)
Disposals	184	1 509	197		-	1 890
Balance at 31 December 2009	(12 271)	(36 107)	(4 228)	(3 805)	-	(56 411)
Carrying amounts						
At 31 December 2009	**24 851**	**116 031**	**9 466**	**5 679**	**3 983**	**160 010**

17 Other assets

	2010 RUB'000	2009 RUB'000
Other non-financial assets		
Materials and supplies	20 100	20 182
Other taxes receivable	1 869	1 449
Settlements with employees	1 543	6 586
Income tax receivable	-	1 564
Impairment allowance	(1 418)	(6 248)
Total other non-financial assets	**22 094**	**23 533**

Analysis of movements in the impairment allowance

	2010 RUB'000	2009 RUB'000
Balance at the beginning of the year	6 248	10 399
Net recovery	(797)	(3 739)
Write-offs	(4 033)	(412)
Balance at the end of the year	**1 418**	**6 248**

As at 31 December 2010, included in other assets are receivables overdue less than 90 days with a gross value of RUB 173 thousand (2009: RUB 62 thousand), receivables overdue for more than 90 days but less than one year with a gross value of RUB 262 thousand (2009: RUB 797 thousand), receivables overdue for more than one year with a gross value of RUB 1 152 thousand (2009: RUB 3 891 thousand). The Bank created impairment allowance for receivables overdue less than 90 days of RUB nil (2009: RUB nil), for receivables overdue for more than 90 days but less than one year of RUB 262 thousand (2009: RUB 622 thousand) and for receivables overdue for more than one year of RUB 1 152 thousand (2009: RUB 3 891 thousand), respectively.

18 Deposits and balances from banks and other financial institutions

	2010 RUB'000	2009 RUB'000
Vostro accounts	1 309 509	1 024 394
Term deposits	-	34 715
	1 309 509	**1 059 109**

As at 31 December 2009 the Bank has 1 bank, whose balance exceeds 10% of total deposits and balances from banks and other financial institutions. The gross value of this balance as of 31 December 2009 is RUB 252 234 thousand. As at 31 December 2010 there are no such counterparties.

19 Other liabilities

	2010 RUB'000	2009 RUB'000
Other financial liabilities		
Unsettled money transfers	69 460	56 542
Total other financial liabilities	**69 460**	**56 542**
Other non-financial liabilities		
Income tax payable	9 481	1 687
Settlements with employees	6 299	5 427
Settlements with suppliers	2 806	11 478
Other taxes payable	645	678
Total other non-financial liabilities	**19 231**	**19 270**
	88 691	**75 812**

20 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 208 999 ordinary shares (2009: 208 999). All shares have a nominal value of RUB 1 000.

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

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of the Russian Federation. As at the reporting date, reserves available for distribution amounted to RUB nil (2009: RUB nil).

21 Risk management

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

(a) Risk management policies and procedures

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

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

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

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through the Asset and Liability Management Committee (“ALCO”).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the President. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

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

(i) Interest rate risk

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

Average interest rates

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

	2010 Average effective interest rate, %			**2009 Average effective interest rate, %**		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Loans and advances to banks and other financial institutions						
- Nostro accounts with banks	0.0%	0.08%	0.63%	0.0%	0.08%	0.54%
- Loans and deposits	3.1%	-	-	4.6%	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	-	-	-	-	-	0.65%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of income tax) to changes in interest rates (repricing risk) based on a simplified scenario of a 500 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		**2009**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
500 bp parallel fall	(20 173)	(20 173)	(5 190)	(5 190)
500 bp parallel rise	20 173	20 173	5 190	5 190

(ii) Currency risk

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

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

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

	RUB	USD	EUR	Other currencies	Total
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
ASSETS					
Cash	210 240	98 567	30 207	-	339 014
Due from the Central Bank of the Russian Federation	176 638	-	-	-	176 638
Loans and advances to banks and other financial institutions	590 951	542 416	105 092	15 954	1 254 413
Available-for-sale financial assets	299	-	-	-	299
Total assets	**978 128**	**640 983**	**135 299**	**15 954**	**1 770 364**
LIABILITIES					
Deposits and balances from banks and other financial institutions	500 860	676 124	130 638	1 887	1 309 509
Financial instruments at fair value through profit or loss	-	169	-	-	169
Other financial liabilities	40 239	25 873	3 348	-	69 460
Total liabilities	**541 099**	**702 166**	**133 986**	**1 887**	**1 379 138**
Net position	**437 029**	**(61 183)**	**1 313**	**14 067**	**391 226**
The effect of foreign currency contracts	**(100 743)**	**100 743**	**-**	**-**	**-**
Net position after foreign currency contracts	**336 286**	**39 560**	**1 313**	**14 067**	**391 226**

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

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS					
Cash	128 828	116 205	33 465	-	278 498
Due from the Central Bank of the Russian Federation	219 950	-	-	-	219 950
Loans and advances to banks and other financial institutions	280 101	565 571	105 913	17 271	968 856
Financial instruments at fair value through profit or loss	-	10	-	-	10
Available-for-sale financial assets	299	-	-	-	299
Total assets	**629 178**	**681 786**	**139 378**	**17 271**	**1 467 613**
LIABILITIES					
Deposits and balances from banks and other financial institutions	264 491	651 595	141 068	1 955	1 059 109
Other financial liabilities	37 927	15 391	3 224	-	56 542
Total liabilities	**302 418**	**666 986**	**144 292**	**1 955**	**1 115 651**
Net position	**326 760**	**14 800**	**(4 914)**	**15 316**	**351 962**
The effect of foreign currency contracts	**(21 161)**	**21 161**	**-**	**-**	**-**
Net position after foreign currency contracts	**305 599**	**35 961**	**(4 914)**	**15 316**	**351 962**

A strengthening of the RUB, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

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

	2010		2009	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
10% appreciation of RUB against USD	(3 151)	(3 151)	(2 923)	(2 923)
10% appreciation of RUB against EUR	(105)	(105)	371	371

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers and counterparties. The review is based on the most recent financial statements and other information submitted by customers and counterparties, or otherwise obtained by the Bank.

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

(d) Liquidity risk

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

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

The liquidity management policy requires:

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

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount of outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1 309 509	-	-	-	-	1 309 509	1 309 509
Other financial liabilities	69 460	-	-	-	-	69 460	69 460
Derivative liabilities							
- Inflow	(100 574)	-	-	-	-	(100 574)	-
- Outflow	100 743	-	-	-	-	100 743	169
Total liabilities	**1 379 138**	**-**	**-**	**-**	**-**	**1 379 138**	**1 379 138**

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount of outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	1 059 109	-	-	-	-	1 059 109	1 059 109
Other financial liabilities	56 542	-	-	-	-	56 542	56 542
Derivative liabilities							
- Inflow	(21 171)	-	-	-	-	(21 171)	(10)
- Outflow	21 161	-	-	-	-	21 161	-
Total liabilities	**1 115 641**	**-**	**-**	**-**	**-**	**1 115 641**	**1 115 641**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash	339 014	-	-	-	-	-	-	339 014
Due from the Central Bank of the Russian Federation	169 003	-	-	-	-	7 635	-	176 638
Loans and advances to banks and other financial institutions	1 209 437	-	-	-	-	- -	44 976	1 254 413
Available-for-sale financial assets	299	-	-	-	-	-	-	299
Property, equipment and intangible assets	-	-	-	-	-	147 018	-	147 018
Other assets	308	17 200	4 511	-	-	-	173	22 094
Total assets	**1 718 061**	**17 200**	**4 511**	**-**	**-**	**154 653**	**45 149**	**1 939 476**
LIABILITIES								
Deposits and balances from banks and other financial institutions	1 309 509	-	-	-	-	-	-	1 309 509
Financial instruments at fair value through profit or loss	169	-	-	-	-	-	-	169
Deferred tax liability	-	-	-	-	-	4 500	-	4 500
Other liabilities	88 691	-	-	-	-	-	-	88 691
Total liabilities	**1 398 369**	**-**	**-**	**-**	**-**	**4 500**	**-**	**1 402 869**
Net position	**319 692**	**17 200**	**4 511**	**-**	**-**	**150 153**	**45 149**	**536 607**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash	278 498	-	-	-	-	-	-	278 498
Due from the Central Bank of the Russian Federation	214 128	-	-	-	-	5 822	-	219 950
Loans and advances to banks and other financial institutions	927 671	-	-	-	-	-	41 185	968 856
Financial instruments at fair value through profit or loss	10	-	-	-	-	-	-	10
Available-for-sale financial assets	299	-	-	-	-	-	-	299
Property, equipment and intangible assets	-	-	-	-	-	160 010	-	160 010
Deferred tax asset	-	-	-	-	-	1 999	-	1 999
Other assets	17 939	1 683	3 673	-	-	-	238	23 533
Total assets	**1 438 545**	**1 683**	**3 673**	**-**	**-**	**167 831**	**41 423**	**1 653 155**
LIABILITIES								
Deposits and balances from banks and other financial institutions	1 059 109	-	-	-	-	-	-	1 059 109
Other liabilities	73 526	2 286	-	-	-	-	-	75 812
Total liabilities	**1 132 635**	**2 286**	**-**	**-**	**-**	**-**	**-**	**1 134 921**
Net position	**305 910**	**(603)**	**3 673**	**-**	**-**	**167 831**	**41 423**	**518 234**

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the shareholders' equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009. The following table shows the mandatory liquidity ratios calculated as at 31 December 2010 and 2009.

	Requirement	**2010, %**	**2009, %**
Instant liquidity ratio (N2)	Not less than 15%	80.1%	110.5%
Current liquidity ratio (N3)	Not less than 50%	119.75%	128.9%
Long-term liquidity ratio (N4)	Not more than 120%	0.0%	0.0%

22 Cash and cash equivalents

	2010 RUB'000	**2009 RUB'000**
Cash	339 014	278 498
Due from the Central Bank of the Russian Federation – nostro accounts	169 003	214 128
Loans and advances to banks and other financial institutions – nostro accounts	653 582	730 802
	1 161 599	**1 223 428**

23 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2010, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009. As at 31 December 2010 the value of the Bank's capital was RUB 439 186 thousand (2009: RUB 440 765 thousand). As at 31 December 2010 the ratio of capital to risk weighted assets (statutory capital ratio – N1) was 48.5% (2009: 81.3%).

24 Operating leases

Leases as lessee

The Bank leases a number of cash desks and offices under operating leases. All agreements for rent premises for cash desks and offices are signed for a period of 11 months. All operating lease liabilities can be canceled unilaterally.

During 2010 and 2009 RUB 181 323 thousand and RUB 181 559 thousand, respectively, is recognised as an expenses in profit or loss in respect of operating leases.

25 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

26 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2010 and 2009 is as follows:

	2010 RUB'000	2009 RUB'000
Members of the Board of Directors	1 408	1 644
Members of the Management Board	7 418	10 197
	8 826	**11 841**

(b) Transactions with other related parties

Other related parties include Uniastrum Bank, CJSC Unibank (Armenia), UNISTREAM UK Limited, UNISTREAM Cyprus Limited, UNISTREAM Germany GmbH, UNISTREAM Greece Limited.

The outstanding balances and the related average effective interest rates as at 31 December 2010, and amounts included in profit or loss in relation to transactions with other related parties for the year ended 31 December 2010 are as follows.

	Other	
	RUB'000	Average effective interest rate, %
Statement of financial position		
ASSETS		
Loans and advances to banks and other financial institutions	211 992	0.0%
LIABILITIES		
Deposits and balances from banks and other financial institutions	73 400	0.0%
Profit or loss		
Fee and commission income	37 422	
Fee and commission expense	(26 890)	

The outstanding balances and the related average effective interest rates as at 31 December 2009, and amounts included in profit or loss in relation to transactions with other related parties for the year ended 31 December 2009 are as follows.

	Other	
	RUB'000	Average effective interest rate, %
Statement of financial position		
ASSETS		
Loans and advances to banks and other financial institutions	204 103	0.0%
LIABILITIES		
Deposits and balances from banks and other financial institutions	67 702	0.0%
Profit or loss		
Fee and commission income	37 007	
Fee and commission expense	(13 539)	

27 Financial assets and liabilities: fair values and accounting classifications

The Bank estimated the fair value of its financial assets and liabilities in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair value of all financial assets and liabilities are calculated using discounted cash flow techniques on estimated future cash flow and discount rates for similar instruments at the reporting date.

Based on the assessment made, management concluded that fair values of financial instruments are not materiality different from their carrying values.