

JSC “AIKB “Tatfondbank”

**Consolidated Financial Statements
For the Year Ended 31 December 2010**

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Independent Auditors' Report

To the Board of Directors
Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" (JSC "AIKB "Tatfondbank")

We have audited the accompanying consolidated financial statements of Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

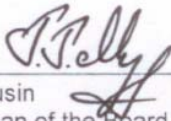
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25 May 2011

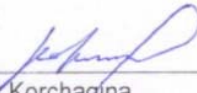
JSC "AIKB "Tatfondbank"**Consolidated Statement of Financial Position as at 31 December 2010***(expressed in thousands of Russian Rubles)*

		Notes 31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	5	4 103 923	4 725 466
Mandatory cash balances with the Central Bank of the Russian Federation		339 706	187 825
Due from banks	6	44 198	2 991 051
Financial instruments at fair value through profit or loss	7	4 191 089	2 539 638
Loans to customers	8	39 549 309	34 465 980
Investments available-for-sale	9	2 694 969	1 499 930
Investment property	10	4 242 548	2 067 357
Property and equipment	11	698 804	593 393
Deferred tax asset	24	59 296	141 490
Other assets	12	1 364 888	492 182
TOTAL ASSETS		57 288 730	49 704 312
LIABILITIES			
Due to banks	13	1 802 847	8 388 161
Customer accounts	14	30 450 928	22 987 418
Debt securities in issue	15	9 263 605	5 749 504
Eurobonds issued	16	6 907 290	6 145 281
Other liabilities	17	216 269	240 201
Subordinated borrowings	18	2 099 990	-
TOTAL LIABILITIES		50 740 929	43 510 565
EQUITY			
Share capital	19	7 811 618	7 811 618
Revaluation reserve for investments available-for-sale		(14 862)	(2 455)
Revaluation reserve for buildings		108 285	67 662
Accumulated deficit		(1 357 240)	(1 683 078)
TOTAL EQUITY		6 547 801	6 193 747
TOTAL LIABILITIES AND EQUITY		57 288 730	49 704 312

Approved for issue and signed on behalf of the Executive Board on 25 May 2011.


R.R. Musin
Chairman of the Board




S.G. Korchagina
Chief Accountant

JSC "AIKB "Tatfondbank"**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2010***(expressed in thousands of Russian Rubles)*

	Notes	2010	2009
Interest income	20	5 967 612	6 775 822
Interest expense	20	(4 704 312)	(4 668 752)
Net interest income		1 263 300	2 107 070
Fee and commission income	21	342 439	286 060
Fee and commission expense	21	(178 567)	(69 436)
Net fee and commission income		163 872	216 624
Gains less losses from financial instruments at fair value through profit or loss		363 248	31 905
Net foreign exchange gains less losses		978	33 679
Gains less losses from disposal of investments available-for-sale		164 572	(24 049)
Gains less losses from precious metals		4 673	9 129
Gains less losses from financial derivatives		3 884	(6 059)
Income from investment property	10	1 549 331	4 435
Other operating income		79 001	60 203
Impairment losses	22	(1 674 502)	(927 945)
Administrative and other operating expenses	23	(1 512 249)	(1 210 214)
Profit before taxes		406 108	294 778
Income tax expense	24	(81 702)	(59 723)
Profit for the year		324 406	235 055
Other comprehensive income			
Investments available-for-sale:			
Net change in fair value		(9 610)	90 749
Net change in fair value transferred to profit or loss		(2 797)	21 644
Revaluation of buildings		42 055	-
Other comprehensive income, net of tax		29 648	112 393
Total comprehensive income		354 054	347 448

JSC "AIKB "Tatfondbank"

*Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010
(expressed in thousands of Russian Rubles)*

	Share capital	Revaluation reserve for investments available-for-sale	Revaluation reserve for buildings	Accumulated deficit	Total equity
Balance at 1 January 2009	7 811 618	(114 848)	69 094	(1 919 565)	5 846 299
Profit for the year	-	-	-	235 055	235 055
Other comprehensive income					
Net change in fair value of investments available-for-sale, net of tax	-	90 749	-	-	90 749
Disposal of investments available-for-sale, net of tax	-	21 644	-	-	21 644
Total other comprehensive income	-	112 393	-	-	112 393
Total comprehensive income	-	112 393	-	235 055	347 448
Transfer of revaluation of buildings	-	-	(1 432)	1 432	-
Balance at 31 December 2009	7 811 618	(2 455)	67 662	(1 683 078)	6 193 747
Profit for the year	-	-	-	324 406	324 406
Other comprehensive income					
Net change in fair value of investments available-for-sale, net of tax	-	(9 610)	-	-	(9 610)
Disposal of investments available-for-sale, net of tax	-	(2 797)	-	-	(2 797)
Revaluation of buildings, net of tax	-	-	42 055	-	42 055
Total other comprehensive income	-	(12 407)	42 055	-	29 648
Total comprehensive income	-	(12 407)	42 055	324 406	354 054
Transfer of revaluation of buildings	-	-	(1 432)	1 432	-
Balance at 31 December 2010	7 811 618	(14 862)	108 285	(1 357 240)	6 547 801

The accompanying notes are an integral part of these consolidated financial statements.

JSC "AIKB "Tatfondbank"**Consolidated Statement of Cash Flows for the Year Ended 31 December 2010***(expressed in thousands of Russian Rubles)*

	Notes	2010	2009
Cash flows from operating activities			
Interest receipts		5 735 788	6 678 476
Interest payments excluding interest payments on debt issued		(3 131 942)	(3 632 601)
Fee and commission receipts		341 908	286 827
Fee and commission payments		(128 901)	(64 550)
Net receipts (payments) on financial instruments at fair value through profit or loss and investments available-for-sale		221 393	(165 020)
Net receipts (payments) from foreign exchange		7 831	(3 073)
Net receipts (payments) from financial derivatives		2 089	(3 731)
Net receipts from precious metals		39 662	32 244
Other operating receipts		62 539	61 299
Staff costs payments		(730 437)	(545 560)
Other administrative and operating payments		(727 023)	(540 105)
Income tax paid		(83 217)	(95 226)
Cash flows from operating activities before changes in operating assets and liabilities		1 609 690	2 008 980
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(151 881)	(153 068)
Net decrease (increase) in due from banks		2 932 941	(1 143 157)
Net increase in financial instruments at fair value through profit or loss		(1 269 251)	(396 829)
Net increase in loans to customers		(4 924 598)	(1 738 229)
Net decrease in receivables under repurchase agreements		-	178 679
Net increase in other assets		(9 739)	(204 209)
Net decrease in due to banks		(6 568 466)	(1 011 466)
Net increase in customer accounts		7 507 550	5 452 653
Net decrease in promissory notes issued		(107 017)	(19 189)
Net (decrease) increase in other liabilities		(16 044)	93 462
Net cash (used in) from operating activities		(996 815)	3 067 627
Cash flows from investing activities			
Acquisition of investments available-for-sale		(1 356 513)	(358 321)
Acquisition of investment securities held-to-maturity		-	(70)
Proceeds from redemption of investment securities held-to-maturity		-	302 236
Acquisition of property and equipment	11	(153 867)	(36 937)
Proceeds from disposal of property and equipment		7 694	780
Acquisition of investment property	10	(5 250 410)	(1 092 808)
Proceeds from sale of investment property	10	2 070 103	-
Dividend income received		1 505	2 117
Net cash used in investing activities		(4 681 488)	(1 183 003)
Cash flows from financing activities			
Proceeds from issue of Eurobonds		6 682 770	-
Repayment of Eurobonds		(5 973 158)	-
Proceeds from issue of bonds		4 024 687	4 328 502
Repayment of bonds		(423 060)	(2 828 502)
Proceeds from subordinated debt	18	2 100 000	-
Interest paid on debts issued		(1 322 674)	(1 012 187)
Net cash from financing activities		5 088 565	487 813
Effect of exchange rate changes on cash and cash equivalents		(31 805)	43 584
Net (decrease) increase in cash and cash equivalents		(621 543)	2 416 021
Cash and cash equivalents at the beginning of the year		4 725 466	2 309 445
Cash and cash equivalents at the end of the year	5	4 103 923	4 725 466

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
(expressed in thousands of Russian Rubles)

1 Introduction

These consolidated financial statements are prepared as at and for the year ended 31 December 2010 for Joint Stock Company "Joint stock investment commercial Bank "Tatfondbank" (the Bank) and its subsidiaries (together referred to as the Group).

The Group comprises the Bank, the parent and the lead operating entity of the Group, an asset management company, a securities trading company, SPE, and a number of closed mutual investment funds, investing in real estate and securities.

The Bank is an open joint stock company incorporated in accordance with Russian regulations in the Russian Federation.

The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (CBR) since 1994. The Bank participates in the State deposit insurance scheme.

The Bank is licensed by the Federal Service on Financial Markets of the Russian Federation for trading in securities.

As at 31 December 2010 the Bank has 12 (31 December 2009: 12) branches in the Russian Federation.

The Bank's registered address is Chernyshevskogo Street, 43/2, Kazan, Tatarstan Republic, Russian Federation, 420111.

As at 31 December 2010 and 2009 the principal subsidiaries of the Bank comprise:

Entity	Principal activities	Place of registration	Percentage holding
IK TFB-Finance LLC	Asset management	Kazan	100.00%
ZAO TFB Aktiv	Securities trading and financial intermediation	Kazan	100.00%
TFB Finance Limited	Issue Eurobonds	Ireland	-

During the years ended 31 December 2010 and 2009 the Bank purchased controlling stakes in a number of closed mutual investment funds. The assets of the funds are composed of investments available-for-sale, loans, investment property and other assets. Assets held by these funds are included in these consolidated financial statements.

2 Operating environment of the Group

Operating environment of the Group. The Group operates primarily in the Russian Federation.

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 do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets and general economic downturn has further increased the level of economic uncertainty in the environment.

The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Deteriorating operating conditions for borrowers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of loan impairment allowance is based on management's appraisals of such loans at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in the Russian Federation for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets and general economic downturn resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

2 Operating environment of the Group (continued)

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for some financial instruments and, as such, in the opinion of management some financial instruments are no longer being quoted in an active market. If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

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

3 Basis of preparation

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that certain classes of property and equipment are stated at revalued amounts, and financial instruments at fair value through profit or loss, investments available-for-sale and investment property are stated at fair values.

Functional and presentation currency. The functional currency of the Bank and its subsidiaries is Russian Rubles. Being national currency of the Russian Federation it best reflects the nature of most of operations and related conditions, having an impact on the Group's activities.

These consolidated financial statements are presented in thousands of Russian Rubles (RUB). Amounts in Russian Rubles are rounded to the nearest thousand.

Use of estimates and judgments. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately 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.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRSs that have a significant effect on the amounts recognized in these consolidated financial statements are described in the following notes:

- note 8 "Loans to customers" in respect of loan impairment allowance
- note 9 "Investments available-for-sale" in respect of valuation of financial instruments
- note 10 "Investment property" in respect of valuation of investment property
- note 11 "Property and equipment" in respect of valuation of buildings.

4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the periods presented, except as explained at the end of note 4, which addresses changes in accounting policies.

Consolidated financial statements. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are removed from consolidation from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective, such as the securitisation of particular assets, or the execution of a specific borrowing transaction. The financial statements of SPEs are included in the consolidated financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group, even if the Group does not have any direct or indirect shareholdings in the entity.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests.

Intra-group transactions, balances and unrealized gains on transactions between the Group companies are eliminated. Unrealized losses are also eliminated but only to the extent that there is no evidence of impairment. The Bank and its subsidiaries use uniform accounting policies consistent with the policies adopted by the Group.

Investments in mutual funds. The Group has controlling stakes in closed mutual funds not constituting businesses. The assets of the funds mainly comprise investment property, which is recognized in these consolidated financial statements on a basis proportionate to the Group's share in the funds with no recognition of non-controlling interests.

Funds management. The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Foreign currency translation. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rates at the respective reporting date.

The foreign currency gain or loss on monetary assets and liabilities is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences arising on translation are recognized in profit or loss, except for differences arising on translation on available-for-sale equity instruments, which are recognized as part of other comprehensive income.

4 Summary of significant accounting policies (continued)

As at 31 December 2010 the principal rates of exchange used for translating foreign currency balances are RUB 30.4769 to USD 1 and RUB 40.3331 to EUR 1 for US Dollar and Euro, respectively (31 December 2009: RUB 30.2442 to USD 1 and RUB 43.3883 to 1 EUR for US Dollar and Euro, respectively).

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

Classification of financial assets and liabilities. Financial assets and liabilities are classified as follows:

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 Group 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.

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 Group:

- 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.

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

4 Summary of significant accounting policies (continued)

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 at fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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 the related instrument and amortized based on the effective interest rate of the instrument.

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 Group 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 Group 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 Group, 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.

4 Summary of significant accounting policies (continued)

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group 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. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group's entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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 investments available-for-sale 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 investments available-for-sale 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.

Derecognition. The Group 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 Group 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 Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

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

The Group writes off assets deemed to be uncollectible.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

Impairment of financial assets carried at amortized cost. Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group 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.

4 Summary of significant accounting policies (continued)

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 Group 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 Group 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 Group 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 Group 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 Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost. Financial assets carried at cost include unquoted equity instruments included in investments available-for-sale 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.

Investments available-for-sale. Impairment losses on investments available-for-sale 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 provisions attributable to time value are reflected as a component of interest income.

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

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

4 Summary of significant accounting policies (continued)

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks, and highly liquid financial assets with original maturities of less than one month, including gold and other precious metals, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Amounts due from banks are recorded when the Group advances funds to counterparty banks with no intention of trading with the resulting unquoted non-derivative instruments. Amounts due from banks are due on fixed or determinable dates and are carried at amortized cost.

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

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

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

Due to banks. Amounts due to banks are recognized when funds or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Debt securities issued. Debt securities in issue include promissory noted, bonds and credit linked notes issued by the Group. Debt securities are stated at amortized cost.

Eurobonds issued. Eurobonds issued represent issued debt securities offered at foreign markets. Eurobonds are carried at amortized cost.

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

4 Summary of significant accounting policies (continued)

Derivative financial instruments. Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Investment property. Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

Property and equipment. Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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.

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income, in which case it is recognised in other comprehensive income.

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

Buildings	50 years
Equipment	5 years

Leased assets. Leases under which the Group 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.

Intangible assets. All of intangible assets have definite useful life and primarily include capitalized computer software.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives.

4 Summary of significant accounting policies (continued)

Non-current assets held for sale. Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment of 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.

Provisions. A provision is recognised in the consolidated statement of financial position when the Group 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 Group 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.

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

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

Deferred tax is 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.

Share capital. Ordinary shares and preference shares, which are non-redeemable and for which dividends are declared at the shareholders' discretion, are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

4 Summary of significant accounting policies (continued)

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

Dividends. Dividends in relation to ordinary or preference shares recognised as equity are reflected as an appropriation of retained earnings in the period in which they are declared. Any dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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

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

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.

Segment reporting. An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Comparative information. Comparative information for items of the consolidated statement of comprehensive income is reclassified to conform to changes in presentation in the current year.

Financial statements caption before reclassification	Financial statements caption after reclassification	Amount of reclassification
Loan impairment	Impairment losses	(589 691)
Impairment of investments available-for-sale	Impairment losses	(254 025)
Impairment of investment securities held-to-maturity	Impairment losses	(31 088)
Impairment of other assets	Impairment losses	(53 141)
Other operating income	Income from investment property	4 435

Changes in accounting policy. As at 1 January 2010, the Group adopted the revised version of IAS 27 *Consolidated and Separate Financial Statements*. As a result the Group attributes total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. At the date when control of a subsidiary is lost, any investment retained in the former subsidiary is measured at its fair value, with gain or loss recognized in profit or loss.

The change in accounting policy is applied prospectively and had no material impact on results for the current period.

With effect from 1 January 2010, the Group changed its accounting policy in respect of accounting for investment property.

Prior to 31 December 2009 investment property was accounted for at cost. In 2010 the Group changed its accounting policy in relation to investment property from the cost model to the revaluation model.

4 Summary of significant accounting policies (continued)

Fair value of investment property as at 31 December 2009 is not materially different from its cost therefore changes in the accounting policy did not lead to changes in the consolidated statement of comprehensive income for the year ended 31 December 2009 and the consolidated statement of financial position as at 31 December 2009.

New standards and interpretations not yet adopted. A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these consolidated financial statements. The Group 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

Improvements to IFRSs resulting from the International Accounting Standards Board's 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.

The Group is considering the implications of the standards and the amendments to standards, their impact, and the timing of adoption.

5 Cash and cash equivalents

	31 December 2010	31 December 2009
Cash on hand	1 509 024	1 344 160
Nostro accounts with the CBR	1 239 033	810 452
Short-term placements with other banks	810 837	1 354 906
Nostro accounts and overnight placements with other banks	332 874	699 874
Reverse sale and repurchase agreements with other banks	198 051	510 955
Settlement accounts with trading systems	14 104	5 119
Total cash and cash equivalents	4 103 923	4 725 466

At 31 December 2010 cash equivalents of RUB 198 051 thousand (31 December 2009: RUB 510 955 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RUB 197 725 thousand (31 December 2009: RUB 614 312 thousand). The Group has the right to sell or repledge these securities.

As at 31 December 2010 the Group has two banks whose balances individually exceed 10% of total cash and cash equivalents (31 December 2009: four banks). The gross value of these balances as at 31 December 2010 is RUB 1 860 875 thousand (31 December 2009: RUB 2 711 644 thousand).

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***5 Cash and cash equivalents (continued)**

Analysis by credit quality of amounts on nostro accounts and overnight placements with other banks, short-term placements with other banks and reverse sale and repurchase agreements with other banks is as follows:

	31 December 2010	31 December 2009
Nostro accounts and overnight placements with other banks		
- Top 20 Russian banks	65 601	136 534
- Other Russian banks	49 201	66 866
- Banks of the Republic of Tatarstan	7	3 695
- Large OECD banks	218 065	492 779
Short term placement with other banks		
- Top 20 Russian banks	3 353	300 031
- Other Russian banks	200 000	150 019
- Large OECD banks	607 484	904 856
Reverse sale and repurchase agreements with other banks		
- Top 20 Russian banks	-	510 955
- Other Russian banks	198 051	-
Total cash and cash equivalents held at other banks	1 341 762	2 565 735

6 Due from banks

	31 December 2010	31 December 2009
Loans and deposits with other banks	44 198	2 513 856
Reverse repurchase agreement with other banks	-	477 195
Total due from banks	44 198	2 991 051

As at 31 December 2010 the Group has two banks whose balances individually exceed 10% of total due from banks (31 December 2009: two banks). The gross value of these balances as of 31 December 2010 are RUB 38 103 thousand (31 December 2009: RUB 2 386 045 thousand).

Analysis by credit quality of amounts due from banks is as follows:

	31 December 2010	31 December 2009
Short-term placements with other banks		
- Top 20 Russian banks	10 674	1 482 201
- Other Russian banks	-	90 000
- Large OECD banks	33 524	941 655
Reverse repurchase agreement with other banks		
- Other Russian banks	-	477 195
Total due from banks	44 198	2 991 051

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
(expressed in thousands of Russian Rubles)

7 Financial instruments at fair value through profit or loss

	31 December 2010	31 December 2009
Corporate bonds	2 896 235	2 064 061
Russian Government Federal Bonds (OFZ)	339 448	203 857
Corporate Eurobonds	173 806	-
Municipal bonds	59 624	1 781
Promissory notes	-	496
Total debt securities	3 469 113	2 270 195
Equity securities - quoted	721 976	14 134
Equity securities - unquoted	-	255 309
Total equity securities	721 976	269 443
Total financial instruments at fair value through profit or loss	4 191 089	2 539 638

The Group irrevocably designated the above securities, which are not part of its trading book, as financial instruments at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of the investments based on their fair values, the information on which is regularly provided to management.

Corporate bonds are interest-bearing securities denominated in Russian Rubles issued by Russian companies and banks. At 31 December 2010 these bonds have maturity dates from March 2011 to November 2015 (31 December 2009: from January 2010 to July 2012) and coupon rates from 7% to 15% p.a. (31 December 2009: from 8% to 20% p.a.).

Russian Government Federal Bonds are government securities denominated in Russian Rubles issued by the Ministry of Finance of the Russian Federation. At 31 December 2010 these bonds have maturity dates from August 2012 to August 2018 (31 December 2009: from July 2010 to August 2012), coupon rates from 7% to 12% p.a. (31 December 2009: from 8% to 12% p.a.).

Corporate Eurobonds are interest-bearing securities denominated in USD issued by a Russian company. At 31 December 2010 these bonds have a maturity date in March 2015, and the coupon rate is 10% p.a.

Municipal bonds as at 31 December 2010 are securities denominated in Russian Rubles issued by the municipal administration of Moscow (31 December 2009: Republic of Sakha (Yakutia)). As at 31 December 2010 these bonds have a maturity date in June 2014 (31 December 2009: April 2013), and the coupon rate is 15% p.a. (31 December 2009: 8% p.a.).

Equity securities are ordinary shares of Russian companies and banks.

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2010 is as follows:

	OFZ	Municipal bonds	Corporate bonds	Corporate Eurobonds	Total
Russian government	339 448	-	-	-	339 448
Russian municipal administration	-	59 624	-	-	59 624
Top 20 Russian banks	-	-	330 352	-	330 352
Other Russian banks	-	-	1 944 512	-	1 944 512
Other Russian companies	-	-	621 371	173 806	795 177
Total debt securities at fair value through profit or loss	339 448	59 624	2 896 235	173 806	3 469 113

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
(expressed in thousands of Russian Rubles)

7 Financial instruments at fair value through profit or loss (continued)

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2009 is as follows:

	OFZ	Municipal bonds	Corporate bonds	Promissory notes	Total
Russian government	203 857	-	-	-	203 857
Russian municipal administration	-	1 781	-	-	1 781
Top 20 Russian banks	-	-	51 882	-	51 882
Other Russian banks	-	-	1 710 310	496	1 710 806
Other Russian companies	-	-	301 869	-	301 869
Total debt securities at fair value through profit or loss	203 857	1 781	2 064 061	496	2 270 195

8 Loans to customers

	31 December 2010	31 December 2009
<i>Loans to corporate entities</i>		
Corporate loans	38 814 539	33 089 863
Loans to small and medium enterprises (SME)	2 600 043	1 813 048
Reverse sale and repurchase agreements	95 260	-
<i>Loans to individuals</i>		
Consumer loans	2 570 539	2 416 496
Mortgage loans	729 045	817 886
Car loans	341 526	446 680
Total gross loans to customers	45 150 952	38 583 973
Allowance for loan impairment	(5 601 643)	(4 117 993)
Total net loans to customers	39 549 309	34 465 980

Corporate entities are classified as SME based on their revenues and the number of employees. As at 31 December 2010 loans to customers with a total loan of less than RUB 150 000 thousand are usually loans to SME (31 December 2009: less than RUB 60 000 thousand).

Movements in the allowance for loan impairment during 2010 are as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2010	3 061 681	567 324	293 628	92 219	103 141	4 117 993
Loan impairment losses	1 090 179	216 685	225 051	(17 997)	(8 364)	1 505 554
Loans written off as uncollectible	(10 068)	(11 836)	-	-	-	(21 904)
Balance at 31 December 2010	4 141 792	772 173	518 679	74 222	94 777	5 601 643

Movements in the allowance for loan impairment during 2009 are as follows:

	Corporate loans	SME	Consumer loans	Car loans	Mortgage loans	Total
Balance at 1 January 2009	2 961 159	237 728	195 442	59 965	75 072	3 529 366
Loan impairment losses	100 522	330 564	98 282	32 254	28 069	589 691
Loans written off as uncollectible	-	(968)	(96)	-	-	(1 064)
Balance at 31 December 2009	3 061 681	567 324	293 628	92 219	103 141	4 117 993

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***8 Loans to customers (continued)**

Analysis of loans to corporate entities by credit quality at 31 December 2010 is as follows:

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Corporate loans				
<i>Loans without individual signs of impairment:</i>				
- Individually significant	30 311 246	(1 597 729)	28 713 517	5.3
- Not individually significant	1 020 105	(53 771)	966 334	5.3
<i>Impaired loans:</i>				
- Not overdue	6 630 907	(1 816 482)	4 814 425	27.4
- Overdue less than 30 days	72 981	(14 596)	58 385	20.0
- Overdue 31 to 90 days	71 951	(25 286)	46 665	35.1
- Overdue more than 180 days	707 349	(633 928)	73 421	89.6
Total corporate loans	38 814 539	(4 141 792)	34 672 747	10.7
Loans to SME				
<i>Loans without individual signs of impairment:</i>				
- Not individually significant	1 733 812	(91 391)	1 642 421	5.3
<i>Impaired loans:</i>				
- Not overdue	182 772	(37 490)	145 282	20.5
- Overdue 31 to 90 days	35 747	(28 597)	7 150	80.0
- Overdue 91 to 180 days	101 471	(81 177)	20 294	80.0
- Overdue more than 180 days	546 241	(533 518)	12 723	97.7
Total loans to SME	2 600 043	(772 173)	1 827 870	29.7
Total loans to corporate entities	41 414 582	(4 913 965)	36 500 617	11.9

JSC "AIKB "Tatfondbank"

Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
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8 Loans to customers (continued)

Analysis of loans to individuals by credit quality at 31 December 2010 is as follows:

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Consumer loans				
- Not overdue	1 834 677	(11 233)	1 823 444	0.6
- Overdue less than 30 days	43 904	(4 020)	39 884	9.2
- Overdue 31 to 90 days	25 041	(6 230)	18 811	24.9
- Overdue 91 to 180 days	86 665	(21 963)	64 702	25.3
- Overdue more than 180 days	580 252	(475 233)	105 019	81.9
Total consumer loans	2 570 539	(518 679)	2 051 860	20.2
Car loans				
- Not overdue	246 466	(994)	245 472	0.4
- Overdue less than 30 days	11 146	(582)	10 564	5.2
- Overdue 31 to 90 days	5 535	(1 139)	4 396	20.6
- Overdue 91 to 180 days	6 312	(2 135)	4 177	33.8
- Overdue more than 180 days	72 067	(69 372)	2 695	96.3
Total car loans	341 526	(74 222)	267 304	21.7
Mortgage loans				
- Not overdue	576 884	(1 483)	575 401	0.3
- Overdue less than 30 days	26 390	(372)	26 018	1.4
- Overdue 31 to 90 days	9 762	(726)	9 036	7.4
- Overdue 91 to 180 days	8 601	(1 533)	7 068	17.8
- Overdue more than 180 days	107 408	(90 663)	16 745	84.4
Total mortgage loans	729 045	(94 777)	634 268	13.0
Total loans to individuals	3 641 110	(687 678)	2 953 432	18.9

Management uses its experience and judgment to estimate the amount of impairment allowance for loans to customers. Management estimates loan impairment allowance for loans to customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment are identified on an individual basis. In determining the impairment allowance for loans for which no specific indications of impairment have been identified, management makes estimates of losses incurred using the past historic losses, adjusted as necessary for the current economic environment.

When the collateral is used to estimate the expected future cash flows, the estimated value of collateral is discounted by 20-30 percent to reflect current market conditions, and the expected time of collateral realization is from 1 to 2 years.

For loans to individuals management estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the provision for impairment for loans to individuals is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could affect the allowance for loan impairment. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance for loans to corporate entities as of 31 December 2010 would be RUB 365 006 thousand and the loan impairment allowance for loans to individuals as of 31 December 2010 would be RUB 29 534 thousand lower/higher, respectively (31 December 2009: RUB 312 739 thousand and RUB 31 921 thousand, respectively).

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***8 Loans to customers (continued)**

Should actual repayments be less than the management estimated, the Group would be required to record additional loan impairment losses.

During the year ended 31 December 2010 the Group renegotiated loans to corporate entities and individuals that would otherwise be past due or impaired of RUB 3 782 271 thousand and RUB 175 868 thousand, respectively (31 December 2009: RUB 6 010 595 thousand and RUB 369 622 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. These loans are classified as not overdue.

Analysis of loans to corporate entities by credit quality at 31 December 2009 is as follows:

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Corporate loans				
<i>Loans without individual signs of impairment:</i>				
- Individually significant	27 523 058	(1 544 389)	25 978 669	5.6
- Not individually significant	1 385 262	(76 504)	1 308 758	5.5
<i>Impaired loans:</i>				
- Not overdue	3 107 205	(712 191)	2 395 014	22.9
- Overdue less than 30 days	555 215	(319 088)	236 127	57.5
- Overdue 31 to 90 days	270 846	(210 888)	59 958	77.9
- Overdue 91 to 180 days	157 644	(126 115)	31 529	80.0
- Overdue more than 180 days	90 633	(72 506)	18 127	80.0
Total corporate loans	33 089 863	(3 061 681)	30 028 182	9.3
Loans to SME				
<i>Loans without individual signs of impairment:</i>				
- Not individually significant	1 141 728	(64 711)	1 077 017	5.7
<i>Impaired loans:</i>				
- Overdue less than 30 days	130 285	(69 784)	60 501	53.6
- Overdue 31 to 90 days	28 960	(23 169)	5 791	80.0
- Overdue 91 to 180 days	152 907	(122 325)	30 582	80.0
- Overdue more than 180 days	359 168	(287 335)	71 833	80.0
Total loans to SME	1 813 048	(567 324)	1 245 724	31.3
Total loans to corporate entities	34 902 911	(3 629 005)	31 273 906	10.4

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***8 Loans to customers (continued)**

Analysis of loans to individuals by credit quality at 31 December 2009 is as follows:

	Gross loans	Allowance for loan impairment	Net loans	Allowance for loan impairment to gross loans (%)
Consumer loans				
- Not overdue	2 031 486	(12 097)	2 019 389	0.6
- Overdue less than 30 days	48 615	(4 715)	43 900	9.7
- Overdue 31 to 90 days	39 448	(12 655)	26 793	32.1
- Overdue 91 to 180 days	60 251	(34 775)	25 476	57.7
- Overdue more than 180 days	236 696	(229 386)	7 310	96.9
Total consumer loans	2 416 496	(293 628)	2 122 868	12.2
Car loans				
- Not overdue	325 989	(2 939)	323 050	0.9
- Overdue less than 30 days	15 417	(1 547)	13 870	10.0
- Overdue 31 to 90 days	10 900	(2 236)	8 664	20.5
- Overdue 91 to 180 days	6 469	(2 649)	3 820	40.9
- Overdue more than 180 days	87 905	(82 848)	5 057	94.2
Total car loans	446 680	(92 219)	354 461	20.6
Mortgage loans				
- Not overdue	641 999	(2 173)	639 826	0.3
- Overdue less than 30 days	30 714	(492)	30 222	1.6
- Overdue 31 to 90 days	11 448	(530)	10 918	4.6
- Overdue 91 to 180 days	12 792	(1 669)	11 123	13.0
- Overdue more than 180 days	120 933	(98 277)	22 656	81.3
Total mortgage loans	817 886	(103 141)	714 745	12.6
Total loans to individuals	3 681 062	(488 988)	3 192 074	13.3

The Group accepts bank deposits, real estate, traded securities, motor vehicles, inventories, equipment and other assets as collateral. The gross amounts of unsecured loans are as follows:

	31 December 2010	31 December 2009
<i>Loans to corporate entities</i>		
Corporate loans	15 468 007	6 638 934
Loans to SME	768 431	164 491
<i>Loans to individuals:</i>		
Consumer loans	2 083 255	2 001 781
Total unsecured loans	18 319 693	8 805 206

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
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8 Loans to customers (continued)

The structure of the gross loans to corporate entities by types of collateral as at 31 December 2010 is as follows:

	Corporate loans		Loans to SME	
	Gross loans	Value of collateral	Gross loans	Value of collateral
Loans without individual signs of impairment	31 331 351	20 738 697	1 733 812	1 660 025
<i>Fully secured loans:</i>	13 272 335	17 945 581	805 807	1 321 725
- cash deposit	26 502	39 792	14 992	22 708
- securities	1 586 562	2 355 857	-	-
- real estate	3 917 744	5 332 758	570 548	881 207
- inventories	4 279 903	5 844 807	42 251	70 471
- equipment	585 805	962 424	60 795	100 869
- motor vehicles	20 239	28 517	33 974	47 392
- biological assets	1 058 276	1 485 668	-	-
- other assets	1 797 304	1 895 758	83 247	199 078
<i>Partially secured loans:</i>	6 046 937	2 793 116	457 672	338 300
- cash deposit	171 292	140 000	-	-
- securities	3 072 424	1 025 894	-	-
- real estate	2 138 579	1 480 633	144 864	102 964
- inventories	446 379	1 800	34 436	29 694
- equipment	54 928	45 131	183 538	133 908
- motor vehicles	11 656	1 757	18 037	11 293
- biological assets	100 762	51 520	58 003	43 295
- other assets	50 917	46 381	18 794	17 146
<i>Unsecured loans</i>	12 012 079	-	470 333	-
Impaired loans	7 483 188	4 708 322	866 231	955 785
<i>Fully secured loans:</i>	1 934 315	3 260 449	374 877	879 040
- real estate	1 085 951	1 892 327	214 641	439 084
- inventories	333 168	606 321	72 648	129 735
- equipment	46 534	86 917	45 059	87 305
- motor vehicles	-	-	32 831	203 086
- cash deposit	-	-	1 554	1 555
- biological assets	468 662	674 884	8 144	18 275
<i>Partially secured loans:</i>	2 092 945	1 447 873	193 256	76 745
- securities	239 286	30 771	-	-
- real estate	1 062 800	933 047	151 712	49 978
- inventories	327 895	217 376	14 618	11 707
- equipment	248 433	168 342	13 747	6 775
- motor vehicles	-	-	8 645	4 435
- cash deposit	127 276	47 657	-	-
- biological assets	87 255	50 680	-	-
- other assets	-	-	4 534	3 850
<i>Unsecured loans</i>	3 455 928	-	298 098	-
Total gross loans to corporate entities	38 814 539	25 447 019	2 600 043	2 615 810

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
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8 Loans to customers (continued)

The structure of the gross loans to corporate entities by types of collateral as at 31 December 2009 is as follows:

	Corporate loans		Loans to SME	
	Gross loans	Value of collateral	Gross loans	Value of collateral
Loans without individual signs of impairment	28 908 320	25 871 451	1 141 728	1 823 153
<i>Fully secured loans:</i>	14 072 523	21 083 157	955 853	1 755 985
- cash deposit	47 071	62 090	10	2 230
- securities	1 445 202	1 956 863	3 548	7 440
- real estate	4 907 903	6 548 896	675 403	1 326 439
- inventories	5 424 786	7 970 280	172 817	230 553
- equipment	651 034	908 378	47 318	98 410
- motor vehicles	81 385	211 157	55 870	86 087
- biological assets	567 946	1 024 216	314	2 434
- other assets	947 196	2 401 277	573	2 392
<i>Partially secured loans:</i>	9 217 233	4 788 294	107 243	67 168
- securities	2 516 974	2 165 943	-	-
- real estate	1 916 994	1 535 092	52 135	32 483
- inventories	1 159 445	164 568	5 018	4 859
- equipment	3 061 061	768 129	30 358	18 482
- motor vehicles	78 787	72 486	19 732	11 344
- biological assets	147 127	2 853	-	-
- other assets	336 845	79 223	-	-
<i>Unsecured loans</i>	5 618 564	-	78 632	-
Impaired loans	4 181 543	4 080 575	671 320	834 625
<i>Fully secured loans:</i>	1 894 809	3 030 015	489 215	765 120
- real estate	1 401 198	2 043 231	337 750	480 771
- inventories	307 647	636 803	32 356	58 924
- equipment	43 927	58 940	37 579	68 249
- motor vehicles	18 329	34 446	22 478	79 018
- cash deposit	1 554	2 000	-	-
- biological assets	122 154	254 595	4 853	10 673
- other assets	-	-	54 199	67 485
<i>Partially secured loans:</i>	1 266 364	1 050 560	96 246	69 505
- real estate	534 207	358 499	60 394	45 092
- inventories	-	-	8 697	8 043
- equipment	134 030	107 267	16 389	7 370
- motor vehicles	-	-	10 766	9 000
- securities	237 876	236 749	-	-
- other assets	360 251	348 045	-	-
<i>Unsecured loans</i>	1 020 370	-	85 859	-
Total gross loans to corporate entities	33 089 863	29 952 026	1 813 048	2 657 778

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***8 Loans to customers (continued)**

The structure of the gross loans to individuals by types of collateral as at 31 December 2010 is as follows:

	Consumer loans		Car loans		Mortgage loans	
	Gross loans	Value of collateral	Gross loans	Value of collateral	Gross loans	Value of collateral
Not overdue loans	1 834 677	318 994	246 466	549 492	576 884	1 322 047
<i>Fully secured loans:</i>	<i>128 674</i>	<i>287 849</i>	<i>237 004</i>	<i>544 551</i>	<i>569 155</i>	<i>1 318 727</i>
- cash deposit	14 460	18 271	-	-	-	-
- real estate	63 004	170 455	-	-	559 935	1 299 666
- inventories	7 080	29 885	-	-	-	-
- equipment	794	972	-	-	-	-
- motor vehicles	16 882	29 774	236 981	544 230	-	-
- other	26 454	38 492	23	321	9 220	19 061
<i>Partially secured loans:</i>	<i>40 610</i>	<i>31 145</i>	<i>9 462</i>	<i>4 941</i>	<i>7 729</i>	<i>3 320</i>
- real estate	24 849	19 646	-	-	7 326	3 207
- motor vehicles	9 859	7 067	9 462	4 941	-	-
- other	5 902	4 432	-	-	403	113
<i>Unsecured loans</i>	<i>1 665 393</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Overdue loans	735 862	403 063	95 060	160 098	152 161	250 562
<i>Fully secured loans:</i>	<i>231 602</i>	<i>338 549</i>	<i>82 204</i>	<i>149 610</i>	<i>134 598</i>	<i>233 894</i>
- real estate	9 256	14 441	-	-	130 685	227 031
- inventories	9 732	15 031	-	-	-	-
- equipment	73	365	-	-	-	-
- motor vehicles	3 734	5 398	81 077	147 192	-	-
- other	208 807	303 314	1 127	2 418	3 913	6 863
<i>Partially secured loans:</i>	<i>86 398</i>	<i>64 514</i>	<i>12 856</i>	<i>10 488</i>	<i>17 563</i>	<i>16 668</i>
- real estate	6 392	3 083	-	-	15 553	14 768
- inventories	991	726	-	-	-	-
- motor vehicles	18 470	13 214	12 856	10 488	-	-
- other	60 545	47 491	-	-	2 010	1 900
<i>Unsecured loans</i>	<i>417 862</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total gross loans to individuals	2 570 539	722 057	341 526	709 590	729 045	1 572 609

JSC "AIKB "Tatfondbank"**Notes to the Consolidated Financial Statements for the Year ended 31 December 2010***(expressed in thousands of Russian Rubles)***8 Loans to customers (continued)**

The structure of the gross loans to individuals by types of collateral as at 31 December 2009 is as follows:

	Consumer loans		Car loans		Mortgage loans	
	Gross loans	Value of collateral	Gross loans	Value of collateral	Gross loans	Value of collateral
Not overdue loans	2 031 486	811 929	325 989	763 130	641 999	1 398 698
<i>Fully secured loans:</i>	165 451	688 651	321 180	759 670	641 295	1 398 529
- cash deposit	30 851	35 934	173	185	-	-
- real estate	85 206	190 254	1 643	2 370	627 831	1 375 427
- inventories	844	1 213	-	-	-	-
- equipment	825	972	-	-	-	-
- motor vehicles	18 373	29 370	316 130	668 086	-	-
- other	29 352	430 908	3 234	89 029	13 464	23 102
<i>Partially secured loans:</i>	222 166	123 278	4 809	3 460	704	169
- cash deposit	520	426	-	-	-	-
- real estate	8 925	7 739	-	-	704	169
- inventories	1 005	726	-	-	-	-
- motor vehicles	16 051	11 141	4 809	3 460	-	-
- other	195 665	103 246	-	-	-	-
<i>Unsecured loans</i>	1 643 869	-	-	-	-	-
Overdue loans	385 010	146 350	120 691	179 037	175 887	264 323
<i>Fully secured loans:</i>	12 027	135 973	101 269	163 633	159 982	249 663
- real estate	7 765	13 307	-	-	156 168	245 253
- inventories	229	11 118	9 369	13 075	-	-
- equipment	73	365	-	-	-	-
- motor vehicles	2 342	4 247	91 739	150 233	-	-
- other	1 618	106 936	161	325	3 814	4 410
<i>Partially secured loans:</i>	15 071	10 377	19 422	15 404	15 905	14 660
- real estate	2 705	1 350	-	-	15 905	14 660
- inventories	82	43	-	-	-	-
- motor vehicles	11 668	8 444	19 422	15 404	-	-
- other	616	540	-	-	-	-
<i>Unsecured loans</i>	357 912	-	-	-	-	-
Total gross loans to individuals	2 416 496	958 279	446 680	942 167	817 886	1 663 021

The above tables do not include reverse sale and repurchase agreements. At 31 December 2010 loans of RUB 95 260 thousand (31 December 2009: none) are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RUB 99 235 thousand (31 December 2009: none). The Group has the right to sell or repledge these securities.

The value of collateral in the tables above represents the fair value of collateral assessed as at 31 December 2010 and 2009 in accordance with the Group's internal guidance approved by management. Depending on type of collateral the Group applies certain discounts when estimating value of collateral as at the reporting date.

The value of residential real estate at the reporting date was estimated by indexing the values determined by the credit department officers at the time of the loan inception for the average change in residential real estate prices in the relevant city or region. The value of other real estate and other assets is determined by the credit department using internal guidelines.

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8 Loans to customers (continued)

Industry analysis of the loans portfolio as at 31 December 2010 and 31 December 2009 is as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Trade	10 747 274	23	9 327 919	24
Finance	6 944 198	15	5 007 907	13
Agriculture	6 784 593	15	6 326 117	16
Food industry	5 437 791	12	5 932 974	15
Real estate	5 383 968	12	2 921 400	8
Individuals	3 641 110	8	3 681 062	10
Construction and manufacturing	1 734 689	4	2 081 200	5
Transport	870 218	2	37 594	-
Leasing	678 652	2	361 538	1
Light industry	677 993	2	1 140 484	3
Other	2 250 466	5	1 765 778	5
Total gross loans to customers	45 150 952	100	38 583 973	100

At 31 December 2010, the Group has 27 borrowers (31 December 2009: 28 borrowers) with aggregated loan amounts above RUB 500 000 thousand. The total aggregate amount of these loans is RUB 29 939 620 thousand (31 December 2009: RUB 27 605 944 thousand) or 66% of the gross loans to customers (31 December 2009: 72%).

As at 31 December 2010, loans to customers of RUB 463 044 thousand (31 December 2009: RUB 3 782 817 thousand) are pledged as collateral for term deposits received from the CBR of RUB 116 764 thousand (31 December 2009: RUB 2 187 518 thousand).

9 Investments available-for-sale

	31 December 2010	31 December 2009
Corporate bonds	2 089 281	1 312 338
Equity securities - unquoted	605 688	187 592
Total investments available-for-sale	2 694 969	1 499 930

Corporate bonds are interest-bearing securities denominated in Russian Rubles issued by Russian companies. As at 31 December 2010 these bonds have maturity dates from March 2011 to July 2013 (31 December 2009: from January 2010 to March 2011), and coupon rates from 15% to 18% p.a. (31 December 2009: from 11% to 17% p.a.).

Equity securities are ordinary shares of Russian companies and a bank.

Debt securities outstanding at 31 December 2010 are as follows:

	Corporate bonds
<i>Current and not impaired</i>	
- traded bonds of companies located in other Russian Federation regions	69 407
- corporate bonds of companies located in Tatarstan Republic not traded in an active market	1 292 956
<i>Impaired</i>	
- corporate bonds of companies located in Tatarstan Republic not traded in an active market	726 918
Total debt securities available-for-sale	2 089 281

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2010
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9 Investments available-for-sale (continued)

Debt securities outstanding at 31 December 2009 are as follows:

	Corporate bonds
<i>Current and not impaired</i>	
- traded bonds of companies located in Tatarstan Republic	84 485
- traded bonds of companies located in other Russian Federation regions	4 401
- corporate bonds of companies located in Tatarstan Republic not traded in an active market	400 467
<i>Impaired</i>	
- corporate bonds of companies located in Tatarstan Republic not traded in an active market	822 985
Total debt securities available-for-sale	1 312 338

The fair value of debt securities available-for-sale is based upon prices in the active market. If the fair value of debt securities available-for-sale cannot be determined on the basis of market quotations it is determined with the use of discounted cash flow models.

Cash flows are discounted at market discount rates consisting of base (risk-free) rates and corporate risk premiums. The base (risk-free) discount rate for debt instruments is the market yield to maturity for risk-free instruments with corresponding maturity. A corporate risk premium is determined in accordance with a methodology of counterparty creditworthiness evaluation approved by management.

Changes in the estimates could affect the value of investments available-for-sale. For example, to the extent that the net present value of the estimated cash flows differs by plus minus ten percent, the value of debt investments available-for-sale as of 31 December 2010 would be RUB 201 987 thousand higher/lower (31 December 2009: RUB 122 345 thousand). Equity investments available-for-sale not traded in an active market are stated at cost.

10 Investment property

	Land plots	Premises	Total
Fair value at 1 January 2009	-	-	-
Additions	1 572 473	494 884	2 067 357
Fair value at 31 December 2009	1 572 473	494 884	2 067 357
Additions	926 280	6 214	932 494
Revaluation	2 283 434	10 631	2 294 065
Disposals	(1 051 368)	-	(1 051 368)
Fair value at 31 December 2010	3 730 819	511 729	4 242 548

In 2009 the Group purchased 100% of the units in closed mutual fund "TFB-Aktiv" and 100% of the units in closed mutual fund "TFB-Investitziorny" for RUB 753 221 thousand. The assets of the funds comprise retail trade premises, residential buildings and land plots. As a result of additional issue of units in 2010 the Group's share in closed mutual property fund "TFB-Aktiv" reduced to 73%, and the Group's share in closed mutual property fund "TFB-Investitziorny" reduced to 89%.

In 2009 the Group purchased 60% of the units in closed mutual fund "TFB-Rentnyi Investitziorny Fond" for RUB 1 314 136 thousand. The assets of the fund comprise 5 274 hectares of land plots located in the Laishevsky region of Tatarstan Republic. As at 31 December 2009 the land was zoned as agricultural. In 2010 the zoning of certain land plots was changed to residential.

10 Investment property (continued)

In 2010 the Group performed a number of transactions with units in the fund, the majority of which were with related parties:

- a purchase of 42% of the units for cash consideration of RUB 5 250 410 thousand
- a sale of 45% of the units for nominal consideration of RUB 5 587 767 thousand, of which of RUB 2 070 103 thousand was paid in cash, and of RUB 3 517 664 thousand was deferred consideration. Management expects that a portion of deferred consideration of RUB 1 549 064 thousand will be paid in cash. The related receivables are included in loans to customers and other assets. Management also expects that the remaining portion of deferred consideration of RUB 1 968 600 thousand will be settled through acquisition by the Group of 16% of the units in the fund with an estimated fair value of RUB 969 858 thousand. The Group recognized consideration receivable at fair value.

The Group recognizes assets held by the funds as investment property held to benefit from appreciation in its value. If the Group's share in the fund is less than 100%, the Group recognizes in these consolidated financial statements its portion of the assets in the fund. Sale of units in the funds is recognized as a partial disposal of investment property.

As at 31 December 2009 investment property was recognized at cost. In 2010 the Group changed its accounting policy in relation to investment property from the cost model to the revaluation model. Management believes that the fair value of land as at 31 December 2009 was not significantly different from its cost and that the main driver for the increase in investment property value is the change in zoning status from agricultural to residential in 2010. As a result, the entire amount of revaluation of RUB 2 294 065 thousand is recognized as a gain in 2010.

Investment properties are valued by management based on the results of appraisals performed by independent, professionally qualified valuers who have recent experience in valuing similar properties.

There is no active market for properties of similar size and quality and as such there is lack of comparative market data.

The basis used for the appraisal is a valuation model based on the following key assumptions:

- average price of 1 hectare of land is RUB 411 thousand for agricultural zoned land
- average price of 1 hectare of land varies from RUB 4 750 thousand to RUB 10 275 thousand for residential zoned land
- discount rates of 12% to 14% are applied to capitalise annual cash flows depending on region and location of premises
- the time period during which development of land is expected to be completed is 3 years.

Changes in the estimates above could affect the value of land. For example, to the extent that the value of 1 hectare of residential land differs by minus/plus RUB 3 000 thousand, the net book value of the investment properties as at 31 December 2010 would be RUB 1 035 993 thousand lower/higher.

Income from investment property recognized in 2010 comprises:

	2010
Revaluation gain	2 294 065
Gain from disposal of investment property	254 008
Remeasurement of receivable to fair value	(998 742)
Total	1 549 331

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11 Property and equipment

The following table provides information on the changes in the carrying value of property and equipment for the year ended 31 December 2010:

	Buildings	Office and computer equipment	Construction in progress and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2010	394 662	565 425	13 635	973 722
Additions	95 578	58 289	-	153 867
Disposals	-	(67 027)	(1 545)	(68 572)
Revaluation	34 941	-	-	34 941
At 31 December 2010	525 181	556 687	12 090	1 093 958
Depreciation				
At 1 January 2010	(14 218)	(366 111)	-	(380 329)
Depreciation charge	(8 089)	(89 921)	-	(98 010)
Disposals	-	60 878	-	60 878
Depreciation recovery due to revaluation	22 307	-	-	22 307
At 31 December 2010	-	(395 154)	-	(395 154)
Carrying value				
At 31 December 2010	525 181	161 533	12 090	698 804

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11 Property and equipment (continued)

The following table provides information on the changes in the carrying value of property and equipment for the year ended 31 December 2009:

	Buildings	Office and computer equipment	Construction in progress and equipment not put into use	Total
Cost/revalued amount				
At 1 January 2009	390 085	558 322	4 694	953 101
Additions	4 577	23 419	8 941	36 937
Disposals	-	(16 316)	-	(16 316)
At 31 December 2009	394 662	565 425	13 635	973 722
Depreciation				
At 1 January 2009	(6 655)	(281 034)	-	(287 689)
Depreciation charge	(7 563)	(92 851)	-	(100 414)
Disposals	-	7 774	-	7 774
At 31 December 2009	(14 218)	(366 111)	-	(380 329)
Carrying value				
At 31 December 2009	380 444	199 314	13 635	593 393

At 31 December 2010, included in office and computer equipment are items fully depreciated of RUB 69 712 thousand (31 December 2009: RUB 62 745 thousand).

Buildings were valued by an independent firm of appraisers at 31 December 2010. Market values were estimated by appropriate valuation techniques using a combination of comparative sales and income valuation methods.

The primary basis used for the appraisal is the income capitalization approach. The income capitalization approach considers income and expense data relating to the building being valued and estimates fair value through a capitalization process. The market approach is used to assess the reasonableness of the results of the income capitalization approach. The market approach is based upon an analysis of the results of comparable sales of similar premises.

The following key assumptions are used in applying the income capitalization approach:

- annual cash flows are projected based on estimated rental income net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses
- discount rates of 13.4% to 15.8% are applied to capitalise annual cash flows depending on region and location of premises.

Changes in the estimates could affect the value of the premises. For example, to the extent that the net present value of the estimated cash flows differs by plus minus ten percent, the buildings valuation as of 31 December 2010 would be RUB 52 518 thousand higher/lower (31 December 2009: 38 044 thousand).

Included in the carrying amount of buildings is RUB 125 339 thousand (31 December 2009: RUB 84 579 thousand) representing revaluation surplus. As at 31 December 2010 the carrying amount of buildings would have been RUB 351 941 thousand (31 December 2009: RUB 264 452 thousand) had the assets been carried at cost less depreciation.

Construction in progress consists mainly of construction and refurbishment of branch premises. Equipment not put in use represents office and computer equipment, which the Group has not yet started to use. Upon completion/putting into operation, these assets are transferred to the corresponding category of fixed assets.

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12 Other assets

	31 December 2010	31 December 2009
Other financial assets		
Unsettled transactions	1 035 881	-
Trade receivables	31 749	21 691
Settlements on conversion operations	14 646	31 992
Plastic cards receivables	10 012	25 926
Settlements on transactions with securities	6 269	64 329
Receivables on money transfers	1 184	5 833
Other	93 337	49 976
Total other financial assets	1 193 078	199 747
Other non-financial assets		
Capitalised software development costs	275 506	282 881
Precious metals	59 631	70 573
Intangible assets	47 171	40 164
Prepaid income taxes	44 687	1 083
Inventories	12 455	-
Other	7 866	-
Allowance for impairment of software development costs	(275 506)	(102 266)
Total other non-financial assets	171 810	292 435
Total other assets	1 364 888	492 182

Movements in the allowance for impairment of capitalised software development costs during the year ended 31 December 2010 are as follows:

	2010	2009
Balance at 1 January	102 266	49 125
Impairment of other non-financial assets	173 240	53 141
Balance at 31 December	275 506	102 266

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13 Due to banks

	31 December 2010	31 December 2009
Term deposits of other banks	1 685 970	1 537 776
Term deposits of the CBR	116 764	5 506 979
Vostro accounts and overnight placements of other banks	113	1 343 406
Total due to banks	1 802 847	8 388 161

At 31 December 2010 term deposits of the CBR of RUB 116 764 thousand (31 December 2009: RUB 5 506 979 thousand), or 6.5% (31 December 2009: 65.7%) of total due to banks, mature in February 2011 (31 December 2009: from January to December 2010) and have interest rates from 8.5% to 8.75% p.a. (31 December 2009: from 7.8% to 13.0% p.a.).

At 31 December 2010 term deposits of other banks include RUB 611 104 thousand (31 December 2009: RUB 901 706 thousand), or 33.9% (31 December 2009: 10.7%) of the total amount due to banks, received from OJSC "Russian Bank for Development". These term deposits have maturity dates from February 2011 to October 2015 (31 December 2009: from January 2010 to December 2012) and interest rates from 7.5% to 12.5% p.a. (31 December 2009: 10.5% to 12.5% p.a.).

14 Customer accounts

	31 December 2010	31 December 2009
Corporate entities		
- Current/settlement accounts	4 269 961	3 065 030
- Term deposits	2 500 021	2 038 983
Individuals		
- Term deposits	20 065 454	15 869 667
- Current/demand accounts	3 615 492	2 013 738
Total customer accounts	30 450 928	22 987 418

Economic sector concentrations within customer accounts are as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Individuals	23 680 946	78	17 883 405	77
Construction and production	1 953 049	6	1 321 976	6
Trade and finance	1 298 390	4	1 824 428	8
Agriculture	935 223	3	211 100	1
Transport	280 734	1	51 413	-
State owned organisations	87 359	1	144 075	1
Oil industry	4 530	-	373 135	2
Other	2 210 697	7	1 177 886	5
Total customer accounts	30 450 928	100	22 987 418	100

At 31 December 2010 and 2009 the Group has no customers with balances above RUB 1 000 000 thousand.

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15 Debt securities in issue

	31 December 2010	31 December 2009
Russian Ruble denominated bonds	8 222 314	4 593 701
Russian Ruble denominated promissory notes	1 041 291	1 088 510
US Dollar denominated promissory notes	-	67 293
Total debt securities in issue	9 263 605	5 749 504

As at 31 December 2010 bonds denominated in Russian Rubles represent interest-bearing securities (bonds of the fourth, fifth, sixth, seventh issues and exchange-traded bonds) traded on the Moscow Interbank Currency Exchange ("MICEX").

	Carrying value	Nominal value	Date of issue	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2010
Fourth issue	1 516 465	1 500 000	04.06.2008	01.06.2011	13.00	-
Fifth issue	2 025 706	2 000 000	25.03.2009	21.03.2012	11.00	29.03.2011
Sixth issue	2 059 153	2 000 000	02.03.2010	26.02.2013	11.20	05.03.2011
Seventh issue	628 380	1 000 000	18.12.2009	14.12.2012	8.75	22.12.2011
Exchange-traded bonds	1 992 610	2 000 000	30.12.2010	26.12.2013	9.50	04.07.2012
Total Russian Ruble denominated bonds	8 222 314					

As at 31 December 2009, bonds denominated in Russian Rubles represent interest-bearing securities (bonds of the fourth, fifth and seventh issues) traded on the Moscow Interbank Currency Exchange ("MICEX").

	Carrying value	Nominal value	Date of issue	Final maturity date	Coupon rate, %	Date of early redemption option as at 31 December 2009
Fourth issue	1 517 026	1 500 000	04.06.2008	01.06.2011	13.00	-
Fifth issue	2 078 775	2 000 000	25.03.2009	21.03.2012	15.00	30.03.2010
Seventh issue	997 900	1 000 000	18.12.2009	14.12.2012	13.75	23.12.2010
Total Russian Ruble denominated bonds	4 593 701					

Promissory notes denominated in Russian Rubles include discount and interest-bearing securities issued by the Group. These promissory notes have maturity dates from January to November 2011 (31 December 2009: from January to December 2010) and effective interest rates from 6.95% to 14.51% p.a. (31 December 2009: from 7.0% to 17.35% p.a.).

16 Eurobonds issued

On 2 February 2010 the Group attracted financing of USD 225 million in the form of Eurobonds maturing in February 2012. The Eurobonds were placed by TFB Finance Limited (Ireland) in the form of credit linked notes issued for the sole purpose of financing a loan to the Bank. The coupon rate on these Eurobonds is 12% p.a. paid semi-annually.

In February 2010, Eurobonds of USD 116 million issued on 26 April 2007 were exchanged for Eurobonds issued on 2 February 2010. On 26 April 2010 the Bank discharged in full its obligation on the remaining Eurobonds issued on 26 April 2007 of USD 84 million.

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17 Other liabilities

Other liabilities comprise the following:

	31 December 2010	31 December 2009
Other financial liabilities		
Trade payables	112 230	51 378
Advance interest payments on loans	5 950	98 617
Settlements on transactions with securities	4 780	8 344
Plastic cards payables	1 339	9 572
Payables on money transfers	1 104	6 810
Financial lease liabilities	-	10 459
Other	13 124	11 787
Total other financial liabilities	138 527	196 967
Other non-financial liabilities		
Bonuses accrued	53 761	-
Current income tax payable	-	32 693
Other taxes payable	23 981	10 541
Total other non-financial liabilities	77 742	43 234
Total other liabilities	216 269	240 201

18 Subordinated borrowings

Subordinated borrowings of RUB 2 100 000 thousand were received on 21 December 2010 and mature in January 2016. Subordinated borrowings carry an annual interest rate of 8.0% p.a., and an effective interest rate of 8.3% p.a. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

19 Share capital

The nominal registered amount of issued share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rubles, at 31 December 2010 is RUB 7 300 000 thousand (31 December 2009: RUB 7 300 000 thousand). Authorised share capital comprises 1 597 000 000 ordinary shares with a nominal value of RUB 10 per share. Issued share capital comprises 730 000 000 ordinary shares (31 December 2009: 730 000 000 ordinary shares) with a nominal value of RUB 10 per share. All ordinary shares rank equally and carry one vote.

As at 31 December 2010, paid up and adjusted for inflation amount of share capital is RUB 7 811 618 thousand (31 December 2009: RUB 7 811 618 thousand).

Dividends payable are restricted to the maximum retained earnings of the Bank determined according to the legislation of the Russian Federation. In accordance with the legislation of the Russian Federation as at 31 December 2010 funds available for distribution amount to RUB 1 348 676 thousand (31 December 2009: RUB 1 142 915 thousand) (unaudited).

No dividends for 2010 and 2009 were proposed.

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20 Interest income and expense

	2010	2009
Interest income		
Loans to customers	5 150 764	5 929 763
Debt securities available-for-sale	348 762	224 081
Debt financial instruments at fair value through profit or loss	283 575	367 906
Due from banks	161 757	215 987
Cash and cash equivalents	17 970	22 495
Investment securities held-to-maturity	4 784	15 590
Total interest income	5 967 612	6 775 822
Interest expense		
Customer accounts	2 581 965	1 998 050
Eurobonds issued	917 675	649 959
Debt securities in issue	839 140	683 148
Due to banks	360 538	1 336 198
Subordinated debt	4 593	-
Finance lease liabilities	401	1 397
Total interest expense	4 704 312	4 668 752
Net interest income	1 263 300	2 107 070

Included in interest on loans to customers for the year ended 31 December 2010 is RUB 813 704 thousand of interest income on impaired loans to legal entities (2009: RUB 754 580 thousand).

21 Fee and commission income and expense

	2010	2009
Fee and commission income		
Settlement transactions	131 842	98 769
Transactions with plastic cards	85 803	78 778
Cash transactions	74 726	61 281
Transactions with securities	25 097	12 723
Currency control	12 970	1 415
Guarantees and letters of credit issued	6 518	30 677
Fiduciary activities	4 923	2 018
Custody operations	427	358
Other	133	41
Total fee and commission income	342 439	286 060
Fee and commission expense		
Trust management transactions	106 187	9 084
Cash collection	20 931	17 050
Transactions with plastic cards	19 974	11 792
Settlement transactions	17 287	15 404
Transactions with securities	13 157	7 148
Cash transactions	335	2 831
Guarantees and letters of credit received	247	577
Other	449	5 550
Total fee and commission expense	178 567	69 436
Net fee and commission income	163 872	216 624

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22 Impairment losses

	2010	2009
Loans to customers	(1 505 554)	(589 691)
Other assets	(173 240)	(53 141)
Property and equipment	4 679	-
Investments available-for-sale	(387)	(254 025)
Investments securities held-to-maturity	-	(31 088)
Total impairment provision	(1 674 502)	(927 945)

23 Administrative and other operating expenses

	2010	2009
Staff costs	730 437	545 560
Rent	101 868	124 108
Depreciation of property and equipment	98 010	100 414
Deposit insurance expenses	82 925	55 349
Repairs and maintenance	78 924	38 969
Taxes other than on income	65 328	59 123
Charity	57 631	29 539
Stationery and communication services	54 634	31 633
Advertising and marketing services	40 412	37 798
Security expenses	33 483	36 549
Software licences	28 938	35 747
Professional services	24 335	24 650
Software support expense	22 577	19 542
Other	92 747	71 233
Total administrative and other operating expenses	1 512 249	1 210 214

Included in staff costs are statutory social security and pension contributions (unified social tax) of RUB 132 371 thousand (2009: RUB 94 034 thousand).

24 Income tax expense

Income tax expense comprises the following:

	2010	2009
Current tax	6 920	105 130
Deferred tax	74 782	(45 407)
Income tax expense	81 702	59 723

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

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24 Income tax expense (continued)

The income tax rate applicable to the majority of the Group's income is 20% (2009: 20%). The reconciliation between the expected and the actual taxation charge is provided below:

	2010	2009
Profit before taxation	406 108	294 778
Theoretical tax charge at statutory rate	81 222	58 956
Income that is exempt from taxation	(14 688)	(1 276)
Non deductible expenses	29 451	20 444
Income taxed at lower rates	(1 708)	(1 009)
Unrecognised net deferred tax asset movement	(12 575)	(17 392)
Income tax expense	81 702	59 723

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 assets as at 31 December 2010 and 2009.

Movements in temporary differences for the year ended 31 December 2010 are as follows:

	31 December 2009	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Tax effect of deductible (taxable) temporary differences				
Allowance for loan impairment	68 767	184 064	-	252 831
Revaluation of securities at fair value through profit or loss	108 942	53 037	-	161 979
Revaluation of investments available-for-sale	614	-	3 102	3 716
Property and equipment: cost	(32 653)	-	-	(32 653)
Property and equipment: depreciation	20 763	3 193	-	23 956
Property and equipment: revaluation	(13 952)	358	(10 514)	(24 108)
Impairment of other assets	55 861	30 850	-	86 711
Impairment of securities	12 977	(11 984)	-	993
Investment property	300 194	(309 866)	-	(9 672)
Accruals	(95 511)	(100 484)	-	(195 995)
Other	78 172	63 475	-	141 647
Gross deferred tax asset	504 174	(87 357)	(7 412)	409 405
Non-recognised deferred tax assets	(362 684)	12 575	-	(350 109)
Net deferred tax asset	141 490	(74 782)	(7 412)	59 296

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24 Income tax expense (continued)

Movements in temporary differences for the year ended 31 December 2009 are as follows:

	31 December 2008	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2009
Tax effect of deductible (taxable) temporary differences				
Allowance for loan impairment	459 862	(391 095)	-	68 767
Revaluation of securities at fair value through profit or loss	37 513	71 429	-	108 942
Revaluation of investments available-for-sale	28 712	-	(28 098)	614
Property and equipment: cost	(32 653)	-	-	(32 653)
Property and equipment: depreciation	17 163	3 600	-	20 763
Property and equipment: revaluation	(14 310)	358	-	(13 952)
Impairment of other assets	9 825	46 036	-	55 861
Impairment of securities	-	12 977	-	12 977
Investment property	-	300 194	-	300 194
Accruals	(4 408)	(91 103)	-	(95 511)
Other	2 553	75 619	-	78 172
Gross deferred tax asset	504 257	28 015	(28 098)	504 174
Non-recognised deferred tax assets	(380 076)	17 392	-	(362 684)
Net deferred tax asset	124 181	45 407	(28 098)	141 490

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable.

As at 31 December 2010 the Group did not recognise deferred tax assets of RUB 350 109 thousand (31 December 2009: RUB 362 684 thousand) as management does not believe that the Group will be able to recover the related benefits.

The tax effects relating to components of other comprehensive income comprise:

	2010		2009			
	Amount before tax	Tax expense	Amount net of tax	Amount before tax	Tax expense	Amount net of tax
Net change in fair value of investments available-for-sale	(12 013)	2 403	(9 610)	113 436	(22 687)	90 749
Net change in fair value of investments available-for-sale transferred to profit or loss	(3 496)	699	(2 797)	27 055	(5 411)	21 644
Revaluation of buildings	52 569	(10 514)	42 055	-	-	-
Other comprehensive income	37 060	(7 412)	29 648	140 491	(28 098)	112 393

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25 Segment analysis

The Group is organized into three main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. The following summary describes the operations in each of the reportable segments:

- Corporate banking – current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency operations, derivative products and other transactions with corporate customers
- Retail banking – banking services to individuals, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages
- Investment banking – financial instruments trading, structured financing, operations with derivatives, corporate leasing

The Group does not allocate equity between segments.

The Management Board evaluates the profitability of the operating segments based on financial information prepared using the accounting data maintained in accordance with the Russian Accounting Principles.

The operating segment accounting policies are based on the Russian Accounting Principles and thus differ significantly from the accounting policies described in these consolidated financial statements. Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry.

The Group does not allocate the net book value of property and equipment between the segments to determine segment assets. These captions are included in "Unallocated" category in the reconciliation of the total segment assets to total assets of the Group.

Segment information for the main reportable operating segments for the year ended 31 December 2010 is set out below:

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the year ended					
31 December 2010					
Total revenues comprise:					
- Interest income	4 567 236	482 585	1 267 310	47 929	6 365 060
- Fee and commission income	73 758	255 965	16 044	713	346 480
- Other operating income	23 078	277 677	88 007	193 862	582 624
Total external revenues	4 664 072	1 016 227	1 371 361	242 504	7 294 164
Intersegment revenue	159 944	2 912 192	2 745 081	481	5 817 698
Segment result	363 991	8 291	316 796	(400 807)	288 271
31 December 2010					
Segment assets	38 207 758	3 504 191	15 663 916	1 562 856	58 938 721
Segment liabilities	5 390 615	23 556 035	22 424 028	753 851	52 124 529

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25 Segment analysis (continued)

Segment information for the main reportable operating segments for the year ended 31 December 2009 is set out below:

	Corporate banking	Retail banking	Investment banking	Unallocated	Total
For the year ended					
31 December 2009					
Total revenues comprise:					
- Interest income	5 190 378	613 197	2 453 654	-	8 257 229
- Fee and commission income	60 820	208 558	37 549	1 296	308 223
- Other operating income	31 345	279 427	129 263	38 779	478 814
Total external revenues	5 282 543	1 101 182	2 620 466	40 075	9 044 266
Intersegment revenue	36 977	2 061 720	3 206 704	419	5 305 820
Segment result	862 672	(239 493)	2 189 425	(2 523 015)	289 589
31 December 2009					
Segment assets	34 470 611	3 543 804	10 158 719	2 440 909	50 614 043
Segment liabilities	3 639 366	17 747 365	20 716 220	1 902 657	44 005 608

Management believes that administrative and other operating expenses can be reallocated between segments for the purposes of segment analysis based on cost drivers, the main of which is the number of employees.

A reconciliation of profit before income tax expense as measured in the management accounting to profit before income tax expense as presented in these IFRS consolidated financial statements for the year ended 31 December is provided below:

	2010	2009
Profit before tax per management accounting	288 271	289 589
Adjustments for impairment losses	(1 186 831)	93 577
Consolidation adjustments	2 734 660	(111 037)
Fair value adjustments	(638 051)	5 276
Other adjustments	(791 941)	17 373
Profit before tax per IFRS consolidated financial statements	406 108	294 778

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25 Segment analysis (continued)

A reconciliation of total segmental assets/liabilities as measured in the management accounting to total assets/liabilities as presented in these IFRS consolidated financial statements is provided below:

	31 December 2010		31 December 2009	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounting	58 938 721	52 124 529	50 614 043	44 005 608
Adjustments for impairment losses	(1 803 581)	-	(616 750)	-
Consolidation adjustments	1 407 361	(1 222 403)	(600 195)	(495 299)
Fair value adjustments	(993 191)	281	(355 375)	46
Other adjustments	(260 580)	(161 478)	662 589	210
Total assets/liabilities per IFRS consolidated financial statements	57 288 730	50 740 929	49 704 312	43 510 565

Information about major customers. Substantially all revenues from external customers are generated from transactions within the Tatarstan Republic and with counterparties located in the Tatarstan Republic. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

26 Financial risk management

The risk management function within the Group is carried out in respect of financial risks (credit, price, geographical, currency, liquidity, and interest rate) and functional risks (operational risk, legal risk, and reputational risk). The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits. Functional risk management should ensure proper compliance with internal regulations and procedures to minimize operational and legal risks and continuous monitoring of reputational risk.

Risk management functions are divided between the bodies responsible for establishment of the risk management policies and procedures including limits and those whose functions include implementation of these policies and procedures, including control over risks and limits on a continuous basis.

The Board of Directors, the Risk Committee of the Board of Directors and the Executive Board set the risk management policy of the Bank.

- *The Board of Directors* is authorised to approve the principal risk management procedures and develop a strategy for risk management and control. The Board of Directors also approves certain significant transactions. The Board of Directors approves the risk management policy, aggregate risk limits and frequency of limits review, approves the risk mitigation policies for all transactions, specifies types of banking and other transactions that require preliminary approval, and controls the executive bodies in the area of risk management. The Board of Directors is ultimately responsible to the Bank's owners for ensuring a complete and adequate understanding of risks and potential losses as well as for ensuring that the Executive Board takes all necessary steps to maintain the systems of risk management and control.
- *The Risk Committee of the Board of Directors* is a special permanent body created by the Board of Directors for monitoring and preliminary consideration of the most critical issues within its competence. The objective of creating the Committee is to enhance development of an effective risk management system and to assist the Board of Directors to perform its supervisory functions. The Committee acts in the interests of the shareholders, the Bank and its investors and ensures the actual involvement of the members of the Board of Directors in general management and monitoring of activities associated with banking risk management and their personal awareness of the Bank's activities in this area.

26 Financial risk management (continued)

- *The Executive Board* is responsible primarily for implementation of the risk management policy established and approved by the Board of Directors. The Executive Board approves internal guidance for units involved in risk management, establishes the main risk management principles, coordinates management of risks, sets the limits for market, credit, operational and liquidity risks as well as the procedures for their monitoring. The Executive Board approves the credit policy, appoints the Credit Committees and approves decisions that are beyond the Credit Committees' authority.

The Credit Committees, the Financial Committee, the Risk Management Department, the Treasury, the Internal Control Function (ICF) and the Financial Controller implement the risk management policy.

- *Financial Committee.* The Financial Committee is responsible for management of risks associated with certain counterparties (within the scope of its authorities approved by the Executive Board) and also for the general implementation of the budgeting policy, the asset and liability structure, investment policy, capital and limits policies.
- *Credit Committees.* The Credit Committees take decisions on the transactions with the counterparties to mitigate the risk of their failure to perform on obligations to the Bank (credit risks) as well as to maximise economic efficiency of these transactions.
- *Treasury.* The Treasury is primarily responsible for management of short-term and current liquidity within the established requirements and limits. It is also responsible for monitoring of compliance with the approved limits, participates in the development of liquidity risk mitigation policy and technology and also the standards and procedures of banking transactions.
- *Internal Control Function.* The activities of the Internal Control Function are regulated by the Charter. The Internal Control Function is responsible for the compliance with all applicable legislation and internal rules and decisions, including the credit policy. The Internal Control Function participates in the development of risk mitigation procedure and the standards and procedures of banking transactions. The Internal Control Function reports primarily to the Board of Directors.
- *Compliance control department* was created to increase the effectiveness of the internal control system and management of compliance risk (legal, damage to business reputation or implementation of significant losses). The department is responsible for compliance of the internal documents to the legal requirements. It develops procedures designed to reduce the compliance risk and performs on-line and preliminary control over transactions.
- *Financial Controller* as a professional securities market participant conducts continuous control over the compliance with the risk management policy by staff and units and participates in financial risk management with respect to the operations in the securities market.
- *Risk Management Department.* The Risk Management Department reviews the financial position of the counterparties, evaluates the data and calculates the limits for major risks, prepares proposals on risk mitigation and (in accordance with the approved limits) proposes on limits for certain transactions and/or counterparties.

The Board of Directors approves the Regulations on Risk Evaluation and Management that establish the principal policies of banking risk management and evaluation. The following main risk types are identified: financial risks and functional risks.

Financial risks include the following:

- credit risk
- market risk (interest, currency and price)
- liquidity risk.

Functional risks include the following:

- operational risk (staff risk, technology and process risk, physical interference risk, environmental risk)
- legal risk
- reputational risk.

26 Financial risk management (continued)

Credit risk. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The following management bodies and structural units are involved in credit risk management: the Executive Board, the Financial Committee, the Credit Committees, the Risk Management Department, the Internal Control Function, the Collateral Department, and the Security Department.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

In accordance with the Regulations on Limit Policy the Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group established several credit committees, which are permanently operating bodies established to deal with the process of issuing loans to legal entities and individuals. This structure provides for existence of Credit Committees of the Head Office and Credit Committees of branches.

Credit Committees of the Head Office include:

- Credit Committee for lending to legal entities and individual entrepreneurs without establishing a legal entity
- Credit Committee for lending to individuals
- Small Credit Committee for lending to legal entities and individual entrepreneurs
- Small Credit Committee for lending to individuals
- Small Credit Committee for lending to personnel (consumer loans).

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit departments' officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committees and the Executive Board.

Authority limits for the Credit Committees are established by the Financial Committee or the Executive Board in accordance with internal regulations. Maximum authority limits for the Financial Committee are determined by the collegial decision of the Executive Board and are documented in the Minutes of the Executive Board.

The limits of authority of collegial bodies are determined on the basis of reasonableness, materiality and required promptness of decision taking.

The collateral service unit evaluates collateral when issuing a loan, in case of deterioration of the borrower's financial position, and also in case of identification (in the course of checking the availability and state of collateral) of facts affecting the liquidity and market value of collateral.

The Group uses formalised internal credit ratings to monitor credit risk.

The credit rating of a legal entity includes an evaluation of the counterparty's financial position (profitability, liquidity, coverage and turnover ratios, etc.) using a scoring system and its position against business risk (management quality, ownership structure, industry competition, dependence on vendors and customers, etc.). Each counterparty is assigned a rating depending upon its total score and the Credit Committee, Financial Committee or the Executive Board (depending upon the loan amount under consideration) approve or reject the transaction and its terms.

26 Financial risk management (continued)

For the purpose of determining the risks associated with the SME portfolio, the counterparty's financial position (based on business profitability indicators, debt load on business, coverage of loan repayment with business revenues, etc.) and its position against business risk (the period of business activity, ownership structure, credit history quality and other factors) are analysed. A credit rating for an individual counterparty is assigned on the basis of its total score.

The credit rating for a credit institution is determined on the basis of evaluation of its solvency, asset quality, operations and business efficiency. Limits for credit institutions also depend on their current liquidity and equity position. Final decisions on the exposure amount are taken on a collegial basis by the Financial Committee or the Executive Board.

Credit rating of an insurance company is determined on the basis of its financial position assessment, takes into account its financial position, position against business risk (degree of regional and industry risk diversification, specialization of the company, history of business, management quality, ownership structure and other factors).

For the purposes of credit risk assessment the loans provided to individuals are classified into collateralised loan (mortgage, car loans) portfolio and other customer loan portfolio.

Loan applications are processed by Retail department specialists using scoring models and procedures of data verification developed in cooperation with the Risk Management Department.

The analysis and evaluation of counterparties' financial position are conducted by those departments that are involved in lending as well as by the Risk Management Department.

The credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management is provided with the ageing and other information on credit risk as disclosed in note 8.

Credit risk for credit related commitments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial instruments recognised in the consolidated statement of financial position through established credit approval risk control limits and monitoring procedures.

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.

Currency risk. There are assets and liabilities in different foreign currencies.

Currency risk is the risk of losses as a result of unfavourable changes in foreign currency exchange rates.

Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily on the basis of statutory accounts data.

The Bank does not take into account its subsidiaries in calculation of currency risk since the volume of foreign currency operations and balances are not significant and thus the subsidiaries are not exposed to significant currency risk.

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26 Financial risk management (continued)

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2010:

	RUB	USD	Euro	Other	Precious metals	Total
Financial assets						
Cash and cash equivalents	2 933 278	705 201	457 847	101	7 496	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	-	-	339 706
Due from banks	-	44 198	-	-	-	44 198
Financial instruments at fair value through profit or loss	4 017 284	173 805	-	-	-	4 191 089
Loans to customers	33 343 179	6 117 079	89 051	-	-	39 549 309
Investments available-for-sale	2 694 969	-	-	-	-	2 694 969
Other financial assets	1 188 927	3 277	874	-	-	1 193 078
Total financial assets	44 517 343	7 043 560	547 772	101	7 496	52 116 272
Financial liabilities						
Due to banks	1 253 865	470 115	78 867	-	-	1 802 847
Customer accounts	29 248 950	533 225	520 114	-	148 639	30 450 928
Debt securities in issue	9 263 605	-	-	-	-	9 263 605
Eurobonds issued	-	6 907 290	-	-	-	6 907 290
Subordinated borrowings	2 099 990	-	-	-	-	2 099 990
Other financial liabilities	135 559	2 645	105	-	218	138 527
Total financial liabilities	42 001 969	7 913 275	599 086	-	148 857	50 663 187
Net recognised position	2 515 374	(869 715)	(51 314)	101	(141 361)	1 453 085
Effect of foreign exchange derivatives	(599 147)	454 835	-	-	144 312	-
Net position	1 916 227	(414 880)	(51 314)	101	2 951	1 453 085

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2009:

	RUB	USD	Euro	Other	Precious metals	Total
Financial assets						
Cash and cash equivalents	3 025 623	1 006 832	686 866	122	6 023	4 725 466
Mandatory cash balances with the Central Bank of the Russian Federation	187 825	-	-	-	-	187 825
Due from banks	2 038 804	952 247	-	-	-	2 991 051
Financial instruments at fair value through profit or loss	2 539 638	-	-	-	-	2 539 638
Loans to customers	29 867 298	4 462 091	136 591	-	-	34 465 980
Investments available-for-sale	1 499 930	-	-	-	-	1 499 930
Other financial assets	192 555	5 961	1 231	-	-	199 747
Total financial assets	39 351 673	6 427 131	824 688	122	6 023	46 609 637
Financial liabilities						
Due to banks	8 269 485	41	118 635	-	-	8 388 161
Customer accounts	21 567 267	619 380	706 748	-	94 023	22 987 418
Debt securities in issue	5 682 211	67 293	-	-	-	5 749 504
Eurobonds issued	-	6 145 281	-	-	-	6 145 281
Other financial liabilities	180 539	15 362	1 066	-	-	196 967
Total financial liabilities	35 699 502	6 847 357	826 449	-	94 023	43 467 331
Net recognised position	3 652 171	(420 226)	(1 761)	122	(88 000)	3 142 306

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26 Financial risk management (continued)

Interest rate risk. The Group takes on exposure 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 reduce or create losses in the event that unexpected movements arise.

Interest rate risk for management purposes is calculated by the Risk Management Department at the end of each month.

The interest rate risk management functions of the Executive Board include:

- approval of interest rates for various types of transactions
- management decisions on asset and liability portfolios in relation to their maturity or interest rate structure.

The Risk Management Department calculates interest rate risk on a monthly basis using the three following methods:

- a GAP analysis
- a duration method; this method applies certain weighting coefficients, which are based on duration of assets and liabilities, to each time interval where these financial instruments are categorized depending on maturity,
- an assessment of volatility of interest rates for interest-earning assets and liabilities. This calculation is based upon statistical data on interest rates for the three recent years.

The table below summarises the analysis of the interest rate repricing position as at 31 December 2010:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
Financial assets						
Cash and cash equivalents	4 103 923	-	-	-	-	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	-	-	339 706
Due from banks	16 769	-	27 429	-	-	44 198
Financial instruments at fair value through profit or loss	-	778 213	570 435	2 120 465	721 976	4 191 089
Loans to customers	908 680	16 782 484	11 677 613	9 652 777	527 755	39 549 309
Investments available-for-sale	-	2 089 281	-	-	605 688	2 694 969
Other financial assets	70 683	22 498	1 036 117	4 797	58 983	1 193 078
Total financial assets	5 439 761	19 672 476	13 311 594	11 778 039	1 914 402	52 116 272
Financial liabilities						
Due to banks	226 058	725 552	245 798	605 439	-	1 802 847
Customer accounts	11 300 360	11 999 661	6 459 105	691 802	-	30 450 928
Debt securities in issue	39 601	5 977 352	1 254 042	1 992 610	-	9 263 605
Eurobonds issued	-	-	-	6 907 290	-	6 907 290
Subordinated borrowings	-	-	-	2 099 990	-	2 099 990
Other financial liabilities	123 575	7 412	-	7 540	-	138 527
Total financial liabilities	11 689 594	18 709 977	7 958 945	12 304 671	-	50 663 187
Net gap	(6 249 833)	962 499	5 352 649	(526 632)	1 914 402	1 453 085
Cumulative gap at 31 December 2010	(6 249 833)	(5 287 334)	65 315	(461 317)	1 453 085	

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26 Financial risk management (continued)

The table below summarises the analysis of the interest rate repricing position as at 31 December 2009:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	No stated maturity/ overdue	Total
Financial assets						
Cash and cash equivalents	4 725 466	-	-	-	-	4 725 466
Mandatory cash balances with the Central Bank of the Russian Federation	187 825	-	-	-	-	187 825
Due from banks	430 357	2 533 474	27 220	-	-	2 991 051
Financial instruments at fair value through profit or loss	52 378	558 950	724 653	934 214	269 443	2 539 638
Loans to customers	873 778	15 461 193	7 570 205	9 836 546	724 258	34 465 980
Investments available-for-sale	4 401	400 467	84 485	822 985	187 592	1 499 930
Other financial assets	162 009	32 791	4 364	583	-	199 747
Total financial assets	6 436 214	18 986 875	8 410 927	11 594 328	1 181 293	46 609 637
Financial liabilities						
Due to banks	3 804 904	2 625 649	1 323 652	633 956	-	8 388 161
Customer accounts	7 303 394	10 781 700	4 217 352	684 972	-	22 987 418
Debt securities in issue	99 026	783 281	273 496	4 593 701	-	5 749 504
Eurobonds issued	-	6 145 281	-	-	-	6 145 281
Other financial liabilities	186 886	10 074	-	7	-	196 967
Total financial liabilities	11 394 210	20 345 985	5 814 500	5 912 636	-	43 467 331
Net gap	(4 957 996)	(1 359 110)	2 596 427	5 681 692	1 181 293	3 142 306
Cumulative gap at 31 December 2009	(4 957 996)	(6 317 106)	(3 720 679)	1 961 013	3 142 306	

The following table presents the sensitivity of profit or loss and equity to changes in interest rates by 200 basis points (bp) applied to the positions existing at the reporting date, with all other variables held constant (assuming no asymmetrical movement in yield curves and not taking into consideration the effect of such changes on fair values of financial instruments) is as follows:

	31 December 2010		31 December 2009	
	Profit	Equity	Profit	Equity
200 bp rise	(168 940)	(168 940)	(195 338)	(195 338)
200 bp fall	168 940	168 940	195 338	195 338

Sensitivity of debt securities at fair value through profit or loss and traded investments available-for-sale to the yield curve risk is calculated using a duration method. Under this method future cash flows and average effective interest rates for the portfolios of debt instruments are determined and then a change in the fair value of securities portfolio from a shift in the yield curve by 200 bp is assessed.

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26 Financial risk management (continued)

The following table presents sensitivities of profit or loss and equity to a shift in the yield curve by 200 basis points applied to the positions of interest-bearing assets and liabilities existing at the reporting date, with all other variables held constant:

	31 December 2010		31 December 2009	
	Profit	Equity	Profit	Equity
200 bp rise	(98 787)	(105 392)	(60 504)	(61 977)
200 bp fall	103 357	109 250	62 787	62 266

The Group monitors interest rates for its financial instruments. The table below summarises the effective interest rates based on the reports reviewed by the Group's key management personnel:

% p.a.	31 December 2010		31 December 2009	
	RUB	Other	RUB	Other
Financial assets				
Cash and cash equivalents	0.6	0.0	2.6	0.0
Due from banks	0.0	0.2	11.1	3.8
Financial instruments at fair value through profit or loss	8.2	11.1	13.5	-
Loans to customers	10.6	12.3	14.9	14.6
Investments available-for-sale	15.1	-	17.5	-
Receivables under repurchase agreements	0.0	-	-	-
Liabilities				
Due to banks	8.5	6.2	9.3	2.6
Customer accounts				
- current and settlement accounts	0.0	0.0	0.0	0.0
- term deposits	9.2	5.0	14.4	7.1
Promissory notes	9.2	-	14.7	0.0
Russian Ruble denominated bonds	11.9	-	14.6	-
Debt securities in issue	-	13.9	-	10.5
Subordinated borrowings	8.3	-	-	-

Other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

Other price risk management is exercised in the range of approved limits:

- general limit of open position for instruments exposed to price risk (approved as part of limits on investments in securities by the Management Board)
- limit of open position for individual financial instruments (limits on issuers of debt securities).

Approved limits are reviewed following changes in amounts of assets and liabilities, financial and liquidity positions, risk assessment of investments and changes in the legislation of the Russian Federation.

Value at Risk (VaR) estimates. The Group uses Value at Risk method (VaR) to measure its exposures to market risks.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Group is based upon a 99 percent confidence level.

26 Financial risk management (continued)

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

Currency risk VaR for management accounting purposes is estimated by the Risk Management Department at the end of each month on the basis of the open currency positions (OCP) data under the statutory accounting reports (RAR) for the Bank only. OCP is the difference between the amounts of assets and of liabilities denominated in foreign currencies. The forecast horizon for calculation of currency risk is twenty days. As these calculations are not based on IFRS amounts they do not necessarily reflect currency risk exposures of the Group under IFRS.

The currency risk VaR amounts with a twenty day forecast horizon at 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
VaR value	11 876	52 235

The potential impact on profit or loss from currency risk based on VaR for the year ended 31 December is shown below:

	2010		2009	
	VaR value	Date	VaR value	Date
Minimum VaR value	16 017	At 1 December 2010	1 516	At 1 February 2009
Average VaR value	32 494		22 308	
Maximum VaR value	52 235	At 1 January 2010	56 017	At 1 August 2009

The results of VaR back-testing for 2010 show that actual losses did not exceed VaR amounts.

Price risk VaR for management accounting purposes is determined on the basis of 1-day and 20-day forecast horizons. The statistical calculations cover a 6-month period (not less than 120 trading days), use the variation-covariation method and the assumption that changes in securities price are close to normal distribution. In 2009 and 2010 price risk VaR calculation included the portfolio of LLC "IC "TFB-Finance".

The potential impact on profit or loss from price risk based on VaR for the year ended 31 December is shown below:

	31 December 2010	31 December 2009
VAR one-day	122 502	84 961
VAR 20-day	228 463	162 247

The table below shows the potential impact on profit or loss due to the trend in the price risk VaR amounts the year ended 31 December:

	2010		2009	
	VaR value	Date	VaR value	Date
Minimum VaR value	94 796	At 1 April 2010	162 247	At 1 January 2010
Average VaR value	198 839		421 585	
Maximum VaR value	388 752	At 1 November 2010	659 872	At 1 April 2009

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26 Geographical risk management (continued)

Geographical risk concentrations. The geographical concentration of the financial assets and liabilities at 31 December 2010 is set out below:

	Tatarstan Republic	Other regions of Russia	Other Countries	Total
Financial assets				
Cash and cash equivalents	2 689 803	588 570	825 550	4 103 923
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	339 706
Due from banks	-	10 674	33 524	44 198
Financial instruments at fair value through profit or loss	-	4 017 283	173 806	4 191 089
Loans to customers	32 780 224	6 683 865	85 220	39 549 309
Investments available-for-sale	2 572 615	122 354	-	2 694 969
Other financial assets	1 159 933	32 489	656	1 193 078
Total financial assets	39 542 281	11 455 235	1 118 756	52 116 272
Financial liabilities				
Due to banks	42	1 253 885	548 920	1 802 847
Customer accounts	26 721 295	3 720 323	9 310	30 450 928
Debt securities in issue	1 041 291	8 222 314	-	9 263 605
Eurobonds issued	-	-	6 907 290	6 907 290
Subordinated borrowings	2 099 990	-	-	2 099 990
Other financial liabilities	101 710	36 716	101	138 527
Total financial liabilities	29 964 328	13 233 238	7 465 621	50 663 187
Net position	9 577 953	(1 778 003)	(6 346 865)	1 453 085
Total commitments	985 066	28 881	32 068	1 046 015

The geographical concentration of the financial assets and liabilities at 31 December 2009 is set out below:

	Tatarstan Republic	Other regions of Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	2 692 793	635 038	1 397 635	4 725 466
Mandatory cash balances with the Central Bank of the Russian Federation	187 825	-	-	187 825
Due from banks	1 713 137	336 259	941 655	2 991 051
Financial instruments at fair value through profit or loss	186 054	2 353 584	-	2 539 638
Loans to customers	28 774 707	5 378 250	313 023	34 465 980
Investments available-for-sale	1 495 529	4 401	-	1 499 930
Other financial assets	162 782	36 890	75	199 747
Total financial assets	35 212 827	8 744 422	2 652 388	46 609 637
Financial liabilities				
Due to banks	3 943 190	4 326 411	118 560	8 388 161
Customer accounts	21 104 713	1 846 638	36 067	22 987 418
Debt securities in issue	194 337	5 555 167	-	5 749 504
Eurobonds issued	-	-	6 145 281	6 145 281
Other financial liabilities	174 015	22 385	567	196 967
Total financial liabilities	25 416 255	11 750 601	6 300 475	43 467 331
Net position	9 796 572	(3 006 179)	(3 648 087)	3 142 306
Total commitments	1 481 394	79 937	88 766	1 650 097

26 Financial risk management (continued)

Liquidity risk. Liquidity risk is the risk that the Group 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The liquidity policy is reviewed and approved by the Board of Directors.

Operational information on liquidity risk (gap analysis) is provided to management on a weekly basis. Liquidity risk for management purposes is evaluated by the Risk Management Department at the end of each month. The objective is to determine a net liquidity gap and a negative uncovered liquidity gap and compare the gaps with available funding facilities.

As a part of its liquidity evaluation process, the Group estimates the nature of its liabilities and the expected timing of their withdrawals, performs stress testings and evaluates its ability to refinance from customer and financial markets.

The liquidity position is considered to be at the normal level if the negative liquidity gap is lower than, or comparable to, the possible amount of funding from the financial markets (acceptable negative liquidity gap). The liquidity position is critical if a negative liquidity gap exceeds the maximum possible funding from financial markets.

The Treasury monitors limits opened for the Bank by other counterparty banks in order to evaluate possibilities for attracting additional resources from the financial markets.

The liquidity management comprises maintaining the appropriate level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Group seeks to maintain a stable funding base comprising primarily amounts due to banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- 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 one year to regulatory capital and liabilities maturing after one year.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities and it is responsible for monitoring of the daily liquidity position. The Department for Active Operations in the Securities Market provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity and exposure to changes in interest and exchange rates.

JSC "AIKB "Tatfondbank"*Notes to the Consolidated Financial Statements for the Year ended 31 December 2010**(expressed in thousands of Russian Rubles)***26 Financial risk management (continued)**

The following table shows financial assets and liabilities by remaining contractual maturity dates as at the reporting date, except for financial instruments at fair value through profit or loss. Management believes that the majority of financial instruments at fair value through profit or loss can be realised by the Group in short term, thus, for the purpose of analysis of the liquidity position as at the reporting date, these financial instruments are treated as matching liabilities which are maturing within the less than one month period. The expected cash flows from financial instruments at fair value through profit or loss can vary significantly from this analysis. The amounts disclosed in the following table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because these amounts are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2010 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue	Total
Financial assets						
Cash and cash equivalents	4 104 892	-	-	-	-	4 104 892
Mandatory cash balances with the Central Bank of the Russian Federation	339 706	-	-	-	-	339 706
Due from banks	16 775	-	27 429	-	-	44 204
Financial instruments at fair value through profit or loss	4 191 089	-	-	-	-	4 191 089
Loans to customers	1 286 864	18 391 554	12 645 708	12 780 743	527 755	45 632 624
Investments available-for-sale	-	2 390 797	-	-	660 802	3 051 599
Other financial assets	70 683	22 498	1 036 117	4 797	58 983	1 193 078
Total financial assets	10 010 009	20 804 849	13 709 254	12 785 540	1 247 540	58 557 192
Financial liabilities						
Due to banks	234 314	757 550	283 946	681 267	-	1 957 077
Customer accounts	11 314 132	12 305 379	6 916 591	791 670	-	31 327 772
Debt securities in issue	40 000	6 334 917	1 443 886	2 097 863	-	9 916 666
Eurobonds issued	-	400 430	400 430	7 074 261	-	7 875 121
Subordinated borrowings	-	83 310	84 690	2 781 666	-	2 949 666
Other financial liabilities	123 575	7 412	-	7 540	-	138 527
Total financial liabilities	11 712 021	19 888 998	9 129 543	13 434 267	-	54 164 829
Net gap	(1 702 012)	915 851	4 579 711	(648 727)	1 247 540	4 392 363
Total cumulative gap	(1 702 012)	(786 161)	3 793 550	3 144 823	4 392 363	
Total commitments	841 968	51 703	116 850	35 494	-	1 046 015

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26 Financial risk management (continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2009 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/overdue	Total
Financial assets						
Cash and cash equivalents	4 729 354	-	-	-	-	4 729 354
Mandatory cash balances with the Central Bank of the Russian Federation	187 825	-	-	-	-	187 825
Due from banks	433 319	2 595 261	27 220	-	-	3 055 800
Financial instruments at fair value through profit or loss	2 539 638	-	-	-	-	2 539 638
Loans to customers	1 252 356	16 927 348	8 557 580	14 090 693	724 258	41 552 235
Investments available-for-sale	11 191	489 252	149 640	852 977	187 592	1 690 652
Other financial assets	162 009	32 791	4 364	583	-	199 747
Total financial assets	9 315 692	20 044 652	8 738 804	14 944 253	911 850	53 955 251
Financial liabilities						
Due to banks	3 837 728	2 717 390	1 451 022	713 246	-	8 719 386
Customer accounts	7 319 174	11 165 471	4 743 331	831 751	-	24 059 727
Debt securities in issue	100 000	1 127 028	603 713	5 320 247	-	7 150 988
Eurobonds issued	-	6 343 721	-	-	-	6 343 721
Other financial liabilities	186 886	10 074	-	7	-	196 967
Total financial liabilities	11 443 788	21 363 684	6 798 066	6 865 251	-	46 470 789
Net gap	(2 128 096)	(1 319 032)	1 940 738	8 079 002	911 850	7 484 462
Total cumulative gap	(2 128 096)	(3 447 128)	(1 506 390)	6 572 612	7 484 462	
Total commitments	1 270 636	141 383	167 392	70 686	-	1 650 097

In accordance with the terms of certain bonds issued by the Bank bondholders have right to present bonds for redemption on certain dates before final maturity. Undiscounted cash flows for these bonds are presented based on the earliest option dates. Information on cash outflows on issued debt securities is disclosed in note 31.

In accordance with the Russian legislation individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, usually with a loss of accrued interest income. These deposits are presented by contractual maturity dates. As of 31 December 2010 term deposits of individuals with maturity more than one month comprises RUB 17 365 797 thousand (31 December 2009: RUB 14 480 642 thousand).

Management believes that in spite of a substantial portion of deposits from customers being on demand, diversification of these deposits by number and type, and the past experience of the Group, would indicate that these deposits provide a long-term and stable source of funding. According to the Bank's estimates, as of 31 December 2010 and 2009 withdrawals of "on demand" customer accounts will occur in the following periods:

	31 December 2010	31 December 2009
Demand and less than 1 month	6 989 086	4 850 394
More than 1 year	4 311 274	2 453 000

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26 Financial risk management (continued)

As at 31 December 2010 and 2009 the contractual maturities of financial instruments at fair value through profit or loss are as follows:

	31 December 2010	31 December 2009
Less than 1 month	-	52 378
From 1 to 6 months	778 213	558 950
From 6 to 12 months	570 435	724 653
Over 12 months	2 120 465	934 214
No stated maturity	721 976	269 443
Total	4 191 089	2 539 638

As at 31 December 2010 the Group has liquidity facilities such as open credit lines with the CBR and with other banks that are sufficient to cover the gap between its short-term liabilities and short-term assets.

On 9 February 2010 the Bank repaid in full unsecured deposits received from the CBR.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the counterparty to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

27 Management of capital

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

The objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the ability to continue as a going concern, (iii) to maximize the return on risk-adjusted capital, and (iv) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. Compliance with the capital adequacy ratio set by the CBR is monitored monthly and reports outlining the calculation are reviewed and signed by the Chief Executive Officer and Chief Accountant.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in the loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord.

The capital adequacy ratio under the Basle Agreement is calculated by the Reporting Department. Expected capital adequacy ratio calculation is performed by the Reporting Department at least twice a year.

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27 Management of capital (continued)

The table below shows the components of the capital calculated in accordance with the Basel Capital Accord as at 31 December 2010 and 2009:

	2010	2009
Tier 1 capital		
Share capital	7 811 618	7 811 618
Accumulated deficit	(1 357 240)	(1 683 078)
Total tier 1 capital	6 454 378	6 128 540
Tier 2 capital		
Revaluation reserve for buildings	108 285	67 662
Revaluation reserve for investments available-for-sale	(14 862)	(2 455)
Subordinated debt	2 099 990	-
Total tier 2 capital	2 193 413	65 207
Total capital	8 647 791	6 193 747

The table below shows the capital adequacy ratios as at 31 December 2010 and 2009 calculated in accordance with the Basel Capital Accord:

	31 December 2010	31 December 2009
Basic capital adequacy ratio (tier 1 capital)	12.03%	14.17%
Total capital adequacy ratio (tier 1 and 2)	16.11%	14.32%

Compliance with covenants. The Group is subject to certain covenants related primarily to issued Eurobonds. The Bank has to maintain the Total Basle capital adequacy ratio at the level of at least 12%. Failure to meet this covenant may have negative consequences for the Group including early repayment of the borrowed funds.

The Group and the Bank complied with all externally imposed capital requirements throughout 2010 and 2009.

28 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and submissions made by internal professional advisors management is of the opinion that no material losses will be incurred in respect of such claims and accordingly no provision is made in these consolidated financial statements.

Tax legislation. 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.

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

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28 Contingencies and commitments (continued)

Capital expenditure commitments. At 31 December 2010, the Group has contractual capital expenditure commitments in respect of property and equipment totalling RUB 3 021 thousand (31 December 2009: RUB 2 296 thousand).

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

	2010	2009
Not later than 1 year	65 344	60 114
Due between 1 and 5 years	23 170	50 686
More than 5 years	24	-
Total operating lease commitments	88 538	110 800

At 31 December 2010, total future sublease payments receivable under non-cancellable operating subleases is RUB 12 306 thousand (31 December 2009: RUB 2 261 thousand).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to losses in the amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Outstanding credit related commitments are as follows:

	31 December 2010	31 December 2009
Guarantees issued	117 937	275 575
Undrawn credit lines	836 519	1 222 453
Total credit related commitments	954 456	1 498 028

Credit related commitments are denominated in currencies as follows:

	31 December 2010	31 December 2009
RUB	905 755	1 305 877
USD	40 361	110 527
Euro	8 340	81 624
Total	954 456	1 498 028

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28 Contingencies and commitments (continued)

Assets pledged and restricted. At 31 December 2010 and 2009, the Group has the following assets pledged as collateral:

	31 December 2010		31 December 2009	
	Asset pledged	Related liability	Asset pledged	Related liability
Loans to customers pledged under financing received from the CBR	463 044	116 764	3 782 817	2 187 518
Equipment purchased in financial lease	-	-	34 405	10 459
Total	463 044	116 764	3 817 222	2 197 977

As at 31 December 2010, mandatory cash balances with the CBR of RUB 339 706 thousand (31 December 2009: RUB 187 825 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

29 Fair value of financial instruments

The estimated fair values of financial instruments are determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The economic situation in the Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

Financial instruments at fair value through profit or loss and investments available-for-sale (other than unquoted equity securities for which it is impracticable to determine fair value) are carried in the consolidated statement of financial position at their fair value. Fair values were determined based on quoted market prices except for those securities for which there were no available external independent reliable market price quotations.

Valuation methods for unquoted securities and shares not traded in the active market required certain assumptions that are not supported by observable market data. An active market is a market which satisfies the following conditions: items traded in the market are homogenous; willing sellers and buyers are generally available at any time; information on prices is publicly available. Indicators of abnormal market conditions (i.e. of an inactive market) can be large spreads between the purchase price and the selling price or a relatively small number of bids.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received or paid.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-based rate for a similar instrument at the reporting date.

The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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29 Fair value of financial instruments (continued)

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and are as follows:

	31 December 2010	31 December 2009
Due from banks		
Short-term placements with banks in rubles	1.2%-3.9% p.a.	11.1%-13.0% p.a.
Short-term placements with banks in USD	0.4%-1.0% p.a.	0.6%-4.0% p.a.
Loans to customers		
Corporate loans in rubles	9.5% - 16.0% p.a.	11.6% – 17.8% p.a.
Corporate loans in USD	10.0% - 14.0% p.a.	16.0% p.a.
Corporate loans in EUR	8.3% p.a.	-
Loans to individuals in rubles	12.3% - 18.1% p.a.	11.6% - 21.7% p.a.
Loans to individuals in USD	-	10.0% p.a.
Loans to individuals in Euro	-	12.0% p.a.
Due to banks		
Term placements of other banks in rubles	3.0%-10.8% p.a.	6.0%-13.7% p.a.
Term placements of other banks in USD	1.0%-6.5% p.a.	-
Customer accounts		
Term deposits of individuals in rubles	3.8%-9.2% p.a.	1.0%-15.4% p.a.
Term deposits of individuals in USD	0.01%-4.6% p.a.	0.01%-7.6% p.a.
Term deposits of corporate entities in rubles	0.3%-8.1% p.a.	0.5%-12.0% p.a.
Term deposits of corporate entities in USD	-	9.0% p.a.
Eurobonds issued	12.0% p.a.	9.8% p.a.
Subordinated borrowings	8.0% p.a.	-

The estimated fair values of all financial instruments approximate their carrying values.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities. The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical financial instrument.
- Level 2: valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments recorded at fair value, classified using the fair value hierarchy as at 31 December 2010:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	4 191 089	-	-	4 191 089
Investments available-for-sale	69 407	-	2 019 874	2 089 281

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29 Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value, classified using the fair value hierarchy as at 31 December 2009:

	Level 1	Level 2	Total
Financial assets			
Financial instruments at fair value through profit or loss	2 283 833	255 805	2 539 638
Investments available-for-sale	88 886	1 223 452	1 312 338

Unquoted equity investments available-for-sale are stated at cost. As of 31 December 2010 unquoted equity investments available-for-sale amounts to RUB 605 688 thousand (31 December 2009: RUB 187 592 thousand).

The following table shows a reconciliation for the year ended 31 December 2010 for fair value measurements in Level 3 of the fair value hierarchy:

	Investments available-for-sale
Balance at beginning of the year	-
Total gains or losses:	
in profit or loss	10 652
in other comprehensive income	1 254
Purchases	880 563
Sales	(96 047)
Transfers into level 3	1 223 452
Balance at end of the year	2 019 874

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2010:

	Effect on profit or loss		Effect on equity	
	Favourable	Unfavourable	Favourable	Unfavourable
Available-for-sale financial assets	72 692	(72 692)	201 987	(201 987)
Total	72 692	(72 692)	201 987	(201 987)

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on averages of the upper and lower quartiles of the Group's ranges of possible estimates. Key inputs and assumptions used to calculate favourable and unfavourable changes include:

- changing the estimated risk-free rate from 4% to 7% depending on duration of bonds
- changing the risk premium from 6% to 22% depending on credit quality of the issuer.

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30 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank is a part of a group of related companies. These related companies are controlled by individuals, none of whom holds a controlling share of any entity within this group of related companies. This group includes different trading, manufacturing and financial companies and is in its development stage. The entities in this group of related companies are closely interrelated and there is no dominant parent company. Transactions with members of this group of related companies are disclosed in the table below as transactions with other related parties.

Banking transactions are entered into with significant shareholders, directors and other related parties, which are mainly companies where the shareholders, directors and key management personnel of the Bank have control or significant influence.

These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

At 31 December 2010, the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Cash and cash equivalents (interest rate: 0%)	-	-	650	650
Loans to customers, gross (interest rate: 5.8% -16.5%)	2 582 433	10 468	1 886 407	4 479 308
Allowance for impairment on loans to customers	(135 390)	(33)	(152 624)	(288 047)
Investments available-for-sale:				
- corporate bonds (interest rate: 16%)	481 051	-	-	481 051
- corporate shares	-	-	52 946	52 946
Other assets	3	1	1 035 903	1 035 907
Due to banks (interest rate: 0%)	-	-	(1)	(1)
Customer accounts:				
- current accounts (interest rate: 0%)	(14 716)	(1 720)	(24 016)	(40 452)
- term deposits (interest rate: 7.5%)	(20 026)	(5 280)	-	(25 306)
Debt securities in issue (interest rate: 7%)	(48 445)	-	-	(48 445)
Subordinated borrowings (interest rate: 8%)	-	-	(2 099 990)	(2 099 990)
Other liabilities	-	-	(7 960)	(7 960)

The income and expense items with related parties for 2010 are as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Interest income	234 844	1 286	219 180	455 310
Interest expense	(8 079)	(917)	(4 602)	(13 598)
Fee and commission income	191	59	4 846	5 096
Fee and commission expense	-	-	(99 420)	(99 420)
Gains less losses from trading in foreign currencies	12	1	92	105
Gains less losses on operations with securities	-	-	173 618	173 618
Income from disposal of investment property	-	-	254 008	254 008
Operating income	692	5	328	1 025
Administrative and other operating expenses	(4)	(31 082)	(964)	(32 050)

As at 31 December 2010 other assets with related parties of RUB 969 858 thousand comprises deferred consideration related to transactions with investment property.

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30 Related party transactions (continued)

Aggregate amounts lent to and repaid by related parties in 2010 were as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Amounts lent to related parties	2 571 181	58 427	6 037 601	8 667 209
Amounts repaid by related parties	3 535 517	53 835	5 839 607	9 428 959

At 31 December 2010, the outstanding balances of gross unsecured loans to related parties was RUB 2 103 215 thousand (31 December 2009: RUB 1 843 889 thousand).

At 31 December 2009 the outstanding balances with related parties are as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Cash and cash equivalents (interest rate: 0%)	-	-	3 695	3 695
Due from banks (interest rate: 12%)	-	-	40 000	40 000
Financial instruments at fair value through profit or loss – equity securities	-	-	246 357	246 357
Loans to customers, gross (interest rate: 0% - 19%)	3 546 769	5 876	1 688 413	5 241 058
Allowance for impairment on loans to customers	(270 706)	(20)	(160 682)	(431 408)
Investments available-for-sale (interest rate: 17%)	400 467	-	822 985	1 223 452
Other assets	34	137	52 130	52 301
Due to banks (interest rate: 0%)	-	-	(65)	(65)
Customer accounts				
- current accounts (interest rate: 0%)	(37 236)	(2 116)	(114 355)	(153 707)
- term deposits (interest rate: 15%)	(42 729)	(15 358)	(116 131)	(174 218)
Debt securities in issue (interest rate: 7%)	(82 059)	-	-	(82 059)
Other liabilities	-	(2)	-	(2)

The income and expense items with related parties for 2009 are as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Interest income	449 008	4 009	384 894	837 911
Interest expense	(5 624)	(1 709)	(25 391)	(32 724)
Fee and commission income	1 619	45	3 031	4 695
Gains less losses from trading in foreign currencies	343	228	4 454	5 025
Operating income	616	2	2 359	2 977
Administrative and other operating expenses	(111)	(33 470)	(20 126)	(53 707)

Aggregate amounts lent to and repaid by related parties in 2009 were as follows:

	Shareholders with significant influence	Key management	Other related parties	Total
Amounts lent to related parties	14 619 399	12 677	6 483 791	21 115 867
Amounts repaid by related parties	14 205 257	24 740	6 262 667	20 492 664

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30 Related party transactions (continued)

Key management compensation is presented below:

	2010	2009
Salaries	22 740	24 862
Short-term bonuses	7 994	6 926
Total management compensation	30 734	31 788

31 Subsequent events

On 5 March 2011 and 29 March 2011 the Bank in accordance with an early-repurchase option was required by bondholders to repurchase a portion of the sixth bond issue totalling RUB 486 711 thousand or 24% of total sixth issue, and a portion of the fifth bond issue totalling RUB 427 750 thousand or 21% of the fifth issue.

On 21 April 2011 the Bank issued exchange-traded bonds of the second issue with a nominal value of RUB 2 000 000 thousand maturing in 2014. The coupon rate is 8.75% p.a. These bonds have an early redemption option on 18 October 2012.

On 19 May 2011 the Group purchased ordinary shares of OJSC NKB "Radiotekhhbank" as a result of which the ownership share of the Group is 47.52%.