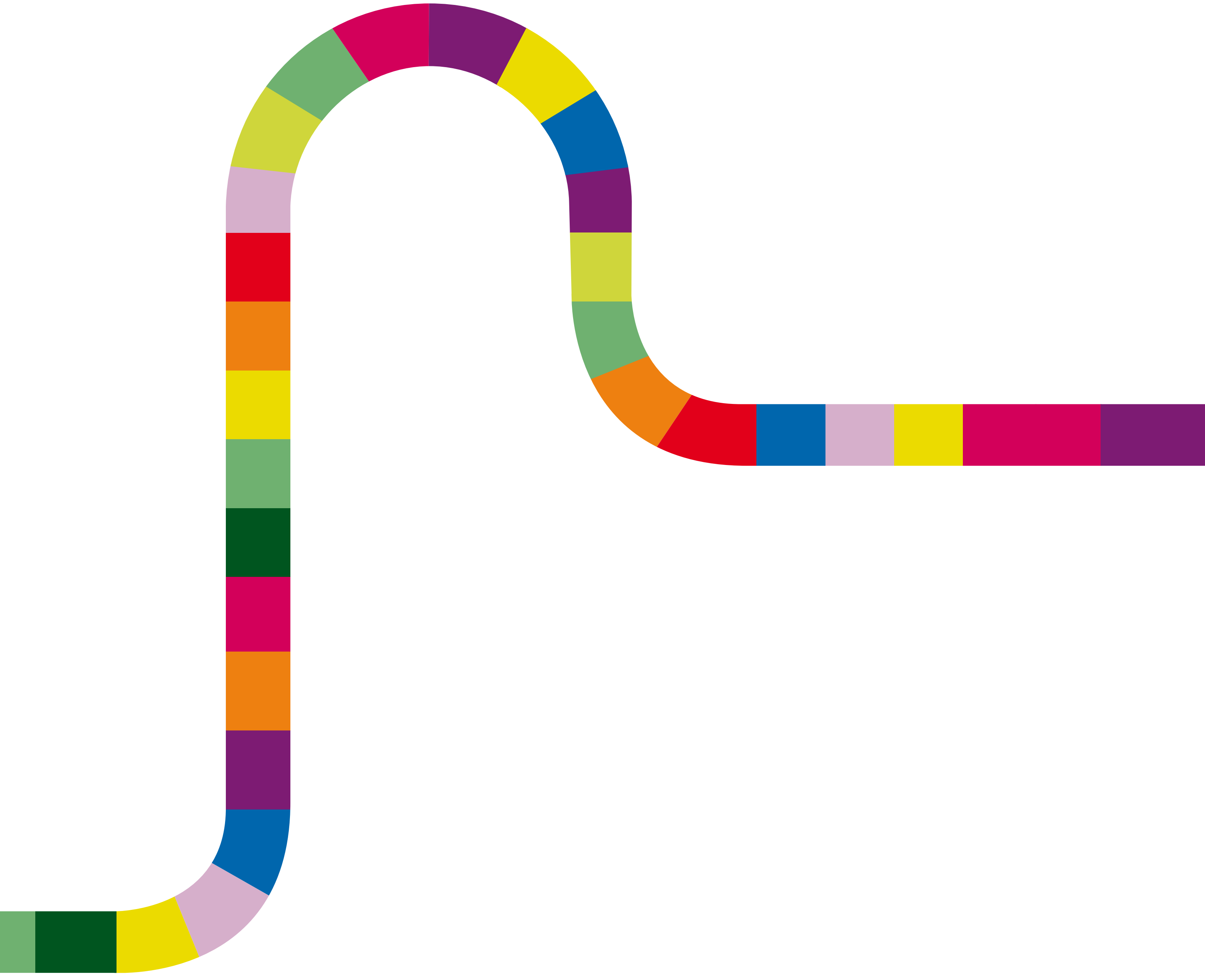
UniCredit Bank

For whatever
life brings

2010 Annual Report



UniCredit Bank

Everyone knows that life can be surprising. Many of these surprises are good things. Some are not so good. That is why people need their bank to be a reliable partner, helping them to deal with *whatever life brings.*

Because this year's report is inspired by real life, its graphics portray some of life's more pleasant aspects, as well as a few of its less enjoyable features. Thus, the images present a range of contrasts, and our cover offers up a kaleidoscope of moments drawn from daily life. That is simply how life works. From the exciting to the ordinary, from the expected to the unanticipated, life is always changing and makes demands on all of us. And UniCredit is here to lend a hand.

Our job is about more than offering products and managing transactions. It is about understanding the needs of our customers as individuals, families and enterprises. Our goal is to deliver solutions for the everyday issues that people face. This means providing them with concrete answers – day by day, customer by customer, need by need.

2010 Annual Report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Financial Highlights

	2010	2009	change 2009–2010
ASSETS AT THE END OF THE YEAR, RUR million			
Total assets, including	**575 006**	**482 313**	**19%**
Loans to customers and lease receivables	386 216	341 661	13%
Investments in securities	35 818	21 676	65%
LIABILITIES AT THE END OF THE YEAR, RUR million			
Total liabilities, including	**505 249**	**422 527**	**20%**
Amounts due to customers	330 414	281 433	17%
Amounts due to credit institutions	137 144	113 395	21%
CAPITAL (BASEL II CAPITAL ACCORD) AT THE END OF THE YEAR, RUR million			
Total capital	**68 868**	**64 253**	**7%**
PROFIT FOR THE YEAR, RUR million			
Net interest income	22 625	15 827	43%
Non-interest income	4 828	10 320	
Operating income	**27 454**	**26 148**	**5%**
Loan impairement	-5 086	-9 059	-44%
Net income from financial activities	**22 368**	**17 088**	**31%**
Operating costs	-9 530	-8 852	8%
Gains/losses on associate and disposal of investments	-104	109	-195%
Profit before income tax expense	**12 735**	**8 345**	**53%**
Income tax expense	-2 640	-1 662	59%
Total profit for the year	**10 095**	**6 684**	**51%**
KEY PERFORMANCE INDICATORS, %			
Return on average equity (ROE)	16.16	11.79	
Return on average assets (ROA)	1.92	1.22	
Total capital ratio (Basel II)	14.47	16.20	
Central Bank of Russia N1 capital adequacy ratio	16.02	15.10	
Cost/income ratio	34.0	33.3	
STAFF			
Number	3 669	3 633	1%
GEOGRAPHY			
Branches in Moscow	43	46	-7%
Regional branches	49	52	-6%
RepOffices	14	13	8%
Offices abroad	1	1	0%
Total Number of Offices	**107**	**112**	**-4%**


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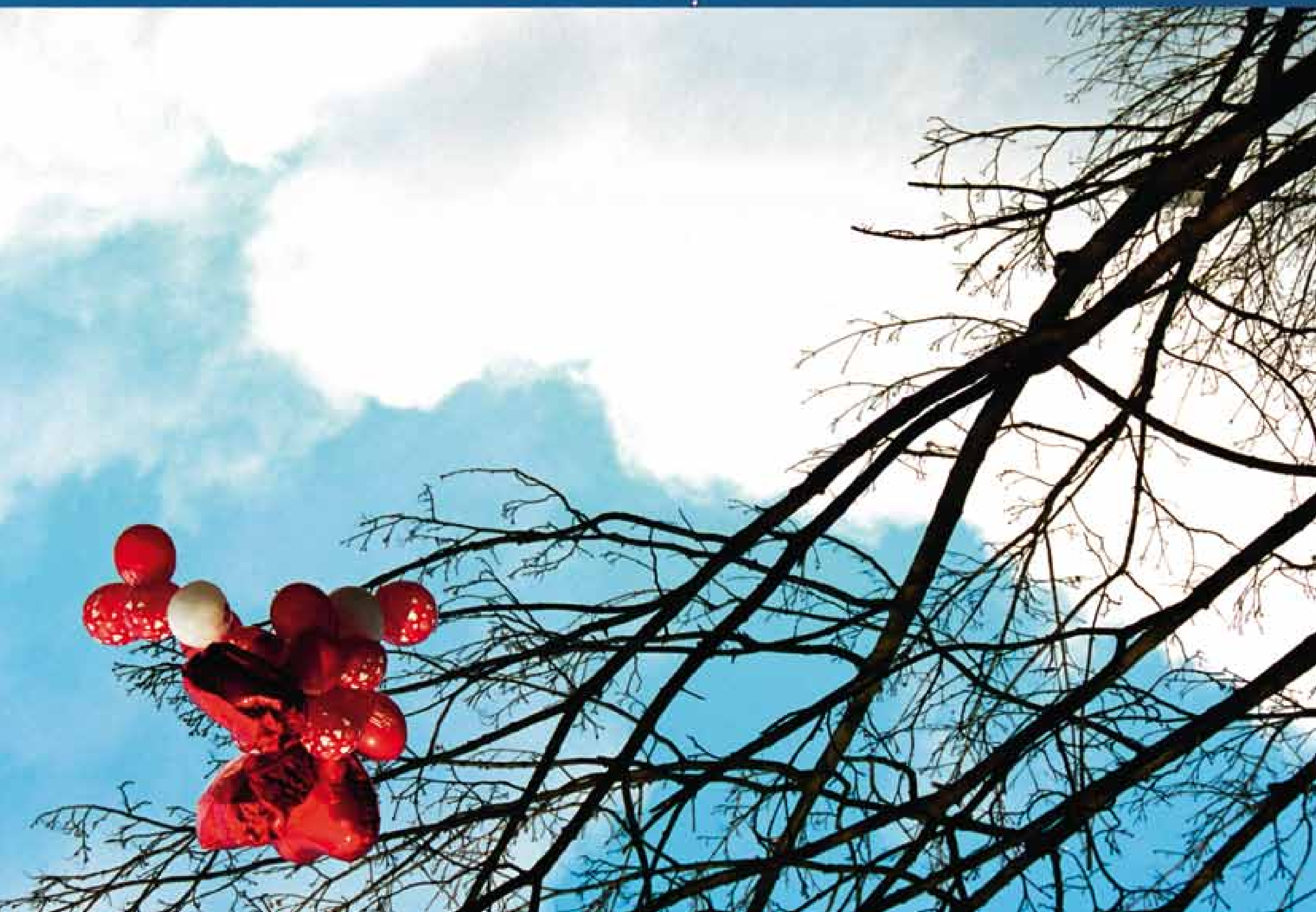

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Statement by the Chairman of the Supervisory Board

"For the Russian banks 2010 became the year of strong recovery after the financial crisis. Within the framework of quite a tough competition UniCredit Bank again confirmed its ability to be named one of the most successful banks in Russia, having earned a net profit of RUR 10 095 million. That is especially important because in terms of banking profitability 2010 proved to be equally challenging as 2009."

Dear Shareholders, Clients, Friends and Colleagues,

I am proud to present the 2010 Annual Report on behalf of the Supervisory Board of UniCredit Bank.

For the Russian banks 2010 became the year of strong recovery after the financial crisis. Within the framework of quite a tough competition UniCredit Bank again confirmed its ability to be named one of the most successful banks in Russia, having earned a net profit of RUR 10 095 million. That is especially important because in terms of banking profitability 2010 proved to be equally challenging as 2009.

The outstanding results achieved by UniCredit Bank in 2010 confirmed its solid business model and its effective management as well as the continued attractiveness of the Russian market for international financial companies. Being the largest among the Russian banks with foreign capital, UniCredit Bank successfully enlarged its total assets, amount of loans to customers and deposits from corporate and retail customers in 2010. The support from the shareholder allowed UniCredit Bank to increase its equity significantly, which should support the further development of the bank.

So far, as Corporate & Investment Banking proves to be a fundamental pillar in the Group's strategy it is a pleasure to me to note a high efficiency of this line of business at UniCredit Bank, which has been working with the largest Russian companies for more than 20 years. Moreover, the great attention to the risk management has been allowing the Bank to maintain high quality of the loan portfolio for years.

In 2010, the CEE region continued to be the key market for UniCredit. As CEE banking is expected to grow faster than the more mature markets and in accordance with the Group strategy, we plan to pay great attention to those countries having greatest expected return in the following years and Russia is definitely among those countries. We intend to strengthen our position on the Russian market by providing high quality products and services and other benefits from the relation with a bank having strong international presence.

I would like to thank the Management Board and the employees of UniCredit Bank for their commitment, which helped to achieve the excellent results in 2010. In 2011, we intend to follow our strategy of dynamic development as well as to keep listening to our clients' wishes and needs.

.

Erich Hampel
Chairman of the Supervisory Board

Highlights

UniCredit operates in 22 countries, with more than 162,000 employees and over 9,600 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

(currency amounts are shown in € million)

OPERATING INCOME	26 347
OPERATING PROFIT	10 864
NET PROFIT	1 323

SHAREHOLDERS' EQUITY	64 224
CORE TIER 1 RATIO	8.58%
TIER 1 RATIO	9.46%

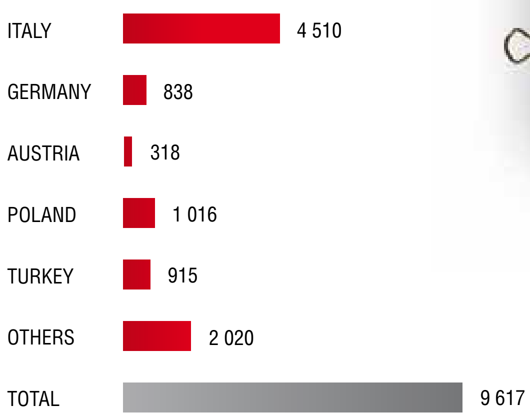
EMPLOYEES [1]	over 162 000
BRANCHES [2]	over 9 600
TOTAL ASSETS	929 488

1. Data as at December 31, 2010. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

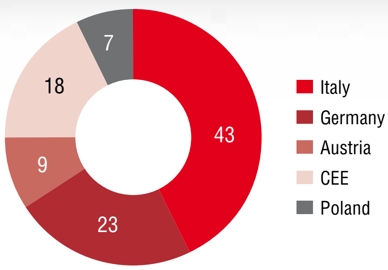
WHERE WE OPERATE

AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE

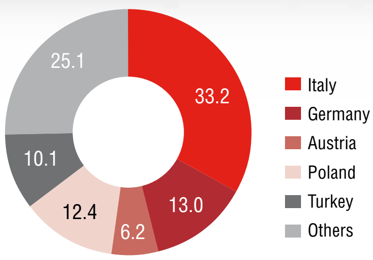
BRANCHES BY COUNTRY [2]



REVENUES BY REGION (%)



EMPLOYEES BY COUNTRY [1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

UniCredit has a strategic position in Austria, Germany and Italy – three countries accounting for more than one-third of the GDP of all European Union economies combined. Together, they comprise one of the continent's wealthiest transnational regions.

GDP per capita in each of these countries is higher than the average for the European Union (EU) as a whole. In particular Germany ranks first in terms of GDP per capita among the four largest EU economies, surpassing France, the United Kingdom and Italy.

UniCredit has one of the largest banking networks in each of its three core Western European countries, providing access to 318 branches in Austria, 838 in Germany and 4 510 in Italy. Each of these countries is also closely linked to the growing economies of Central and Eastern Europe.

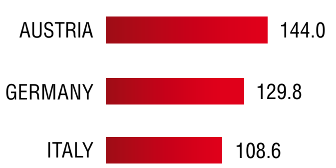
In terms of economic performance, all our core countries last year resumed positive growth after the unprecedented slowdown recorded in 2009. As a matter of fact, the emergence of the sovereign debt crisis in Greece, which had important spill-over effects on such other countries as Ireland, Spain and Portugal, did not materially affect growth prospects in our core countries.

This is because, from a structural point of view, the three countries in which UniCredit operates have enjoyed over the last few years a more balanced growth model compared to the affected countries, with a very low level of private sector indebtedness and a more cautious handling of public finance.

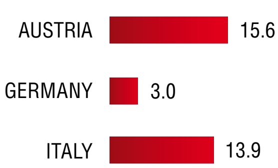
Real economic growth is expected to continue at an average annual rate of about 1.6 percent in Austria, 1.8 percent in Germany and 1.1 percent in Italy from 2011 to 2015, which would surpass the rates achieved over the previous five-year period.

Another favorable development is that domestic demand is becoming an increasingly important engine of economic development in this region. The result should be a more sustainable pattern of growth, no longer exclusively export driven.

GDP PER CAPITA [1]



MARKET SHARE [2] (%)



1. Nominal GDP per capita as at December 31, 2010 (EU27=100). Estimate of Nominal GDP per capita within the EU27 as at December 31, 2010 (last update March 10, 2011).
2. Market Share in terms of Total Customer Loans as at December 31, 2010.

Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe (CEE), where it has a broad network of roughly 3 900 branches.

The Group's regional footprint is broad, with a direct presence in 19 countries where it ranks among the top five in 12 countries.* The CEE now accounts for 17.7 percent of the Group's revenues.

UniCredit has a long history in this dynamic region, which accounts for nearly half of all its employees. The Group is therefore well positioned to benefit from the process of economic convergence that has been generating higher living standards and a better business environment in these countries.

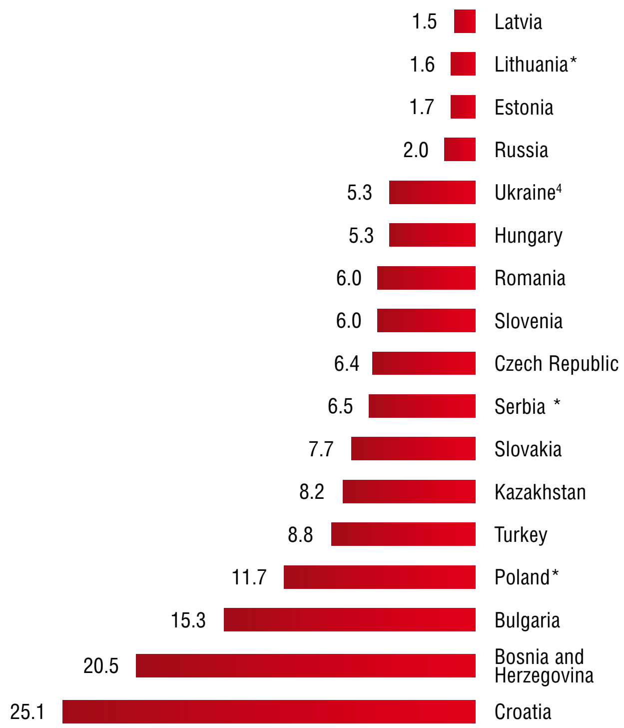
UniCredit's market position in the region provides its local banks with substantial competitive advantages, including the sharing of best practices, significant economies of scale, access to international markets and strong brand recognition. Furthermore, the Group's diversified portfolio in this region enables modular growth and increased market penetration for its global product factories.

After a challenging 2009, in 2010 CEE economies showed convincing signs of recovery, benefiting from stronger external demand and in some cases from a recovery in domestic demand. Among the EU members, Poland was a top performer. As the only EU country not to suffer a recession in 2009, it posted a GDP gain of almost 4 percent last year.

Overall, Turkey was the fifth-largest emerging market worldwide and the fastest-growing European economy in 2010, boasting a gain in real GDP in excess of 7 percent.

Russia benefited from higher oil prices and a strong sovereign balance sheet, which permitted the government to support domestic demand while increasing foreign investment in the latter part of the year. Only Romania and Croatia remained in recession in 2010. However, their more difficult circumstances were offset by reform and fiscal consolidation.

MARKET SHARE [3] (%)

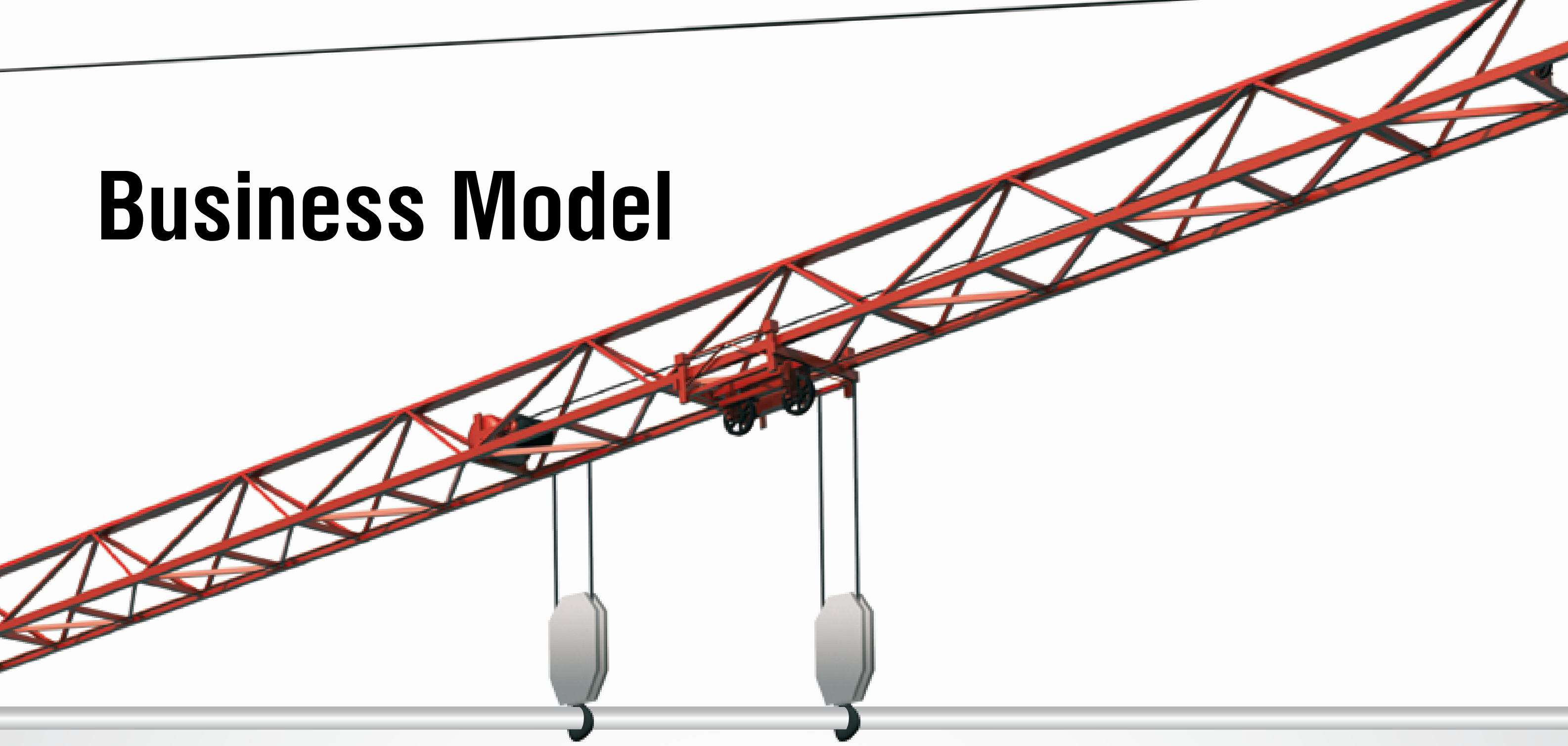


3. Market Share in terms of Total Assets as at December 31, 2010.
Market Share in Azerbaijan and Kyrgyzstan not available.
* as at September, 2010.

4. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model



THIS MODEL FOCUSES ON FOUR PILLARS:

Customer-centricity

This is the focus of the Business Divisions – *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking and Central and Eastern Europe.*
With their highly specialized services, they offer clear and simple solutions to all customer segments, thereby maximizing long-term value and generating customer satisfaction.

A multi-local approach

UniCredit combines an international distribution network with deep local roots and close ties to its customers by leveraging its global product lines, like Leasing and Factoring, its global service lines and the local expertise of UniCredit's people operating in local markets.

Global product lines

Each of the product lines is responsible for the centralized development of a complete portfolio of financial products and services suitable to the diverse needs of its customers.
These product lines generate added value for customer segments in all countries and regions by leveraging also the specialized skills and knowledge of the Group's product factories, such as Fineco Bank.

Global service lines

UniCredit's service lines provide a broad range of specialized internal services to the Group's commercial units and product factories such as information technologies, back-office activities, personnel administrative management, loan recovery, purchasing and real estate management.

Organizational structure

UniCredit's organization reflects its divisional business model and geographic scope.

To meet customers' needs, UniCredit is divided into **specialized Business Divisions,** as follows:

- Three divisions – *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking* – manage the activities intended for their respective customer segments. These include marketing, defining service models and developing products, as well as overseeing and coordinating some specific businesses.
- The *CEE* Division serves to align the activities in 19 countries of Central and Eastern Europe to a single, comprehensive business vision.

In line with the multi-local approach, responsibility for individual countries is lodged with leadership roles – such as the Country Chairman in the four main markets of Austria, Germany, Italy and Poland and the Country CEO in the six divisionalized CEE countries. Their task is to combine the Group's strategic business vision with that of their country.

Lastly, a range of support and control functions, called **Competence Lines,** oversee the guidance, coordination and control of UniCredit's activities and manage the related risks. These competence lines include Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications.

Our Mission

We UniCredit people are committed to generating value for our customers.

As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work.

We aim for excellence and we consistently strive to be easy to deal with.

These commitments will allow us to create sustainable value for our shareholders.

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General Information

- UniCredit Bank is the first bank in Russia with majority foreign ownership.
- Until 20 December 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on 20 October 1989, General License No.1.
- On 20 December 2007 International Moscow Bank officially changed its name to ZAO UniCredit Bank.
- The Central Bank of Russia issued UniCredit Bank General License No.1 for banking operations.
- UniCredit Bank is 100% owned (voting shares) by UniCredit Bank Austria AG, Vienna, Austria, a member of the European group UniCredit (UniCredit S.p.A).
- Today UniCredit Bank is one of Russia's largest full-service banks, offering a wide range of corporate and retail services, as well as services for SMEs and financial institutions.

2010

Main Achievements in 2010

CONTRACT WITH RUSSIAN BANK FOR DEVELOPMENT

In January 2010, the Russian Bank for Development (RBD) and UniCredit Bank signed an agreement on targeted loans under the Program to Support SMEs. RBD's funds have gone to SME clients in the following regions: Voronezh, Krasnodar, Moscow, Novosibirsk, Rostov, Samara, St. Petersburg and Chelyabinsk.

LAUNCH OF JAGUAR FINANCE AND LAND ROVER FINANCE PROGRAMS

UniCredit Bank launched joint auto loan programs with Jaguar Land Rover, becoming one of the company's two partner banks. Thanks to the new programs, acquisition of these legendary British brands is now more advantageous and convenient.

NEW DISTANCE BANKING SERVICES LINE FOR PRIVATE CLIENTS

In 2010 UniCredit Bank revised its Distance Banking Services line for Private Clients:

- **Enter.UniCredit** (Internet Bank),
- **PDA.UniCredit** (mobile Internet Bank),
- **SMS.UniCredit** (SMS service),
- **Phone.UniCredit** (telephone service),
- **Mobile.UniCredit** (mobile JAVA supplement).

Special supplements were launched for Apple iPhone®, iPod Touch® and iPad®. Additionally, functional Internet Banking and the list of companies whose services customers can pay for using Enter.UniCredit (over 120 organizations) was expanded significantly.

Available on the iPhone App Store

QUALITY RECOGNITION AWARD

On 28 July 2010, UniCredit Bank for the eighth time was given the "Quality Recognition Award (for 2009) for High Quality" by JPMorgan Chase Bank, New York. UniCredit Bank received the award for ensuring impeccable quality of outgoing payment orders in USD throughout 2009. For many years 99% of UniCredit Bank client payments have been automatic, making it possible to service USD payments rapidly and efficiently.

SUBSIDIZED CAR LOANS

In 2010 UniCredit Bank was a Top Five lender of funds for purchasing automobiles under the State Subsidy Program. The Bank provided 9% of all loans issued under the program (Russian Trade Ministry data).

NEW SERVICE MODEL FOR SMES

In September 2010 UniCredit Bank upgraded its service model for work with SMEs and fully revised its loan product line. The changes made it possible to simultaneously improve service quality for existing clients and attract new companies.

EXEMPLARY LEGAL SUPPORT FOR BANKING

On 1 December 2010, as part of Russian National Bankers Day, during the sixth National Banking Prize awards ceremony UniCredit Bank prevailed in the category "For Exemplary Legal Support for Banking".

JOB OF THE YEAR 2010

In December 2010 UniCredit Bank won the prize "Job of the Year 2010" in the category "Banks." The professional jury's decision was based on assessment of nominees using criteria such as staff selection methods, personnel development programs, corporate culture, social benefits and others.

UNICREDIT – THE LARGEST RUSSIAN BANK WITH FOREIGN OWNERSHIP

According to Russian Forbes, in 2010 UniCredit Bank was Russia's eighth-largest in net assets and remained the largest Russian bank with foreign ownership.

GOLDEN SITE

In 2010 UniCredit Bank's corporate site was the winner in the category "Best Foreign Brand" and was second among three finalists in the "Banks and Finances" category of the 11th All-Russia Internet Competition "Golden Site".

THE BEST BANK ON THE FORWARD MARKET IN 2010

In the national competition "Dealer of the Year 2010" held by the MICA, the Bank was the best bank on the forward market in 2010 in the nomination "The Best Forward&Options Desk 2010".

UNIFIED UNICREDIT BANK CARD DESIGN AND TRANSITION TO CHIP CARDS

Since February 2010 all UniCredit bank cards for the Visa and MasterCard systems have been issued with the same new design for all UniCredit banks, allowing card holders to feel that they are clients of a single European bank. Additionally, in 2010 UniCredit Bank switched fully to issuing chip cards for the Visa and MasterCard payment systems, thereby enhancing card security significantly while meeting all the requirements of international payment systems.

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Management Statement

> "The year 2010 saw strong competition for quality clients. Last year UniCredit Bank made good use of its competitive advantage: long-term relations with major Russian companies and high service quality. The Bank's loan portfolio expanded by 13.04% in 2010, with corporate lending up 12.6% and retail up 5.82%."

Ladies and Gentlemen:

The year 2010 was not easy for UniCredit Bank, as banking system recovery following the crisis led to significantly stiffer competition on the market. Nevertheless, I am pleased to note that we achieved all the main goals assigned to the Bank by the Group.

In 2010 UniCredit Bank maintained its position as the largest Russian bank with foreign ownership and remained among the most profitable. Net profit for 2010 was RUR 10.09 billion, placing the Bank sixth in Russia for the year in earnings. The strong results enabled the Bank to achieve significant growth in operating income and the loan portfolio while reducing reserves, thanks to the improving situation on the market. It should be noted that our still low cost/income ratio (34%) provides further confirmation of the high efficiency of the Bank's operations.

The year 2010 saw strong competition for quality clients. Last year UniCredit Bank made good use of its competitive advantage: long-term relations with major Russian companies and high service quality. The Bank's loan portfolio expanded by 13.04% in 2010, with corporate lending up 12.6% and retail up 5.82%. Efficient risk management enables the Bank to maintain high loan-portfolio quality.

The Bank's impeccable reputation and quality client base allowed it to increase client fund volume by 17.4% in 2010. Balances on the accounts of corporate clients and demand deposits rose by 20.5% yoy to RUR 264.79 billion.

In 2010 UniCredit Bank continued its efforts to enhance the efficiency of its network. In the interests of corporate and retail clients, in September 2010 the Bank opened an office in the city of Kaluga. UniCredit Bank's staff size is unchanged, a testimony to our staff's highly efficient work.

Last year the Bank achieved major success in developing its distance banking services for individuals and companies, aligning its product line with client needs and Group strategy. In 2010 the Bank studied client satisfaction in the Private Banking segment; the results confirmed the high competence of our staff and the quality of the Bank's services.

In 2010 UniCredit Bank continued to receive support from UniCredit Group, a leading European financial organization, which allowed the Bank to increase its capital by 16.68% to RUR 69.76 billion.

Following its tradition, despite the difficult situation on the financial market in 2010, UniCredit Bank actively participated in financing education and healthcare projects, and helped preserve our country's cultural heritage.

On behalf of the Management Board I wish to thank the Bank's staff for its excellent work, unfailing professionalism and adherence to the corporate values of UniCredit Group, all of which made it possible to complete 2010 pursuing a strategy of steady development for the good of society, our shareholders and our clients.

Mikhail Alekseev
Chairman of the Management Board

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2010

Russian Economy

In 2010 UniCredit Bank worked in conditions of economic recovery after the strong downturn in the previous year. Overall, the macroeconomic situation in Russia was reasonably positive, featuring steady recovery in virtually every sector. Stabilization of domestic consumer demand amid the steady growth of external demand for key Russian export items resulted in the Russian economy pulling out of the downturn in early 2010, showing significant growth in real GDP.

Industry achieved the strongest recovery, with production up 8.2% yoy, largely offsetting the previous year's fall. The government gave a significant boost to industrial output through programs to stimulate demand (e.g. the cash-for-clunkers program in automotive). Industrial output growth provided support for recovery in related sectors, such as transportation, where cargo handling rose 6.9%.

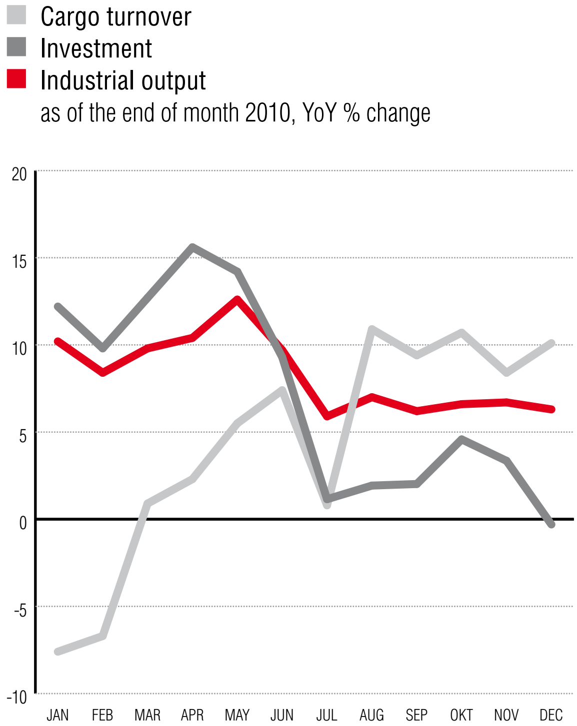
Business recovery in Russia had a positive impact on the domestic labor market, with rising employment throughout the economy greatly reducing unemployment from crisis levels and supporting double-digit growth in nominal wages. The government's active pension indexation efforts also made a significant contribution to stabilization and the recovery of consumer demand.

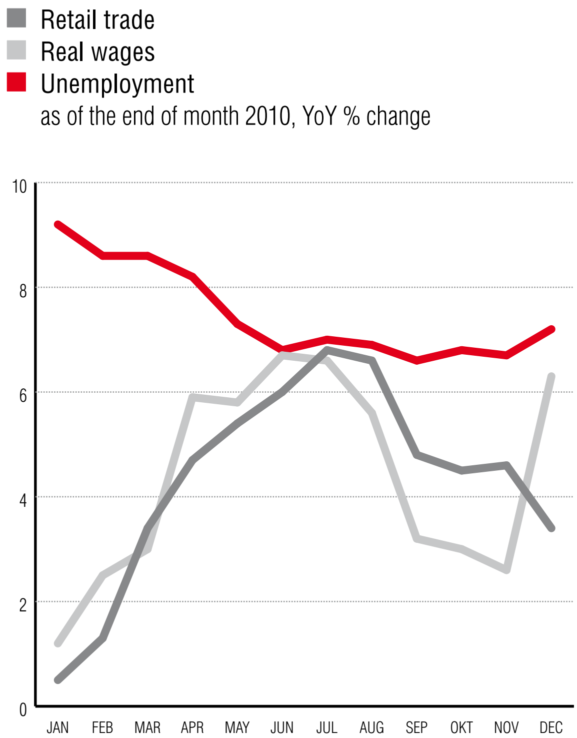
However, the economy's post-crisis recovery potential was virtually exhausted by 2H10. Rising consumer and investment costs amid the steady strengthening of the RUR led to sharp growth in imports, which began to cool economic recovery in 3Q10. Also contributing to slower recovery was the record drought in autumn, which undermined local agricultural output and led to higher imports and more rapid consumer price growth.

The acceleration of price growth in the autumn of 2010 became the year's main negative trend. Lower food production due to the drought occurred amid strong money supply growth, driving inflation sharply higher (over 9.5% in early 2011). Rising prices resulted in a lower growth rate for real personal income and reduced consumer activity.

However, higher inflation also led to a sharp drop in the real cost of borrowed funds in Russia. This promoted acceleration of investment growth and, as a result, stronger demand for bank loans. Investment growth rose to almost 10% as of end-2010 in annual terms, as bank loan portfolios started to expand.

Overall, rising domestic consumer and investment demand amid a strengthening RUR early in the year led to strong import growth. Import volumes continued to grow throughout the year, reaching pre-crisis levels by end-2010. In addition to causing economic expansion to cool, this also resulted in a significant worsening of Russia's balance of payments, undermining fundamental support for the RUR. As a result, the national currency weakened significantly in 2H10 despite relatively high oil prices.





The Russian economy has entered 2011 with positive momentum for recovery, supported by sharp rises in prices for the country's main export goods early in the year. The negative factors limiting Russian economic recovery in 2010 should have little impact on this year's macroeconomic results. Imports are essentially back to pre-crisis levels, which should limit their growth. Additionally, the growth of budget revenues thanks to high oil prices has allowed the government to increase spending, which should also support recovery in 2011.

This year we also see the effects of the Central Bank of Russia's (CBR) policy of inflation targeting, begun in early 2009. The CBR's gradual, balanced withdrawal from currency market intervention and budget deficit financing from the Reserve Fund should result in a significant reduction in money supply growth, helping to stabilize prices on the domestic market beginning in summer. Moreover, given the fundamental changes in monetary and credit policy over the past two years, the positive trend of slowing inflation looks set to continue over the longer term.

Russian Banking Sector in 2010

The Russian banking sector has played an important role in the process of economic recovery following the crisis.

Despite the minor decline in total banking sector assets in 1Q10, by year's end assets had risen by 15% to RUR 33.8 trillion. Bank service penetration in the Russian economy was stable in 2010 – lagging Central and Eastern Europe somewhat, but still offering significant potential for banking system growth.

Importantly, lending to the real economy by the local banking system rose by 12.1% in 2010. Leading borrowers included companies in sectors such as resource extraction, transportation and telecommunications, as well as wholesale and retail trade. Retail lending grew even faster, up 14.3% in 2010, thanks in part to the low base effect, as lending contracted by 11% in 2009.

The pace of banks' investments in securities rose even faster (35.3%), largely due to rapid stock market and bond quote growth, as well as substitution of commercial lending in conditions of continuing unstable demand for money. In 2010 the share of securities investments in the total investments of Russian banks increased from 14.6% to 17.2%.

In 2010 banks no longer experienced the lack of liquidity felt in the crisis year of 2009. Moreover, part of the subordinated credit given to state-controlled banks in 2008 was paid back ahead of time in 1H10.

The growth of the banking system was based mainly on internal funding. The replacement of CBR loans (-RUR 1.1 trillion; -77% yoy) in commercial bank liabilities with retail deposits (RUR 2.3 trillion; 31% yoy) continued. The share of accounts and deposits of non-financial organizations in banks' liabilities did not change despite growth of RUR 1.6 trillion or 15% for the year. Additionally, banks increased their bond issue volume (up 30%).

As a result, in 2010 the loan/deposit ratio (without the interbank element) approached 90% which, given the high overall level of capital adequacy in the system (about 18%), creates a sound basis for further loan expansion in 2011.

One pleasant surprise for the Russian banking system was notable improvement in the area of overdue loans, whose level compared to the total loan portfolio (less the interbank component) decreased from 5.9% at the beginning of 2010 to 5.4% at the end of the year, even though overdue loans reached 6.4% in May.

Notably, the level in the corporate segment fell from 6.1% to 5.3%; this had a positive impact on loan loss reserves and, as a result, on total reserves. Their growth slowed, and in October they began to contract. The total growth of aggregate reserves in 2010 was quite modest at just 6.9%, whereas in 2009 aggregate reserves doubled yoy.

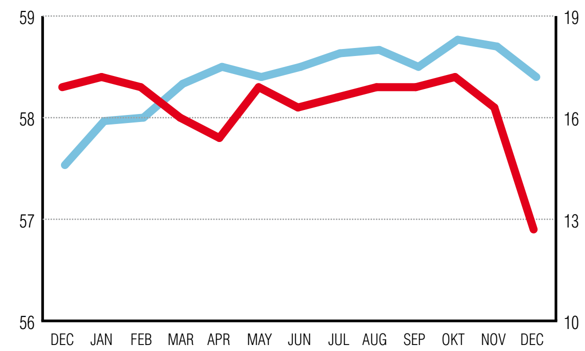
Report on the Bank's Activities (Continued)

Macroeconomics and the Russian Banking Sector in 2010 (Continued)

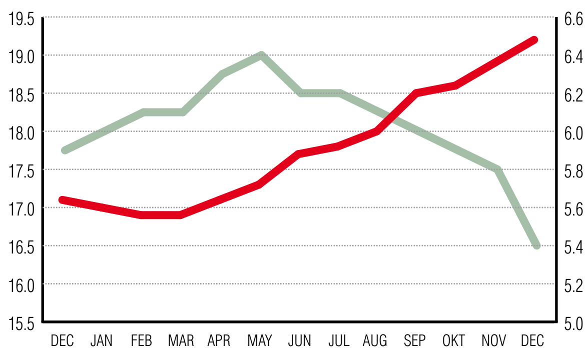
The combination of factors such as the sharply slower growth of loan loss reserves, the high profitability of securities market operations, and renewal of the loan process allowed Russian banks to achieve record-high pretax profits in 2010, estimated by the CBR at about RUR 573 billion vs. RUR 205 billion in 2009.

Summing up the Russian banking system's development results in the previous five years (2006–2010), we note the generally upward trend, which the 2009 crisis did not undermine. The average growth rate of total assets during the period was 28.2%, total loans 27.5%, deposits 30.1% and earnings 17.0%, all of which confirms the Russian banking system's high growth potential.

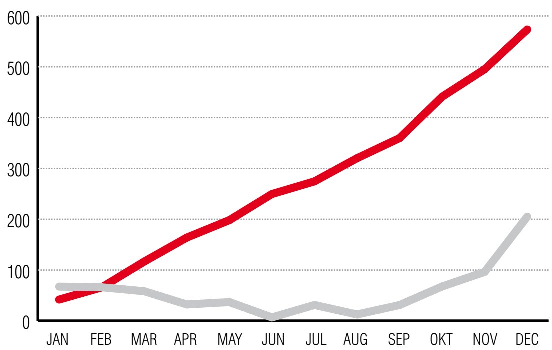
Share of total loans in banks' assets, *% – l.s.*
Share of securities investments in banks' assets, *% – r.s.*



Loan portfolio, *RUR billion – l.s.*
Share of overdue loans in portfolio, *% – r.s.*



Russian Banks' Pretax Income up Sharply yoy in 2011, *RUR billion*
2010
2009



Financial Results in 2010

The 30 April 2010 AGM resolved to pay dividends on common shares of RUR 4 176 321 667.44 from the Bank's 2009 IFRS net income of RUR 6 683 506 000, with the remaining RUR 2 507 184 000 going to retained earnings.

Major Transactions

Under Russia's Law "On Joint Stock Companies" a major transaction is one whose value is more than 25% of total assets. For UniCredit Bank this means transactions of over RUR 167 152 million under RAS. In 2010 the Bank had no transactions of this magnitude.

Related Party Transactions

In 2010 the Bank had no transactions in which directors, top managers or other parties listed in the Law "On Joint Stock Companies" had a vested interest. More detailed information on related party transactions is provided in the Bank's audited consolidated financial statements.

Footnote 28 of the consolidated financial statements with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

Net profit

According to the International Financial Reporting Standards, ZAO UniCredit Bank (Russia) reported a net profit after tax of RUR 10 095 million for the fiscal year 2010, 51% higher than the 2009 net profit of RUR 6 684 million.

Net income from financial activities rose by 31% and totaled RUR 22 368 million. Operating costs were up by 7.7% by registering the level of RUR 9 530 million. Profitability increased: Return-on-average equity was up to 16.2% (2009: 11.8%) and return-on-average assets reached 1.9% (2009: 1.2%). Efficiency was maintained with a cost-to-income ratio of 34% (2009: 33.3%).

Net Interest Income

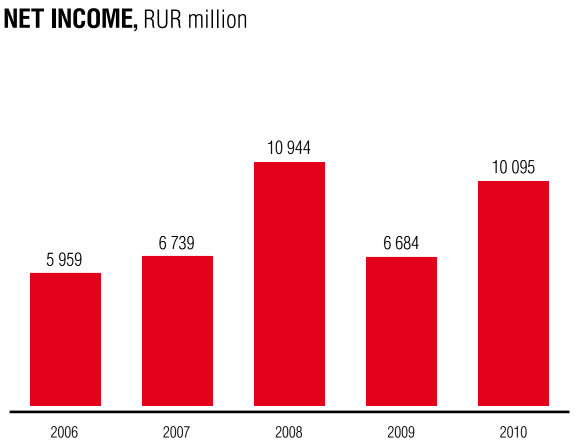
In 2010 the significant reduction in interest rates had a powerful influence on the financial markets: the average one-month MOSPRIME fell from the 2009 yearly average of 12.06% to 3.8% in 2010, while the average one-month LIBOR dropped from 0.33% in 2009 to 0.28% in 2010. This trend had a downward influence on interest rates on the Bank's interest-bearing assets and liabilities, causing contraction of interest income and interest expense yoy. Nevertheless, the Bank's net interest income rose by RUR 6 798 million or 43% to RUR 22 625 million in 2010 vs. RUR 15 827 million in 2009, mainly due to the significantly larger reduction in the cost of funding compared to the reduction in the cost of asset placement.

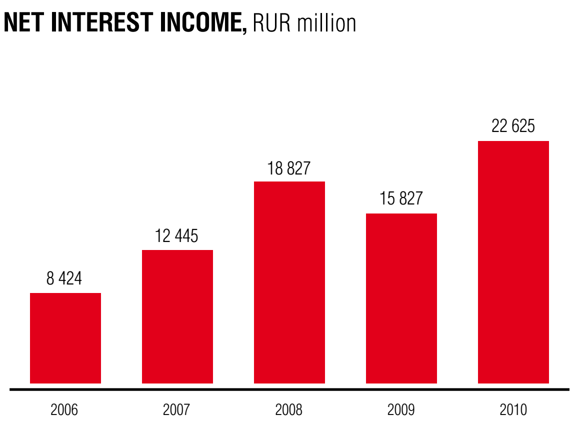
"In 2010 the Bank achieved one of the best earnings results in its history, exceeding the previous year's result by over 50%.

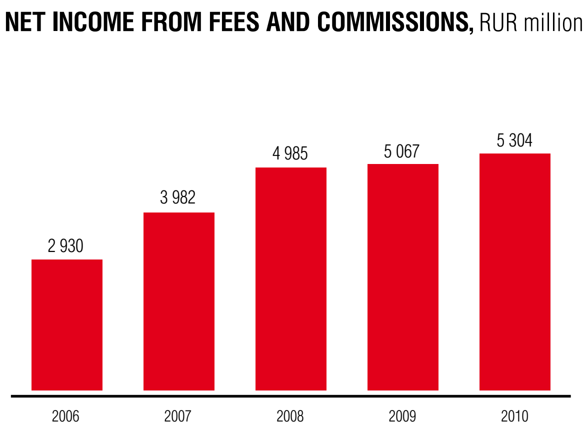
Konrad Kozik
Member of the Board

Report on the Bank's Activities (Continued)

Financial Results in 2010 (Continued)







Interest income fell by RUR 10 004 million to RUR 35 228 million due to lower income from client loans, which represent 89% of total interest income. Interest income from trading and investment in securities rose 35% to RUR 2 312 million, on account of a yoy expansion of the bond trading portfolio.

The interest expense fell by RUR 16 802 million to RUR 12 603 million, due to the lower cost of funds raised from credit institutions and clients.

Non-interest Income

Net fee and commission income rose by 5% to RUR 5 304 million, accounting for 19% of operating income. Most (36%) of the net fee and commission income was from client conversion operations, which fell by 20% to RUR 2 074 million. The drop was offset by significant growth in income from loan fees, client account management, retail operations, and documentary operations.

Financial assets and liabilities for trading generated a negative result (-RUR 366 million), due to lower financial market volatility and negative revaluation of interest-bearing derivatives. However, the decrease was more than offset by the solid increase in net interest income.

Loan Impairment Provisions

Total provisions for loan impairment rose by RUR 533 million to RUR 15 315 million as of end-2010 vs. RUR 14 782 million as of end-2009. The growth was driven by a RUR 2 122 million increase in charges for impaired loans and a RUR 1 565 million drop in allowances for standard loans. Loan portfolio quality improved in 2010: the share of overdue and impaired loans in the total portfolio fell to 7.2% as of end-2010 vs. 8.5% as of end-2009, reducing the provisions/total portfolio coverage ratio from 4.1% as of end-2009 to 3.8% as of end-2010. The loan impairment charge was RUR 5 086 million in 2010 compared to RUR 9 059 million in 2009.

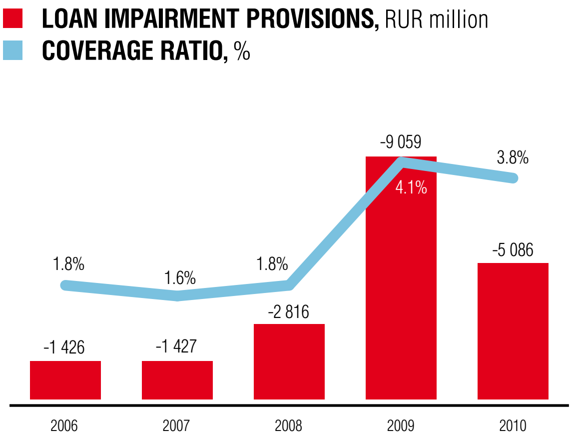
Operating Costs

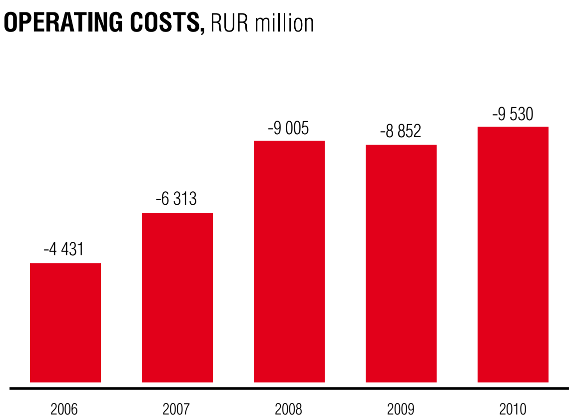
In 2010 the full-year cost effect of the 28 offices opened in 2009 was registered, reduced significantly by the optimization of the Bank's network through the closing of five offices.

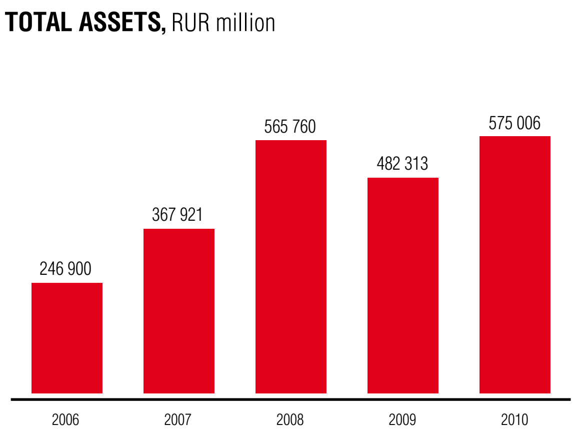
The efficient cost management system resulted in an excellent cost/income ratio of 34%, one of the best among Russian banks. Total operating costs were RUR 9 530 million, up a modest 7.7% compared to 2009 and lower than inflation.

Assets

In 2010 the Bank's assets rose by 19% to RUR 575 006 million, driven largely by expansion of the loan portfolio and client deposits. The gross loan portfolio was RUR 401 532 million, up 13% yoy mainly due







to corporate loans, which represent 81% of the total portfolio, reaching RUR 323 918 million as of end-2010. Loans to retail customers were RUR 66 591 million. The portfolio of reverse repo agreements with clients rose to RUR 11 022 million.

Interbank market loans were RUR 93 968 million in 2010, up 37% yoy, due mostly to indemnity agreements with Russian banks backed by federal government pledges and municipal and corporate bonds. The securities trading portfolio grew by 66% to RUR 34 933 million; 46% of the portfolio is CBR bonds, while about 94% of the remainder is trading securities issued by organizations rated not lower than BBB-.

Liabilities

In 2010 the Bank devoted considerable attention to diversifying its funding sources. Client deposits rose by 17% yoy to RUR 330 414 million, reducing the loan/deposit ratio to 117% (vs. 121% as of end-2009). Corporate deposits (80% of the total portfolio) reached RUR 264 794 million; retail deposits were RUR 65 619 million. Ruble deposits' share rose to 59% as of end-2010 vs. 31% as of end-2009.

In order to diversify its borrowing, in 2010 the Bank issued debt certificates for RUR 15 434 million. Funds raised from credit institutions rose to RUR 137 144 million in 2010.

Shareholder Equity

In 4Q10 the Bank increased its equity by RUR 4 200 million to RUR 28 614 million by issuing an additional 249 702 common shares with a face value of RUR 16 820 per share. The N1 capital adequacy ratio, calculated using CBR methodology, was 16% as of end-2010, well above the CBR's 10% minimum.

Managing Assets, Liabilities and Capital

In terms of asset and liability management, 2010 can be divided into two phases: 1H10 and 2H10.

The first half saw modest growth of the loan portfolio amid excess liquidity carried over from 2009. The Department of Asset and Liability Management's main task was reducing the cost of maintaining excess liquidity. To sterilize excess liquidity, in March 2010 the Bank acquired short-term (six-month) CBR bonds for RUR 31.4 billion, making it possible to reduce the volume of excess liquidity and enabling the Bank to earn additional interest income amid contracting ruble interest rates on the market.

In 2H10 the pace of lending was restored, which necessitated raising additional long-term resources. In September and November bonds were issued for RUR 5 billion and RUR 10 billion respectively. Additionally, for the first time since the 2008 crisis, the Bank increased its volume of medium-term funding from the Group, raising RUR 15 billion from the Bank of Austria, which provides funding for UniCredit banks in Central and Eastern Europe.

Report on the Bank's Activities (Continued)

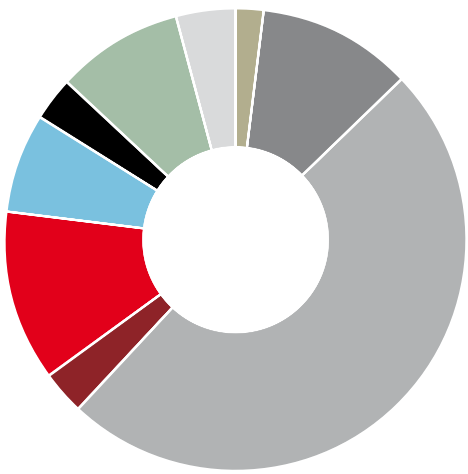
Financial Results in 2010 (Continued)

In late 2010, given the seasonal drop in liquidity on the interbank loan market, UniCredit Bank used short-term Finance Ministry deposits for a total of RUR 50 billion, making it possible to reduce, as of end-2010, the volume of borrowing on the interbank market.

We note that in 2010, greater attention was paid to optimizing amounts listed as Cash and Equivalents, including the Bank's balances on its correspondent account with the CBR, nostro account balances with other banks, etc. Optimization made it possible to reduce the Bank's average balance on its CBR correspondent account by 50% compared to budgeted figures, and the average balances on accounts at regional offices of the CBR by 66%; the latter was made possible largely by the successful launch in August of the CBR's Banking Electronic Speed Payments system.

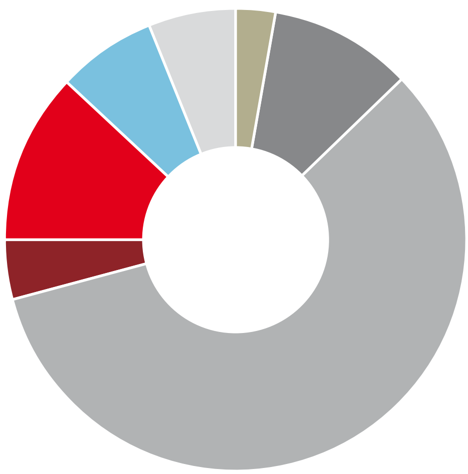
Another important achievement for the Bank in 2010 was the significant reduction of its liabilities concentration. As of 31 December 2009, the share of funds from the five largest depositors was 31.2%; by end-2010 this had fallen to 18.4%. The structure of liabilities did not change significantly, as the lower share of corporate funds was offset by the growth of Group funds, the share of the Bank's own bonds, and the share of deposits from the Finance Ministry.

STRUCTURE OF LIABILITIES AS OF 31 DECEMBER 2010, %



Syndicated loans	2
Group funding	11
Funds from non-financial organizations and individuals	49
Subordinated loans	3
Equity	12
Deposits of other financial organizations	7
Bond issues	3
Finance Ministry deposit	9
Other liabilities	4

STRUCTURE OF LIABILITIES AS OF 31 DECEMBER 2009, %



Syndicated loans	3
Group funding	10
Funds from non-financial organizations and individuals	58
Subordinated loans	4
Equity	12
Deposits of other financial organizations	7
Other liabilities	6

Retail Business

The year 2010 featured recovery and continuing post-crisis development of the Bank's retail business. The Bank maintained its solid positions on the retail banking services market, restoring them in segments hit by the 2008–2009 crisis.

The priority areas of development for the Bank's retail business in 2010 were:

- Launching new products and changing the terms for existing products aimed at increasing loan volumes oriented on business profitability and portfolio quality;
- Enhancing trust relations with current clients by offering new and existing products and services;
- Increasing client service quality;
- Increasing the efficiency of the Bank's office network.

Work with SMEs

In 2010 the Bank's SME products and services segment was significantly modernized. A revised services model was successfully launched, based on European standards of client service quality; five new loan products were introduced, and the regional presence was increased from 35 to 45 sales points, making it possible to significantly expand our work with SMEs at the Bank's regional offices. The lending process was revised significantly, reducing the time needed to make credit decisions considerably (to two days), allowing the Bank to halt the contraction of the loan portfolio and expand it in 2010 by 50% from RUR 1.2 billion to RUR 1.8 billion. The active client base expanded by 1 600 to 13 500, enabling the Bank to increase its volume of deposits and commission income from the SME segment. In 2011 the Bank plans to continue its efforts to attract SMEs, further modify its product line to enhance product competitiveness, and launch commercial mortgage lending.

Mortgage Lending

Last year in the mortgage lending segment comprehensive efforts were made to restore the infrastructure and improve distribution channels. As a result, by mid-2010 clients could receive mortgage loans in 25 cities serviced by the Bank, making it possible to significantly expand the share of mortgage lending in these regions. Among our significant achievements was renewing partner relations with real estate agencies and mortgage brokers, whose contribution to lending volume was just above 30%.

Another important factor for the Bank was revision of regulatory documents and internal lending standards based on the experience gained from managing the loan portfolio during the crisis. As a result of the successful upgrade, in 2010 the Bank issued nearly 2 000 mortgage loans for over RUR 4.5 billion, which allowed the Bank to take seventh position among the Russian banks (loan made) and

“ The year 2010 featured recovery and continuing post-crisis development of the Bank's retail business. The Bank maintained its solid positions on the retail banking services market, restoring them in segments hit by the 2008–2009 crisis.

Eduard Issopov
Member of the Board

Report on the Bank's Activities (Continued)

Retail Business (Continued)

enter TOP-10 (loan portfolio) according to RBC Ratings. Additionally, in 2010 the Bank continued providing support to clients unable to restore their ability to pay after the economic downturn, developing new mechanisms for restructuring mortgage loans.

In 2011 the Bank plans to expand its mortgage product line. Under consideration are plans to launch refinancing and real estate lending on the primary market. Significant attention will be devoted to further development of the partner channel, whose share is expected to rise to 35%-40% of total lending volume in 2011. The Bank will continue its efforts to improve client service by reducing the review period and taking steps to ensure timely client feedback.

Car Loans

In 2010 UniCredit Bank issued over 47 000 car loans for more than RUR 21 billion, which allowed the Bank to maintain its leading position on the car loan market and remain one of the market's most active players. In 2010 the Bank was fifth on the Russian car loan market (loans made) according to RBC Ratings. Last year, in response to market demand, the Bank continued to improve the competitiveness of its car loan terms, while actively developing special loan programs. The Jaguar Finance and Land Rover Finance program was launched jointly with Jaguar Land Rover Russia, with over 1 800 loans made. Additionally, the Bank participated actively in the state interest rate subsidy program. Most car loans made in 2010 came under joint lending programs with leading world automakers, such as Renault, Nissan, Land Rover and others, as well as program-based lending. The share of loans under the state program in 2010 was 30% of total loans and, according to the Trade Ministry, the Bank was among the Top Five most active program participants, issuing 9% of total special-term loans. Additionally, to stimulate car sales, in late 2010 as part of joint lending, a distance lending program was launched with RCI Banque (RN Finance Rus), involving the entire process from document submission for review to signing loan agreements at car dealerships directly, making the process maximally convenient and rapid for clients. In 2011 the Bank plans to expand the distance lending process for other special programs.

This year car lending will be upgraded with new special programs developed jointly with leading automakers.

Additionally, new products will be launched in response to the needs of dealers and clients (express car loans and car loan refinancing).

Consumer Lending and Credit Cards

In 2010 consumer loans and credit cards were key products for the Bank. Last year, over 15 000 loans were issued for more than RUR 3 billion, along with over 23 000 credit cards. In 2010 the Bank developed new consumer lending programs with alternative confirmation of income sources (certification documents for cars, border crossing notes in passports), which enabled the Bank to simplify the lending process for various client categories. The Bank also reduced the waiting period for credit card issue and consumer loans, and offered current clients a range of special offers.

In product promotion, the main efforts were aimed at developing cross selling among clients and creating various programs for the staff of company payroll program participants and large corporate partners (e.g. corporate credit cards targeted on Volkswagen were issued).

In 2010 the Bank offered a wide range of marketing events for clients jointly with MasterCard and Disney.

In 2011 the Bank plans to supplement its existing credit card line with co-brand cards issued jointly with S7 Airline, making it possible to significantly increase the competitiveness and attractiveness of UniCredit Bank cards in the eyes of clients.

Distance Banking Services

In 2010 the Bank significantly upgraded its line of DBS channels for private clients, making it maximally responsive to clients' needs and desires.

As of end-2010 private clients were offered the following services: Internet Bank Enter.UniCredit, Internet Bank for mobile services PDA.UniCredit, SMS service SMS.UniCredit, telephone service Phone.UniCredit and mobile JAVA-supplement Mobile. UniCredit. In 2010 the Bank also issued special supplements for Apple iPhone®, iPod Touch® and iPad®.

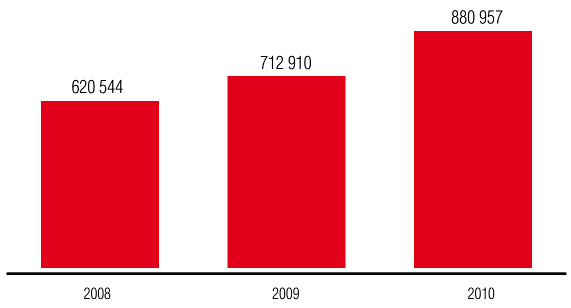
In 2010 the functionality of Internet Bank Enter.UniCredit was significantly improved and expanded; today the system is used by almost 30% of the Bank's private clients. In 2010 Enter.UniCredit began offering transfers from debit cards to other client cards and accounts with the Bank. Additionally, for client convenience, the list of companies whose services clients can pay for using Enter. UniCredit was expanded to over 120 organizations.

Deposits and Investments

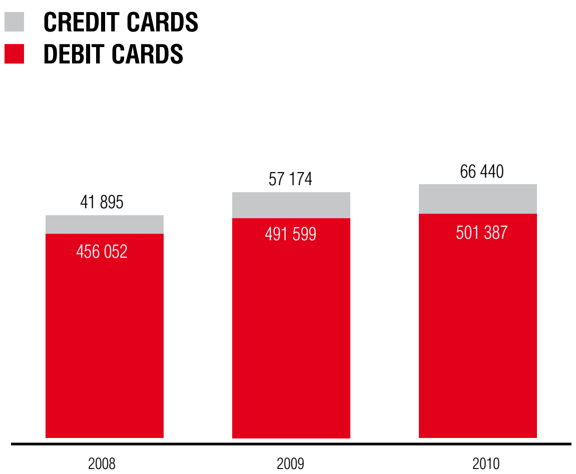
In 2010 UniCredit Bank completely revamped its deposit line for retail customers. Options for existing deposits were expanded and a new deposit product, "Multicurrency," was added. The main focus in 2010 was the deposit product "Investment," a comprehensive product used to receive a higher interest rate on deposits by acquiring shares in mutual funds managed by Pioneer Investment. In 2010, given the specifics of the market situation, UniCredit Bank focused successfully on maintaining the size of its deposit portfolio.

In 2010 the Bank devoted considerable effort to increasing sales in its retail network of mutual funds managed by Pioneer Investment Management.

NUMBER OF INDIVIDUAL CLIENTS



BANK CARDS ISSUE



Last year for client convenience the Bank continued to expand its funds sales network, with applications now accepted at 79 offices.

UniCredit Prime Club

On 1 February 2010, in accordance with its retail development strategy, the Bank launched its UniCredit Prime Club service model for the affluent client segment to improve the segment's profitability. UniCredit Prime Club is for honored clients, who are offered enhanced levels of service, special banking products, personal manager services, and a separate service area at the Bank's offices.

During the year 43 offices in six Russian cities (Moscow, St. Petersburg, Yekaterinburg, Perm, Rostov-on-Don and Chelyabinsk), along with 60 personal managers, began offering services to affluent clients. As of end-2010 UniCredit Prime Club had about 25 000 clients (2.5% of the client base), accounting for 50% of the Bank's retail liabilities. The service model also includes the Dolce Vita loyalty program in partnership with 24 companies (restaurants, wine and tobacco stores, clothing and footwear boutiques, jewelry and watch companies, tourist agencies and others), as well as 21 sales promotions and 10 special events (wine tastings, cooking lessons, seminars, etc.).

In 2011 the Bank intends to increase its share of the affluent client segment in Russia, where there is room for further increase in the growth of raised funds, as this segment currently generates 70% of the deposit base. To attract new clients, the Bank plans to continue improving service quality, while launching new products and offers to clients.

Retail Network

Improving network efficiency and client service quality remained a priority task for UniCredit Bank in 2010. For client convenience the Bank continued its efforts to optimize business processes, and measures were taken to significantly reduce the time for operations, such as organizing early loan repayment, preparing client statements, and filling out client declarations. In 2011 the Bank plans to further automate operations and accelerate its business processes. In 2010 the Bank devoted more attention to informing clients about products and services, including an information channel for payroll clients to let them know about special offers and changes to the product line.

To increase the efficiency of its network, in 2010 a great deal of attention was paid to developing motivation systems for all network staff to make the Bank's goals more understandable and achievable for each employee. Client service quality was a key goal for each employee. To improve service quality, the Bank last year launched the "Decade of Quality" project aimed at creating a unified service culture. In order to increase client loyalty and create more comfortable conditions for clients with children, in the fall of 2010 the Bank opened Children's Corners in district offices in Moscow – immediately a big hit with our clients' children. Last year also featured the launch of fundamentally new approaches to staff training and increasing sales efficiency. One key project was "Master of Effective Sales," whose main goal was improving the sales parameters of each employee using mentor-coaches, monitoring the sales process and results on a daily basis, and counseling. The project made it possible to recognize and unlock the enormous potential of sales staff and had a significant impact on the growth of the Bank's retail sales products.

Information Center

In 2010 UniCredit Bank devoted considerable effort to optimizing client telephone service processes, including the decision to move the Information Center from Moscow to Nizhny Novgorod as part of the ongoing effort to improve efficiency. The Center currently has about

Report on the Bank's Activities (Continued)

Retail Business (Continued)

200 employees, including 60 in Nizhny Novgorod. To ensure that moving part of the Center to a new location did not hurt client service quality, the Bank paid particular attention to training new employees and providing the Center with modern telecommunications equipment and a system for operator center management, ensuring extensive monitoring and service quality control. Last year also brought success in the area of telephone sales, where targets were exceeded by 50%.

As of end-2010 the Bank's client base exceeded 860 000, for growth of more than 165 000 (24%). Expansion of payroll projects made a significant contribution to increasing the client base: last year the Bank added over 600 companies to its payroll services list, increasing the payroll company base by 21%. In 2010 the number of clients receiving their pay via UniCredit Bank rose by 53 519, 41.7% more than in 2009 (37 747).

In 2011 the Bank will continue focusing on its priority areas of development, while strengthening and building on the achievements of 2010. The Bank will continue its effort to improve service quality, increase network efficiency, and develop the retail services line to make it maximally complete and competitive.

Corporate Business

In 2010 corporate business remained central for UniCredit Bank, with the Bank maintaining its position as the largest Russian bank with foreign ownership in the corporate banking segment. As of end-2010 UniCredit Bank was the seventh-largest lender to corporate clients, increasing its market share to 2.4%, and was eighth in corporate deposits, with a market share of 2.3%.

As a result of its successful work on the corporate lending market, the Bank's corporate loan profile rose last year by 12.6% to RUR 322 billion. Development of the Bank's portfolio featured a higher share of ruble loans and loans by the Bank's regional offices: the share of ruble loans in the corporate portfolio rose from 39% to 48%, while the volume of loans issued in Russia's regions was 28.7% (RUR 92 billion).

In 2010 the Bank continued expanding its cooperation with global clients of UniCredit working in Russia: in September an operational office was opened in Kaluga, which increased service speed and quality for corporate clients in the region.

It is important to note that, thanks to the client base and proven risk-management systems, the quality of the Bank's corporate loan portfolio remains above the industry average, with overdue loans accounting for 3% of the portfolio. The high diversification of the portfolio was maintained in 2010.

In 2010 the Bank's corporate business earned revenues of RUR 17.8 billion. Thanks to the development of RWA-light products, the share of fee and non-credit income continued to rise, reaching 25% of total corporate revenue. The contribution of operations with regional corporate clients also increased, reaching 30% of total revenue.

Thanks to its reputation as a safe haven for corporate business, the Bank retained significant volumes of corporate client funds raised during the crisis. Last year the current account balances of corporate clients rose by 20.5% yoy to RUR 264 .79 billion.

High quality of the customer service is one of the main priorities of UniCredit Bank. In 2010, the frequency of customer satisfaction researches increased, and apart from the traditional annual research all the banks of UniCredit in Central and Eastern Europe conducted an additional survey in the mid-year. Its results again confirmed the positive perception of the Bank's image among the customers and high estimate of the Bank's employees amongst its corporate clients. To meet the high standards of the work in the corporate banking market, in 2011, the Bank will carry out customer satisfaction research 3 times a year.

“ In 2010 corporate business remained central for UniCredit Bank, with the Bank maintaining its position as the largest Russian bank with foreign ownership in the corporate banking segment.

Kirill Zhukov-Emelyanov
Member of the Board

Report on the Bank's Activities (Continued)

Corporate Business (Continued)

Factoring

In 2010 UniCredit Bank confirmed its strong position on the rapidly changing factoring services market.

The year's main tendency was the recovery of demand for factoring services and the growth of factoring financing volumes. In 2010 Russian factoring went through post-crisis recovery, and in 2H10 entered a phase of active growth, with the traditional peak in advance of the winter holidays.

The Bank's turnover in 2010 was virtually as high as in the pre-crisis period, reaching RUB 19 780.483 million compared to RUB 20 759.018 million in 2008, placing the Bank among Russia's Top 10 in factoring by turnover and other parameters, as ranked by the Association of Factoring Companies.

In 2010 the Bank was third in Russia by volume of international factoring operations, but membership in a global financial group and rich experience in the segment should allow the Bank to take the segment lead in 2011.

In 2010, in accordance with business development plans, the Bank completed the implementation and testing of an upgraded version of the specialized IT system Forpost Factoring 2. The launch of the system makes it possible, given factoring's nature as a high-tech business, to increase several times the efficiency and competitiveness of the Bank's products in the segment.

In 2011 the Bank plans to significantly increase the size of its factoring business. The overall positive forecast is based on macroeconomic tendencies, the powerful material and technical foundation laid by the Bank as a basis for factoring development, and the accumulated experience of running the business, along with high professionalism of the Factoring Division's staff.

Trade Finance

Another tendency in 2010 was steady growth of the Bank's trade finance business. Signs of partial recovery appeared in 2009, continuing in 2010 while accelerating significantly. The number of transactions rose by 64% (vs. 27% in 2009) and their total volume by 78 % (after falling significantly in 2009).

Of the trade finance instruments which developed most rapidly, we call attention to guarantees issued (up 67% by quantity, and 95% by volume), import LCs (92% and 67% respectively) and internal LCs opened (500% and 180% respectively). The share of guarantees in total revenue grew steadily, exceeding 70% in 2010.

Also notable was the growth of the regional component: in 2009 regional clients accounted for 55% of total quantity and 28% of generated fees; in 2010 the numbers were 67% and 31% respectively.

In 2010 the Bank, together with UniCredit Group bank-members in Central and Eastern Europe, received the "Best Trade Finance Bank 2011 for CEE" award from Global Finance Magazine (the award is bestowed the following year).

As of end-2010 the Bank was offering clearing services to 105 non-resident banks in 39 countries and over 170 Russian banks, maintaining a total of more than 500 correspondent accounts in various currencies.

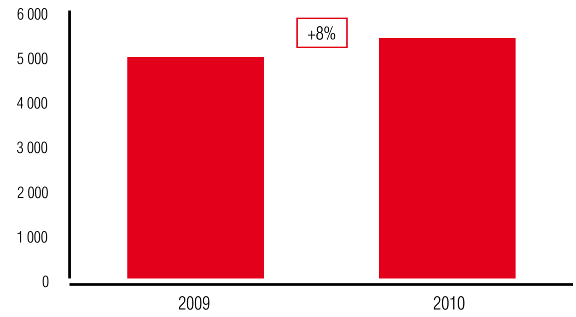
Regarding provision of services related to long-term tied loans (loan-term loans to buyers covered by export credit agencies using the financial resources of UniCredit Group in Germany, Italy, Austria, etc.), in 2010 the Bank concluded a number of transactions insured by various large export credit agencies (Hermes, SACE, OeKB, etc.) for a total of EUR 300 million, underscoring the steady growth of interest in this product among clients. Notably, since 2005 when this product was confirmed internally by the Bank, strong, long-term relations have been established with clients, who in many instances use this type of finance regularly.

In 2010 the Bank continued implementing new technologies for managing corporate liquidity (the Bank joined the RTGS express payments system). Thanks to new technologies at the Group level, large international and Russian corporations chose UniCredit Bank as their main banking operations partner. EuropeanGate, a general platform for Group-wide payments, allows international clients to make all payments in Russia or other countries where they have an account with UniCredit Group using a single format.

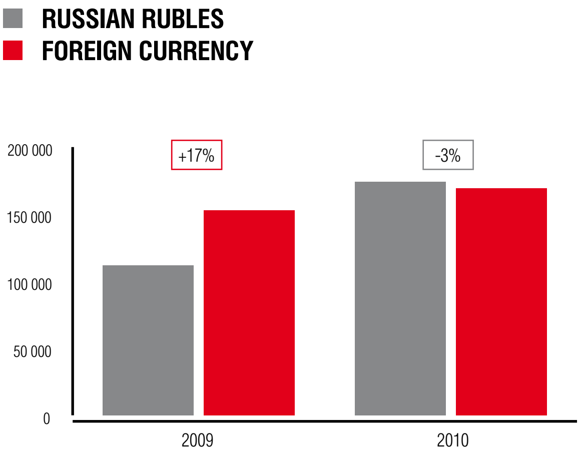
It is important to mention, that since December 2009 UniCredit is a member of the global banking network IBOS Association. This enabled UniCredit Bank to build relationships with even more international clients, as well as to support Russian clients with opening accounts in countries where UniCredit was not in a position to do so in the past.

Global Finance selected UniCredit Bank as the "Best Treasury and Cash Management Provider in CEE in 2011" (corporate liquidity management services).

NUMBER OF CORPORATE CLIENTS



CORPORATE LOAN PORTFOLIO STRUCTURE BY CURRENCY



Real Estate Finance

The real estate finance segment of the Bank's corporate business showed significant growth in the pre-crisis years, but was seriously hit by the global downturn during the global financial crisis, which had a strong impact on the Russian real estate market. The Bank's real estate lending policy was modified accordingly. The Bank maintained its crisis policy for real estate in 2010, with the main efforts aimed not at expanding the portfolio, but rather at monitoring and increasing the quality of existing transactions and successfully completing transactions initiated in the previous year. In 2010 the Bank's real estate portfolio contracted by 13% from USD 805 million at the start of the year to USD 702 million by end-2010; the portfolio includes loans in all real estate segments: office (62%), trade (19%), warehouse (15%) and residential (4%).

By end-2010, as the real estate market stabilized and recovered, the Bank began reviewing its real estate transactions using conservative parameters, mainly by refinancing completed projects and projects already leased. In 2011 the Bank plans to refinance completed commercial projects that meet high standards of quality and have strong potential, and also to finish financing projects close to completion.

Custody Services

In 2010 the Bank's Global Securities Services Department actively developed its product line and network of correspondent depositary accounts for client securities operations. Clients were offered new settlement programs and additional services, increasing service quality.

Jointly with other departments, Custody staff organized large-scale structured deals for clients of the Bank. The volume of assets serviced and the number of operations rose 20% yoy.

Our staff's high level of service, market savvy and responsible attitude were confirmed by the results of the annual ratings of international agencies Global Custodian and Global Investor, who gave the Bank's Custody top ratings for high-quality service provided to Russian and international clients. Among service providers for international clients on the Russian securities market, the Bank received the highest marks.

In 2010 UniCredit Bank representatives also took part in efforts to improve legislation and create an International Financial Center in Moscow for various groups and self-regulating organizations of securities market participants.

Financial Markets

In 2010, as the economy recovered, financial markets stabilized, leading to lower rates on the interbank market. Throughout the year, a comfortable level of ruble liquidity was maintained on the market. Another notable trend was steady growth of the local bond market, and in 4Q10 inflationary pressure rose significantly, driven by sharp food price growth.

Last year featured low volatility of foreign currency interest rates, so the Bank's revenue from foreign currency trading was largely derived from lower ruble interest rates, while the main source of earnings was bond trading.

According to a 2010 survey conducted by the Moscow International Currency Association (MICA), UniCredit Bank maintained its position as a Top Three operator on the futures and options market and a Top Ten operator on the currency and money markets. Additionally, in the national competition "Dealer of the Year 2010" held by the MICA,

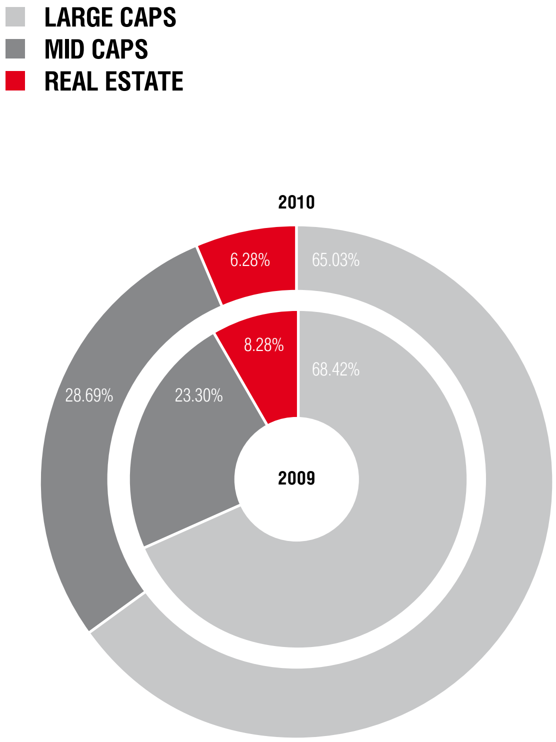
Report on the Bank's Activities (Continued)

Corporate Business (Continued)

CORPORATE PORTFOLIO STRUCTURE

Agriculture and Food Processing	14.65%
Metals and Mining	13.09%
Wholesale and Retail Trade	12.57%
Gas, oil and petrochemical	10.34%
Chemicals and Fertilizers	7.74%
Other	6.76%
Consumer Goods ans Services	6.71%
Telecommunication	6.00%
Real estate and construction	5.87%
Financial Institutions	4.60%
Transport and Infractructure	4.27%
Machinery and Equipment	3.83%
Pulp and Paper, Timber	2.05%
Energy	1.53%

CORPORATE LOAN PORTFOLIO STRUCTURE BY SEGMENTS, %



the Bank was the best bank on the forward market in 2010, while Iskander Akbergenov, head of the Forex and Short-Term Interest Rates Section of UniCredit Bank's Department of Fixed Income, Currency and Commodities, was a Top Three 2010 forward market dealer. All of this confirms the Bank's stable leadership on the Russian financial market.

In 2010 economic stabilization boosted development of the Bank's financial market instrument sales, although the volume of operations in the segment did not reach pre-crisis levels. In 2010 the Bank's clients showed considerable interest in hedging currency risks and interest rates. Finally, in 2010 the Bank completed several important and large long term derivative transactions concluded under the new established master agreement with the Russian International Swaps and Derivatives Association.

Private Banking Services

In 2010 the Bank continued developing its Private Banking services business, as its products and services in this segment, thanks to the Bank's membership in the UniCredit Group, remain highly profitable compared to those of other Private Banking providers on the Russian market.

The Bank's strong international experience in Private Banking, extensive knowledge of the Russian market, and UniCredit's capabilities allow UniCredit Private Banking to offer individualized proposals, including the most appropriate banking and investment products for each client.

Specially for its Private Banking clients, in 2010 the Bank organized an Investment Committee, including leading financial markets experts. Thanks to the Committee, the Bank was able to approach the formation of each Private Banking client's individual portfolio more thoroughly and provide clients with comprehensive financial market analysis. Thanks to the smoothly coordinated efforts of the Committee and our Private Banking staff, in 2010 the volume of Private Banking client funds under the Bank's management increased four-fold. Considerable attention was also devoted to developing UniCredit Private Banking in Russia's regions, and as a result of the Bank's active efforts in this area, the number of regional Private Banking clients increased significantly.

Finally, in 2010 the Bank continued its efforts to improve client service quality, a key element of our work in the segment. Last year UniCredit Private Banking in Central and Eastern Europe made a centralized study of the level of client satisfaction with its Private Banking services; 11 countries took part, including Russia, and the satisfaction index in Russia was 90, two points higher than the CEE average of 88.

In the study, particular attention was paid to evaluating key factors in the area of Private Banking services, such as satisfaction with the professional qualities of managers for work with clients and the level of consultation provided; UniCredit Bank received 4.7 points on a 5-point scale. Along with the high marks received for all key aspects of the study, strong potential for developing the Bank's competitive advantages and improving client loyalty were revealed. In 2011 even more attention will be devoted to initiatives and events aimed at raising the level of client service, as well as developing all areas of Private Banking services, making it possible not only to maintain and improve relations with clients but also to significantly expand the client base.

UniCredit Leasing

Since July 2009 UniCredit Leasing Russia's owners have been UniCredit Leasing S.p.A., Italy (60%) and UniCredit Bank, Russia (40%).

UniCredit Leasing is a reliable supplier of leasing services for Bank clients, with the Bank as the main channel for leasing product sales, in accordance with a UniCredit Group decision.

Last year brought the first signs of stabilization and recovery to the Russian and global leasing markets. The end of economic stagnation led to the development of a new strategy for the UniCredit leasing holding, upgrading the products list and launching a range of projects in all 17 CEE countries. The main tendency in 2010 for UniCredit Leasing in Russia was a change in priorities from work with problem debt to signing new contracts and attracting new business. During the year, the company formed a strong new management team, optimized business processes, and completed a successful commercial relaunch.

Since 2010 UniCredit Leasing's commercial priority has been providing financial leasing services to UniCredit Bank clients. Leasing is now an inalienable element of the Bank's business development strategy on the Russian financial market.

Report on the Bank's Activities (Continued)

Risk Management

"During the year, active efforts at improving loan volume and expanding the range of products and services to various client segments combined with work on problem assets and clients in financial difficulty. The Bank continued improving its risk management system, one of the best among Russian banks.

Dmitry Mokhnachev
Member of the Board

In 2010 the Bank enjoyed another successful year in all the main areas of risk management. During the year, active efforts at improving loan volume and expanding the range of products and services to various client segments combined with work on problem assets and clients in financial difficulty. The Bank continued improving its risk management system, one of the best among Russian banks. This resulted in effective detection of potentially problem assets, timely credit decisions while maintaining the loan portfolio's high quality and the growth of revenue.

Thanks to its continuous efforts at risk control, in 2010 a main parameter – the share of overdue loans in the loan portfolio – fell from 5.7% at the start of the year to 4%, under the CBR's accounting methodology, which was significantly better than the sector's average result (5.65% at the beginning of 2011).

Corporate Credit Risks

UniCredit Bank's work is guided by UniCredit Group's revised credit risk assessment policy, which is based on modern risk management technology and the experience accumulated by the Group in the countries where its banks work.

In accordance with Group-wide credit policy, the Bank has developed lending principles and approaches to work in the main sectors of the economy, taking into account Russia's pecularities. Last year, as the Russian economy recovered following the crisis, changes were made to risk management functions and risk assessment approaches. In 2010, the transfer of functions related to problem debt to the Department of Loan Restructuring, created in 2009, was completed, and loan monitoring using Group methodology adapted to Russian conditions (monitoring procedure control, processing and analysis of data by the separate Monitoring Unit, part of the Risk Team) was strengthened. Regarding risk assessment (following a natural tightening of positions during the worst phase of the crisis in 2008–2009), risk management gradually and carefully relaxed its requirements in 2010, thereby promoting the recovery of UniCredit Bank's loan portfolio, while maintaining a high level of loan quality. The main features of current risk management practice were maintained: loan portfolio diversification by business sector (large companies, SMEs) and industry, as were systems for evaluating credit risks using internal ratings, based on comprehensive analysis of financial and qualitative parameters. Created on the basis of Group experience, the borrower credit risk assessment system allows effective differentiation of borrowers by credit risk level, providing a base for evaluating the likelihood of borrower default in accordance with the principles of Basel II. Internal credit ratings are used in the loan approval process, risk management, allocation of capital and price formation. The model also makes it possible to evaluate the specific nature of a borrower's business, including business-group support, regulatory control, sector positioning, etc. To ensure the rating model's effectiveness, the Bank uses IT instrumentation, making it possible to assign ratings to borrowers and calculate the financial coefficients necessary for deeper credit risk analysis.

In its corporate risk management UniCredit Bank uses a sector specialization model, creating within this framework various divisions, each of which is responsible for analyzing risks in particular sectors. Having risk managers within a sector specialization model made it possible during the crisis to quickly and accurately analyze changes in specific sectors, modify strategies, and make reasonable decisions. In 2010, the model made it possible to quickly identify the segments of the economy recovering from the crisis most rapidly.

Along with the sector principle, efficient loan portfolio management was supported by the development of a system of regional risk managers with the ability to gather and analyze data on the situation in the main regions where the Bank works, allowing efficient loan portfolio management from the regional as well as the sectoral point of view.

Non-performing Loan Warnings

To improve the efficiency of loan risk management and reduce potential loan loss risk, the Monitoring Unit, as part of the Group's "Watch List and Corporate Client Monitoring" project continued in 2010 to develop the systems for identifying and evaluating negative signals, situation analysis and control, and creating individual strategies for work with clients. In 3Q10, at the Monitoring Unit's initiative, the Bank launched a project aimed at creating a new IT platform for additional automation of the Bank's procedures for working with potentially problem corporate clients. The project, to be completed in 2H11, will include a comprehensive data base, making it possible to standardize the business process, reduce operational risks related to data receipt and processing, and increase decision-making speed and, therefore, risk management efficiency and effectiveness.

We note that in 2H10 efforts to create a system to identify potential problem loan borrowers in the retail segment were launched within the framework of the "Watch List and Retail Client Monitoring" project. In 2011 the Project Team will test and define negative retail business signals and will analyze and develop a list of steps to minimize loan risks and potential losses.

Work with Non-performing Loans

In 2010 UniCredit Bank completed the main lines of a system for working with problem corporate loans.

To increase the effectiveness of problem loan management, the Bank's main efforts were concentrated on seeking optimal individual strategies for work with problem corporate borrowers, including restructuring, amicable agreements, compensations and assignments, and sale of debt. Additionally, to this end, a range of measures was realized to increase decision-making efficiency. Internal regulations were significantly revised and amended, and a feed-back system was adjusted, enabling the Bank to improve the quality of analysis and decision-making for new loan transactions; mechanisms for working with the Group on key issues in this area were adapted and described, the operation of the Special Credit Committee was optimized, and a special company for managing problem assets was created. Particular attention was devoted to improving the professionalism of staff involved in debt restructuring and work with problem loans; steps taken include developing methodological materials, systematizing trainings on critical issues arising in the course of work, a system for setting goals and assessing the results of the team's efforts was implemented and linked to key effectiveness indicators and the strategy for working with problem loans.

As a result of these efforts, the main problem loans were brought under control, including the most difficult situations provoked by crisis events in 2008-2009. The Bank developed and implemented a system for analyzing and preparing strategic actions in relation to problem borrowers to improve the effectiveness of restructuring and collection. Provision coverage ratio for problem corporate loan increased. Simultaneously risk cost on problem corporate loans sufficiently decreased versus forecasted at the end of 2009. The Bank also achieved high results in litigation with borrowers, as a result according to legal site www.pravo.ru, in 2010 UniCredit Bank was recognized as the most effective litigator (achieving the maximum efficiency coefficient for litigation of 99.67%). At the same time, on key indicators and successful implementation of modern industry practices UniCredit Bank's Restructuring and Workout Department was acknowledged as one of the most successful in the Group.

SME Credit Risks

In 2010 the Bank's risk management group added a division responsible for credit risks in the SME segment. In accordance with Group-wide retail credit policy, the Bank developed standard principles for lending and approaches to working in the SME segment, given the specifics of the Russian market.

In 2010 the Bank implemented a multilevel system for making decisions and assessing credit risks for SMEs, including in Russia's regions, with subsequent risk management control; credit products and assessment of creditworthiness were unified, which had a positive impact on the annual cost of risk.

In 2011 the Bank intends to continue developing its processes for managing SME credit risks in accordance with international risk management standards and to implement an automated process for reviewing loan applications, which should enable the Bank to improve process effectiveness and SME portfolio quality, while reducing operational risks.

Retail Credit Risks

Post-crisis 2010 was challenging for the Retail Risk Management team.

Crisis year 2009 impacted on the retail loan portfolio and brought valuable lessons on managing the retail loan portfolio in crisis conditions. Different measures were developed aimed at preventing possible crisis influences on the portfolio in the future. Among these measures, it is important to mention special instruments for reducing risks on loans in foreign currency and conducting preliminary stress testing of the retail portfolio to evaluate various scenarios for changes in exchange rates. Also the standardized programs (retail loan restructuring) were developed for clients facing temporary solvency difficulties.

In 2010 the Bank completed a number of important projects involving retail risk management and portfolio quality; among the key projects were:

- Collection Improvement Project. The result of the project is improvement the main indicators in the collection process;
- Development and implementation of the new provision methodology,which allowed to improve approach for cost of risk estimation;
- Development of the write-off mechanism for loans which are confirmed by Bailiffs Service as hopeless for recovery (the first write-off was successfully completed).

In addition to completed projects, in 2010 were initiated a lot of new projects aimed at improving retail risk management effectiveness and reducing overall risks. The main of them are:

- The project for automation of creditworthiness assessment, rating borrowers using Basel models and automate decision making;
- A fraud prevention project, which includes development of special rules for avoiding and investigating fraud, monitoring scheme, reporting and trainings.The project has already demonstrated a significant reduction of fraud level in Retail Loan portfolio. This level is maintained and monitored on a constant basis;
- The National Hunter project. The development of automated fraud prevention system (participation in the project together with several major Russian banks);
- Concluding contracts with 3 new Bureaus of Credit History in addition to the existing contract with National Credit History Bureau, and starting of the project for automation credit history quality checks from all credit bureaus; According to expert estimation the Bank will have access to about 95% of all credit histories in Russia.

In 2011 the Retail Risk Management team plans to maintain the rapid pace of retail risk management development using advanced technologies. The main areas of development will include a diversified approach to borrowers and products, using Basel models for rating borrowers, as well as automated decision making and risk management.

Market Risks

After an active 2009, when it was possible to achieve strong trading results thanks to time arbitrage, the post-crisis narrowing of market spreads in 2010 presented an opportunity to demonstrate competitive advantage thanks to developed infrastructure. Amid the excess liquidity seen on the local market, driven by the recovery of pre-crisis appetites, it is infrastructure, on which business decisions are based, that provides the key to intensive profitability growth. The speed of information transfer, the reliability and accuracy of assumed risk assessment, and information flow transparency together serve as a firm foundation for building risk management for the Bank's Trade and Banking books.

Implementing Group liquidity management standards adopting for local market specifics and tight control of mandatory CBR norms led to effective balancing of the time structure of the Bank's assets and liabilities. Despite the more intense competition for clients in 2010, these measures made the Bank attractive to clients, reducing the dependence on the current state of the market.

One significant step towards improving business process transparency was implementation of a daily information escalation procedure regarding the state of market limits. The Bank strengthened the information support of the Assets and Liabilities Management Committee to accurately and comprehensively illustrate market risk and liquidity profiles.

In 2010 the Bank continued modernizing its internal methods and procedures in accordance with international standards and Group methodology, where processes making it possible to evaluate and control market risk and risk liquidity are an inalienable part of current business processes.

The Bank's ability to maintain stability and reliability is to no small extent ensured by the fact that building an effective system for managing market risk and risk liquidity has been a top priority for Bank throughout its history.

Operational Risks

In accordance with Group requirements and recommendations of the Basel Committee on Banking Supervision, in 2009–2010 UniCredit Bank initiated a decentralized process of collecting data on operating losses. Bank subdivision staff were designated to be responsible for collecting and presenting information on operational risk events, and a number of training seminars were conducted. Currently, particular attention is devoted to events of an operational nature related to credit risk and widely encountered as a result of the recent crisis.

In 2010 a new procedure for self-assessment of the operational risk management system was introduced. The procedure is a set of measures for regular, independent (from internal auditing control) assessment of operational risk management system quality. One of the main goals of the procedure is self-assessment: constant control over the operational risk management system's compliance with Group requirements, Russian law, and the Bank's own requirements.

In 2010, in connection with UniCredit Bank's internal requirements and a number of Group initiatives, steps were proposed to improve the process of selling financial derivatives, and policies in the area of reputation risk management were adopted and put into practice.

In 2011 the Bank will continue developing and improving its system-based approach to operational risk management. Another task for 2011 is organizing training seminars on operational risk management and taking further steps on the collection and analysis of events in related areas: operational with credit risk and operational with market risk.

Basel II

UniCredit Bank's risk management system is regulated by Russian and European law. The Bank was one of the first in Russia to begin implementing international standards for managing risks and capital established by the Basel Committee on Banking Supervision (Basel II requirements). To carry out this task the Bank mobilized all divisions participating in the lending and related processes (client relationship, credit, risk divisions, etc.), while management and control of Basel II implementation was handled by the Credit Risk Management and Risk Integration Department.

Within the framework of the Basel II project the Bank is improving its internal risk assessment procedures and developing and implementing rating systems providing more effective management of risks and capital.

Since 1 January 2008 the Bank is compliant with Basel II standardized approach requirements, presents relevant reports to regulators in Italy and Austria, and is implementing approaches to risk assessment using the Internal Rating Based (IRB) approach. The Bank also participates as a pilot bank in a joint project of the CBR and the European Central Bank: "Banking Regulation and Supervision (Basel II)," aimed at implementing Basel II in Russia, including IRB approach. As part of its efforts to implement IRB, the Bank closely cooperates with the CBR and representatives of UniCredit Group responsible for implementing Basel II in Eastern Europe and interactions with the Bank of Italy. To ensure timely compliance with IRB requirements, a specific plan has been developed for joint action by the Bank and Russian and Italian regulators to assess UniCredit Bank's compliance with IRB. The approval process for the plan is under way.

While preparing for authorization to use IRB, in 2010 the Bank performed the validation of rating system for mid-corporate clients, including analysis of the rating model and related processes, information technologies and data quality. The Bank also upgraded the systems used to analyze risks and calculate capital requirements, in accordance with Basel II requirements, and developed an automated in-house instrument for simulation, stress testing and calculation of capital requirements. To increase risk quality control the Bank introduced additional types of internal reporting, making it possible to respond in a timely manner to changes impacting risk assessment.

Organizational Structure

In 2010 UniCredit Bank implemented a new management model developed by UniCredit Group. The new organizational structure is intended to clearly divide duties and authority, avoid duplication of functions, centralize and optimize auxiliary activities, and focus each specialized subdivision on carrying out its specific tasks, resulting in the optimal distribution of resources and the best professionals in all areas of banking.

To this end, the main changes were made in the Bank's teams for the Retail Business, the Corporate, Investment and Private Banking business, Operational Activity, and Financial.

Information Technologies

For UniCredit Bank 2010 was a landmark year for information system development. Thanks to the joint efforts of all the Bank's subdivisions, work was completed on the transfer of retail operations to the new retail core banking system, ensuring further expansion of the Bank's retail business. A great deal of work was done to develop distance service channels for the Bank's clients. Internet Bank's functionality and reliability were greatly expanded, systems for servicing clients via smartphones and portable computers were implemented, and a channel for receiving retail client payments via Russian Post was opened. Additionally, optimization of daily closing processes enabled the Bank to offer clients a uniformly high level of service regardless of time differences among the regions where UniCredit Bank works.

Systems such as intrabank and mandatory reports for the CBR were upgraded. Measures were taken to reduce technological risks related to reporting, improve the Bank's accounting procedures, and provide for the creation of requisite new reporting forms.

In 2011 the Bank's IT efforts will be aimed at creating new products, improving client service quality, and upgrading the Bank's management and mandatory reporting systems. Plans include launching efforts to implement unified data storage and develop a Customer Relationship Management system for the Bank's retail and corporate business. The current IT landscape will be modernized to increase its flexibility and adaptability to new business requirements and optimize total running costs.

Another important task is constant improvement of computer infrastructure reliability, refining the monitoring processes, and eliminating information system problems.

Card Business

In 2010 the Bank continued developing its ATM network. By end-2010 the Bank had a total of 807 ATMs, including 190 with cash deposit functions. Clients can use the ATMs to make transfers via

Report on the Bank's Activities (Continued)

their card and current accounts and pay for utilities and other services. As of end-2010, ATMs offered 45 different payment services, and the number of providers whose services could be paid for using the Enter.UniCredit reached 122.

UniCredit Bank continues to devote a great deal of attention to security issues and efforts to reduce card-use risks. ATMs were supplied with software that blocks unsanctioned programs and codes (viruses, Trojan programs, trespasser attacks). Additionally, in 2010 the Bank went through all the certification stages for PCI DSS data security protection for cardholders, with receipt of PCI DSS certification expected by end-2011.

In 3Q10 the Bank launched a pilot project establishing payment terminals with ATMs (no cash withdrawal function). In 2011 the Bank plans to expand these capabilities, implementing payment for services and cash transfers. This will make it possible to reduce the work load at the Bank's offices and enable clients who for whatever reasons do not use Internet Bank to carry out a significant number of card and account operations independently.

As of end-2010 UniCredit Bank had issued over 600 000 cards, including over 150 000 new debit and credit cards issued in 2010. To improve card security in 2010 the Bank completed the transition to Visa MasterCard chipcard systems, and in 2011 the Bank plans to implement Visa 3D Secure and MasterCard Secure Code technology to protect Internet payments using the Bank's cards.

Operational Activity

The Bank's operational activity in 2010 featured an accelerated pace of development related to the post-crisis recovery of the banking business, with the average monthly volume of operations rising by 31% yoy.

The higher volume of operations was accompanied by active efforts of the Banking Operations Department aimed at optimizing technology to reduce the time, cost and resource intensivity of operations. Operational functions such as SME loan administration and collecting overdue debt were centralized, making it possible to decrease their use of resources. Most operational subdivisions were switched to non-paper technologies

In 2011 the Banking Operations Department plans to continue reducing its operational costs, in part by transferring some of its functions to other regions. The gradual transition to electronic archiving and storage of document originals is set to play a major role in 2011.

Real Estate

The Bank's main real estate management project in 2010 was completing the construction and furnishing of its administrative office building in Moscow at 9 Butikovsky Pereulok. In late 2010 subdivisions moved to the new building, allowing the Bank to optimize office rental costs, while organizing internal logistics and communications.

In 2010, under its regional development program, the Bank opened an operational office in Kaluga and optimized the number of offices in Moscow, St. Petersburg and the Rostov Region. The Bank's Irkutsk Representative office also moved to new building.

In order to make more effective use of the office space it owns, in 2010 the Bank moved its Telephone Service Division to its Nizhny Novgorod office.

In 2010 the Bank took steps to reduce bank office rental costs, leading to a savings of over RUR 213 million.

Plans for 2011 include further optimization of office rental costs for Moscow office staff.

Use of Energy Resources in 2010

In 2010 the Bank used 19 088 222 kWh of electricity for a total of RUR 76 million, 11 735 Gcal of heat for RUR 14 million, and 69 000 m^3 of natural gas for RUR 300 000.

Last year the Bank used 391 560 liters of gasoline for RUR 7.2 million and 445 liters of diesel fuel for RUR 8 029.

Brand

In 2010 the Bank's advertizing campaigns were aimed at promoting products for private clients and SMEs, a total of seven campaigns, involving print media, outdoor ads and the Internet. Last year the Internet became a key channel for promoting goods and services, and the Bank plans to eventually increase its access to the Global Network.

In order to provide greater convenience to clients and other corporate website visitors, the Bank in 2010 upgraded its site at www.unicreditbank.ru. The main page is now more developed informationally and more ergonomic (size-conscious).

Site visitors can now select the business area that interests them, while image and product banners are displayed based on user choices. As a result, the Bank's received its second "Golden Site" award in the All-Russia Internet Competition, taking first place in the category "Foreign Company Trademark" and finishing in the top three for "Banks and Finance."

In 2010 UniCredit Group continued its association with UEFA Champions League, thanks to its official sponsorship of the league for three seasons (2009-2012). The Bank's association with the well-know European football tournament was used in two product ad campaigns: "Away with Commissions! Loans in Cash" and "UniCredit MasterCard® – Your Ticket to the World of Football!" In 2011 the Bank plans a major ad campaign for the UEFA Champions League Cup Tour, organized by UniCredit and starting in Russia. The Tour is a key element of UniCredit's three-year UEFA Champions League sponsorship program, a strategic move aimed at increasing UniCredit's recognizability as a European banking group with offices in 22 countries.

UniCredit Bank's efforts to maintain high brand recognizability have proved successful. According to Gallup Media, the brand's recognizability among the target audience (25–45 years of age, income average or higher) in Moscow was 33.4% as of end-2010 and 28% in St. Petersburg.

In 2010 the Bank reaffirmed its policy of information openness, working closely with the media.

"Last year the Internet became a key channel for promoting goods and services, and the Bank plans to eventually increase its access to the Global Network.

Mikhail Alekseev
Chairman of the Management Board

Report on the Bank's Activities (Continued)

Personnel Management

In post-crisis 2010 one of the Bank's main tasks and priorities in personnel management was creating optimal work conditions for staff. In carrying out its mission, the Bank placed strong emphasis on retaining key staff and developing talent, since staff are the Bank's main potential. The results of these efforts played a vital role during economic recovery and successful intensification of the Bank's work in 2010.

The Bank also paid a great deal of attention to attracting promising young staff and high-level professionals. One key element was improving the Bank's positioning and enhancing its brand recognizability as an employer and increasing awareness among professionals at various levels and young specialists of its attractiveness as employer. To this end, UniCredit Bank constantly expands the Employer Branding program for promotion and development, while upgrading its own programs and policies and reviewing its approaches to strengthening the Bank's brand as an employer.

In order to promote the UniCredit Bank brand among potential job seekers and competing employers, in 2010 the Bank participated actively in targeted personnel events, such as career exhibits, vacancy fairs and presentations at major institutions of higher education (financial), offered thematic publications and advertising information in open sources, the media and the Internet, took part in nationwide business-case competitions, etc. The Bank also participated actively in various competitions at the national and local level, prevailing in one of the most authoritative: "Job of the Year 2010" (banks category). The professional panel's decision was based on the results of nominee company assessment for criteria such as personnel selection methods, staff development programs, corporate culture, social package, etc.

In 2010, in the area of training and development, the Bank's main task, set in 2009 based on employee surveys, was enhancing employees' knowledge and skills, along with leadership development.

A key aspect of this effort is that most of the development programs were implemented through the efforts of Bank staff and management, making it possible to unlock the rich potential of the Bank's professional team. To this end, we created a Banking School in early 2010, giving staff the opportunity to study banking fundamentals based on the actual work and cooperation of specific subdivisions. The main role in conducting interactive seminars was given to managers, which helped develop their leadership skills as well. The project was given high marks by all participants and will be continued in 2011. Additionally, to strengthen the internal resource use culture, the Bank created an Internal Trainers Team, including subdivision managers conducting various professional trainings responsive to corporate team needs.

As part of UniCredit Group, in 2010 the Bank paid considerable attention to promoting the Group's international educational programs (Master BE, UniCredit MBA, CIB Graduate Program) aimed at preparing high-level professionals for the international banking and investment business.

Another important personnel advancement area for the Bank in 2010 was leadership development programs, with particular attention paid to developing leaders at the local and Group level. Great emphasis was placed on implementing special programs and events for talented future UniCredit Bank leaders, with promotion of these programs one of the Bank's priority strategic tasks. As a result, 2010 was a banner year for staff participation in training and development programs offered by UniCredit Group (professional programs, such as MCIB, Risk Academy, the EDP leadership development program, TMR and UniQuest).

In order to build effective systems of compensation and bonuses UniCredit Bank is continuing to expand its active implementation of Group policies initiated in 2009. In 2010, staff cost management remained a priority goal. Successful efforts in this area along with business-process optimization allowed the Bank to provide service to the significantly enlarged client base without increasing staff size, whose level was virtually unchanged in 2010.

As part of the effort to standardize staff positions, the Bank implemented the Global Job Model, developed and offered by the Group, to classify professional positions. The goal of the project is to make the Bank's structure transparent at all levels and universal in all countries.

Further steps to be taken under this project include reframing and implementing personnel management policies based on the Global Job Model.

Social Responsibility

In 2010 UniCredit Bank continued developing various projects in the area of corporate and social responsibility, including the following key areas: developing corporate volunteer work, grant and stipend programs, and aid to children's therapy, health and educational institutions, as well as organizations providing aid to veterans and the disabled. The Bank was also involved in projects in culture, the arts and preserving Russia's historical legacy. The Bank provided a total of RUR 4.5 million, with Bank employees directly providing more than RUR 7 million.

Each year the Bank's charity projects are based mainly on direct participation by staff, who meet with charity project organizers for review and possible inclusion of various initiatives. UniCredit Bank staff's involvement in corporate and social events paved the way in 2010 for a successful a competition to select the best charitable idea among staff. Named "You Can Help," the project was developed jointly with the CAF charitable fund during July-November 2010. The Bank provided RUR 1 million for the project and the winners. The three winning projects were:

- Purchase of a Leica EG1160 Tissue Embedding Station for the Burdenko Neurosurgical Research Institute's Neuropathomorphology Laboratory, where children from Russia and the CIS diagnosed with brain tumors are treated.
- Master classes with Bank volunteers and excursions for children from orphanages and special schools (for children with learning disabilities), including: the Bezhetsky Special School for Orphans and Abandoned Children, Type VIII; the Polotyano-Zavodsky Special School, the Pereslavl-Zalessky Orphanage; and the Marusinsky Orphanage "Nadezhda", Special Type.
- Creation of a site uniting the web pages of orphanages in Chelyabinsk Region to promote adoption; organization of a computer class at an orphanage in Chelyabinsk.

Work on these projects began in 2010 and continues this year; the Bank will hold another "You Can Help" competition this year and plans to make it an annual event.

In 2010, in its tradition of social responsibility, the Bank organized several projects aimed at restoration and preservation of Russia's historical and cultural heritage. In 2010, the Bank allocated funds for construction of a shrine in the village of Sosnovka (Republic of Mordovia) and reconstruction of a church at the Optina Pustyn monastery (Kaluga).

Another key UniCredit Bank cause, over the past four years, is the Cherdyn project, aimed at restoring the cultural heritage of the Cherdyn Region, preparation of new staff, and attracting more tourists to Cherdyn, one of the most interesting historical sites in the region. Launched in 2007, the Cherdyn project receives about 10% of the Bank's annual expenditures on charity. UniCredit Bank works jointly on the project with client company Solikamskbumprom (paper and pulp) and the Perm Region government, financing and organizing training

Opening of the sports playground for children at Kolychevsky Special School

for students of the Solikamsk Pedagogical Institute's Department of Sociocultural Service and Tourism in Cherdyn. The department currently has 36 students, many of whom already have jobs in their area of specialization.

In 2010 UniCredit Bank allocated funds to help resolve healthcare problems. Material assistance went to recipients directly and to various healthcare and non-profit organizations. Assistance for medicine purchases was provided to Zachatevsky Monastery, Morozovsk City Children's Clinical Hospital, First Moscow Hospice, and funds were donated to other hospitals and clinics to purchase equipment and medicine; a number of material contributions were made to recipients directly. In support of local charitable initiatives, in early 2010 UniCredit Group contributed to the Vera hospice assistance fund.

In addition to targeted aid from contributions, financing repairs, and providing material assistance for orphanages in regions where the Bank has offices, in the summer of 2010, Bank employees helped as volunteers for the opening of outdoor sports facilities at special

Report on the Bank's Activities (Continued)

schools in Rostov-on-Don and Moscow. In Moscow the sports facility project at Kolychevsky Special School in Kolomensk Region near Moscow was organized jointly with "The Foundation for Children's Aid DetskieDomiky".

In 2010 UniCredit Bank also helped provide aid to victims of natural disasters. In 2010 the Bank collected funds for forest fire victim assistance, sending the proceeds to the Diveyevsky District of Nizhegorodsk Region to purchase fire-fighting equipment and to Voronezh Region to purchase items for fire victims.

Finally, on the eve of the winter holidays, UniCredit Bank staff for the second straight year helped prepare gifts for orphanage children in an event sponsored by "The Foundation for Children's Aid DetskieDomiky". A total of 75 children received gifts, and a significant amount of equipment, toys, and other items were donated to Kolychevsky Special School. In addition to these activities, throughout 2010 UniCredit Bank provided assistance to hospitals, the disabled (military and civilian) and war veteran committees.

Clearly, many of these programs would not have been possible without constant participation by the Bank's staff in the intracorporate charitable program "Personal Contribution from the Heart," launched in 2004. The program includes a data base, fully accessible by Bank staff, with information about all charitable projects approved by the Bank's management and available for contributions. Employees wishing to participate in the program choose one or several projects to which to transfer personal funds. The Bank doubles the amount contributed by staff.

In 2010, UniCredit Bank continued developing its program that provides grants to students at the best institutions of higher education in Russia's regions, thereby helping students expand their knowledge and practical experience and promoting greater interest among young people in the banking sector and regional economics. As part of the program, in February-April 2010 a competition was held for students at the Economics Department of Southern Federal University in Rostov-on-Don. The authors of the three best student papers were awarded grants.

In 2010 UniCredit Bank continued developing its sponsorship activities, traditionally supporting significant events in the areas of culture, sports and the arts. In February 2010 the Bank for the fifth straight time was a partner for the extreme winter sports festival BGV Fest, held at the Mettalurg-Magnitogorsk Ski Center (Chelyabinsk Region, Lake Bannoye).

In late 2010, with support from UniCredit Bank, an award ceremony was held for the new Italian-Russian literary prize "Rainbow" for young authors. Russian organizers include the Gorky Literary Institute and the Russian Authors Society, while the Italian organizers were the "Let's Get to Know Eurasia" association and the Italian Cultural Institute in Moscow. The new prize is aimed at strengthening Russian-Italian cultural ties and discovering new writers in both countries.

In October 2010 in Voronezh UniCredit Bank served as general sponsor for the 15th annual international festival "Jazz Province".

Finally, on the eve of Italian Cultural Year in Russia, UniCredit Bank served as general sponsor for the art exhibition "The Magical Lands of the Midday Sun: Italy through the eyes of Russian Painters in the 1st Half of the 19th Century" in Chelyabinsk from 29 October 2010 to 30 January 2011. The exhibition coincided with the 70th anniversary of the Chelyabinsk Art Museum as part of the "Golden Map of Russia" project.

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Management

Supervisory Board (as of January 1, 2011)

Erich Hampel **Chairman of the Supervisory Board**
Age 59. Mr. Hampel graduated from University of Economics and Business Administration in Vienna, Doctor of social sciences and economics. He has been working in banking for more than 35 years. Mr Hampel was Chairman of the Managing Board of Bank Austria Creditanstalt AG from 2004 to 2009. In 2005, he was appointed Head of CEE Division of UniCredit Group. From 20.02.2007 till 20.12.2007, he was Chairman of the Managing Board of CJSC IMB, since 20.12.2007 up to the present moment, he has been working as Chairman of the Supervisory Board of ZAO UniCredit Bank. Since 01.10.2009, he has been holding the post of Deputy Chairman of the Supervisory Board, UniCredit Bank Austria AG.

Carlo Marini **Member of Supervisory Board**
Age 42. Mr. Marini graduated from Bocconi University, Milan, and Rotterdam School of Management, Erasmus Graduate School of Business Rotterdam (NL) with the Master's degree in Business Administration. In 1996, joined UniCredito Italiano S.p.A., Milan as the analyst of Planning & Control Department, then he held different managing positions in Corporate Department. From 20.02.2007 to 20.12.2007, he was Member of the Managing Board of CJSC IMB, since 20.12.2007 to the present moment, he has been working as Member of the Supervisory Board of ZAO UniCredit Bank. From 2005 to the present time, he has been working as Head of Corporate – CEE Division at UniCredit, Milan and UniCredit Bank Austria AG. From 2006, Mr. Marini has been holdind the post of Deputy Chairman of the Management Board UniCredit Romania, Member of the Supervisory Board of Zivnostenska Banka, Czech Republic. Since 2007, he has been working as Member of the Board of Directors of UniCredit Bank Hungary, UniCredit Bank Latvia, UniCredit Leasing Romania. On 1.10.2010 he was appointed to the position of Deputy General Manager, Head of International Markets Department of UniCredit Leasing S.p.A.

Federico Ghizzoni **Member of Supervisory Board**
Age 55. He holds a degree in law of the University of Law in Parma. In 1980, he joined UniCredit (at that time Credito Italiano) and has since worked for the company while serving, among other places, in the UK, Singapore, Turkey and Poland. He occupied different positions at Koç Financial Services between 2002 and 2007. In July 2007, he was appointed Head of Poland's Markets Division at UniCredit, Head of CEE Banking Operations and Board Member responsible for the CEE Banking Division at Bank Austria AG. In April 2009, he was appointed to the post of Member of the Management Committee of UniCredit Group. In August 2010, Federico Ghizzoni took the position of Deputy CEO of UniCredit. From 30.09.2010, he was appointed CEO of UniCredit. Since 29.12.2008 up to the present moment, he has been holding the post of Member of Supervisory Board, ZAO UniCredit Bank.

Roberto Nicastro **Member of Supervisory Board**
Age 46. He graduated from Bocconi University, Milan. In 1997 joined Credito Italiano, then occupied different posts within UniCredit Group. In July 2007 he was appointed Deputy CEO of the UniCredit group. Since 29.12.2008 up to the present moment, has been a Member of Supervisory Board of ZAO UniCredit Bank. Effective 1.11.2010, he assumed his responsibilities as General Manager of UniCredit.

Dieter Hengl **Member of Supervisory Board**
Age 46. He graduated from the University of Graz. Mr.Hengl worked as Head of International Credit Management CEE/SEE at UniCredit Bank Austria AG between 2006 and 2007. He occupied the position of Head of Senior Credit Management Mechanical Engineering, Metals and Automotive between 2007 and 2009 then, he was appointed to the post of Deputy Head of Department Credit Operations and Head of Senior Credit Management Commercial Real Estate. Mr. Hengl worked as Global Industry Team Leader for Real Estate at UniCredit S.p.A. between 2009 and 2010. Since 2010, he has been working as Head of Department Corporate Risk, Deputy CRO of UniCredit Bank Austria AG. Since 02.08.2010 up to the present moment, he has been Member of Supervisory Board of ZAO UniCredit Bank.

Paolo Cederle **Member of Supervisory Board**
Age 49. He graduated from Milan Polytechnic. In 2001, he joined UniCredit Group to become CEO of i-Faber, in 2007, he was appointed Member of the Board. Since 2010, he has been working as CEO of UniCredit Global Informational Servicies S.p.A., member of the Supervisory Board of Ukrsotsbank, Ukraine. Since 30.04.2010 up to the the present moment, he has been Member of Supervisory Board of ZAO UniCredit Bank.

Elisabetta Magistretti **Member of Supervisory Board**
Age 63. She graduated from Bocconi University, Milan and joined UniCredit Group in 2001. She worked as Head of Administrative Government up to 2005 and then, from 2006 to 2009, responsible for Group Internal Audit Department. Since 30.04.2010 up to the present moment, she has been Member of Supervisory Board of ZAO UniCredit Bank.

In 2010 Stephan Winkelmeier was relieved of the responsibilities of Supervisory Board Member of UniCredit Bank.
Paolo Cederle, Elisabetta Magistretti and Dieter Hengl were appointed Members of the Supervisory Board of UniCredit Bank. Dieter Hengl was appointed Deputy Chairman of the Supervisory Board.


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Sorry We're
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Management

Board of Management (as of January 1, 2011)

Mikhail Alekseev Chairman of the Management Board
Age 46. Mr. Alekseev studied Economical Sciences and started his career as Deputy Head of the Directorate of the Ministry of Finance of the USSR. He gained his banking experience in several banks in Russia. In 1992 he became Board Member of Mezhkombank. In 1995 he took the post of Deputy Chairman in Uneximbank. When in 1999 Rosbank took over the post-crisis business of Uneximbank, Mikhail Alekseev became Deputy Chairman responsible for Retail Operations for SME clients, Strategic Development & Operations and IT at Rosbank. His next career step led him to Rosprombank in 2006, where he took over the position as Chairman of the Board and President.

Konrad Kozik Member of the Board
Age 40. Mr. K ozik first joined the UniCredito Italiano Group in 1999, where he occupied various positions in Italy and Romania. In 2004, he left for K BC Group, where he eventually became Deputy CEO and Vice President of the Supervisory Board of Kredyt Bank, a Polish subsidiary of the K BC Group. In May 2007, he returned to UniCredit Group and was appointed IMB's Chief Financial Officer and Member of the Board of Management.

Kirill Zhukov-Emelyanov Member of the Board
Age 40. Mr. Zhukov-Emelyanov started his banking career with UniCredit Bank (former IMB) in 1994 in the field of Corporate Finance. He held the post of Head of Lending Division at Bank Austria Creditanstalt Russia from 1999 to 2001. After the merger he worked at IMB as Deputy Head of Corporate Banking Division. From 2003 he occupied the position of Head of Corporate Banking (Regions) at IMB, later – UniCredit Bank. Mr. Zhukov-Emelyanov became a Member of the Board of Management responsible for corporate banking in December 2008.

Eduard A. Issopov Member of the Board
Age 44. Mr. Issopov started his banking career with Bank for Foreign Trade of Russia as economist in 1991. In 1993 he moved to UniCredit Bank (the previous name – International Moscow Bank). From 2002 to 2005 Mr. Issopov held the positions of Head of Management Accounting Division, Deputy Chief Accountant of IMB. From 2005 to 2006 Mr. Issopov occupied the position of Chief Accountant of IMB. In 2006 according to the decision of the Board of Directors he was appointed to the post of Member of the Board of Management responsible for retail banking.

Dmitry Mokhnachev Member of the Board
Age – 46. Mr. Mokhnachev began his carrier in 1992 in International Moscow Bank (the former title of ZAO UniCredit bank) in the field of credit risks, then held different positions in IMB in the field of credit underwriting and corporate business. In 2003 he was appointed as a Board member of IMB. In October 2006 Mr. Mokhanchev moved to the financial corporation «Uralsib» where he occupied the position of the first vice-president and the Board member. From August 2008 till the end of June 2009 Dmitry Mokhnachev held a post of the Head of Private Lending Division in Sberbank of Russia. Form September 2009 assumed his responsibilities as the Board Member in ZAO UniCredit Bank. The area of responsidility of Mr. Mokhnachev is in charge of coordination of departments of the Bank in the credit underwriting field.

In 2010 Andreas Gschwenter was relieved of the responsibilities of Board Member.

No member of the Supervisory Board or the Board of Management of ZAO UniCredit Bank owns its shares.

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For whatever life brings

Consolidated Financial Statements

Year ended 31 December 2010

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Independent Auditors' Report

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To the Shareholder and Supervisory Board ZAO UniCredit Bank

We have audited the accompanying consolidated financial statements of ZAO UniCredit Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles 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 opinion.

Opinion

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

ZAO KPMG

ZAO KPMG

15 February 2011

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated statement of financial position

As at 31 December 2010
(Thousands of Russian Roubles)

	Notes	2010	2009
ASSETS			
Cash and cash balances	6	31 206 636	22 899 111
Trading securities	7	34 933 922	21 023 167
Amounts due from credit institutions	8	93 967 536	68 756 822
Derivative financial assets	9	16 328 391	18 786 795
Derivative financial assets designated for hedging	10	1 898 362	113 412
Loans to customers	11	386 216 232	341 661 182
Investment securities:	12		
- available-for-sale		296 871	65 844
- held-to-maturity		587 347	586 661
Investments in associate		893 054	988 944
Fixed assets	13	4 540 234	4 594 148
Intangible assets	14	1 587 045	1 149 880
Deferred income tax assets	15	122 415	–
Current income tax assets		–	9 331
Other assets	16	2 428 383	1 678 122
Total assets		**575 006 428**	**482 313 419**
LIABILITIES			
Amounts due to credit institutions	17	137 143 630	113 395 109
Money market deposits held for trading		–	6 536 648
Derivative financial liabilities	9	15 953 515	16 802 618
Derivative financial liabilities designated for hedging	10	2 683 004	1 119 570
Amounts due to customers	18	330 414 168	281 432 557
Debt securities issued	19	15 433 696	189 356
Deferred income tax liabilities	15	–	235 644
Current income tax liabilities		322 234	5 503
Other liabilities	16	3 298 878	2 809 622
Total liabilities		**505 249 125**	**422 526 627**
EQUITY	**21**		
Share capital		28 613 826	24 413 838
Share premium		437 281	437 281
Cash flow hedge reserve		(675 847)	(529 051)
Revaluation reserve for available-for-sale securities		(50 339)	(49 078)
Retained earnings		41 432 382	35 513 802
Total equity		**69 757 303**	**59 786 792**
Total equity and liabilities		**575 006 428**	**482 313 419**

Signed and authorised for release on behalf of the Board of Management of the Bank

M. Alekseev Chairman of the Board of Management

15 February 2011

O. Goncharova Chief Accountant

The accompanying notes on pages 69 to 119 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2010
(Thousands of Russian Roubles)

	Notes	2010	2009
INTEREST INCOME			
Loans to customers		31 218 414	40 469 010
Amounts due from credit institutions		1 307 622	3 044 025
Trading and investment securities		2 312 388	1 719 046
Other		389 705	–
		35 228 129	**45 232 081**
INTEREST EXPENSE			
Amounts due to customers		(8 014 469)	(13 265 000)
Amounts due to credit institutions		(4 365 850)	(15 633 685)
Debt securities issued		(222 627)	(11 725)
Other		–	(494 417)
		(12 602 946)	**(29 404 827)**
Net interest income		**22 625 183**	**15 827 254**
Fee and commission income	24	5 788 029	5 497 115
Fee and commission expense		(483 571)	(430 573)
Net fee and commission income		**5 304 458**	**5 066 542**
Dividend income		31 909	26 476
(Losses)/gains on financial assets and liabilities held for trading	23	(366 473)	5 363 531
(Losses)/gains on disposal of:			
- loans		(465 267)	(89 571)
- available-for-sale financial assets		323 778	40 135
- held-to-maturity investments		–	(86 624)
OPERATING INCOME		**27 453 588**	**26 147 743**
Loan impairment	11	(5 085 656)	(9 059 460)
NET INCOME FROM FINANCIAL ACTIVITIES		**22 367 932**	**17 088 283**
Salaries and benefits	25	(4 488 746)	(3 993 263)
Other administrative costs	25	(3 804 569)	(3 713 124)
Depreciation of fixed assets		(746 124)	(873 111)
Amortisation of intangible assets		(222 433)	(269 386)
Other provisions		(28 821)	–
Net other operating expenses		(239 060)	(3 080)
Operating costs		**(9 529 753)**	**(8 851 964)**
Share of losses of associate		(95 890)	(38 817)
Gains/(losses) on disposal of investments:			
- derecognition of subsidiary		–	154 693
- disposal of fixed assets		(7 628)	(7 054)
PROFIT BEFORE INCOME TAX EXPENSE		**12 734 661**	**8 345 141**
Income tax expense	15	(2 639 759)	(1 661 635)
PROFIT FOR THE YEAR		**10 094 902**	**6 683 506**
Other comprehensive income			
Cash flow hedge reserve			
- effective portion of changes in fair value	15	(146 796)	43 127
Revaluation reserve for available-for-sale securities			
- net change in fair value	15	(1 261)	(22 583)
Other comprehensive income for the year, net of tax		**(148 057)**	**20 544**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9 946 845**	**6 704 050**

The accompanying notes on pages 69 to 119 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2010
(Thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2009	**24 413 838**	**437 281**	**(572 178)**	**(26 495)**	**28 830 296**	**53 082 742**
TOTAL COMPREHENSIVE INCOME						
Profit for the year	–	–	–	–	6 683 506	6 683 506
OTHER COMPREHENSIVE INCOME						
Change in cash flow hedge reserve, net of tax	–	–	43 127	–	–	43 127
Net change in fair value of available-for-sale assets, net of tax	–	–	–	(22 583)	–	(22 583)
Total other comprehensive income	–	–	43 127	(22 583)	–	20 544
Total comprehensive income	**–**	**–**	**43 127**	**(22 583)**	**6 683 506**	**6 704 050**
31 December 2009	**24 413 838**	**437 281**	**(529 051)**	**(49 078)**	**35 513 802**	**59 786 792**
1 January 2010	**24 413 838**	**437 281**	**(529 051)**	**(49 078)**	**35 513 802**	**59 786 792**
TOTAL COMPREHENSIVE INCOME						
Profit for the year	–	–	–	–	10 094 902	10 094 902
OTHER COMPREHENSIVE INCOME						
Change in cash flow hedge reserve, net of tax	–	–	(146 796)	–	–	(146 796)
Net change in fair value of available-for-sale assets, net of tax	–	–	–	(1 261)	–	(1 261)
Total other comprehensive income	–	–	(146 796)	(1 261)	–	(148 057)
Total comprehensive income	**–**	**–**	**(146 796)**	**(1 261)**	**10 094 902**	**9 946 845**
Increase of share capital (Note 21)	4 199 988	–	–	–	–	4 199 988
Dividends paid on ordinary shares (Note 21)	–	–	–	–	(4 176 322)	(4 176 322)
31 December 2010	**28 613 826**	**437 281**	**(675 847)**	**(50 339)**	**41 432 382**	**69 757 303**

The accompanying notes on pages 69 to 119 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2010
(Thousands of Russian Roubles)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		35 632 871	44 967 112
Interest paid		(18 151 725)	(28 849 420)
Fees and commissions received		5 738 824	5 502 120
Fees and commissions paid		(483 571)	(430 573)
Net receipts from trading securities		1 050 971	1 472 250
Net (payments) receipts from dealing in foreign currencies		(2 357 203)	5 926 627
Other income received		2 746 726	1 605 900
Salaries and benefits paid		(3 867 940)	(4 282 682)
Other operating expenses paid		(3 535 455)	(3 345 171)
Cash flows from operating activities before changes in operating assets and liabilities		**16 773 498**	**22 566 163**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		(1 436 918)	(1 738 842)
Trading securities		(13 885 041)	(6 909 470)
Amounts due from credit institutions		(23 625 312)	(15 278 440)
Loans to customers		(56 815 371)	40 599 027
Other assets		(914 547)	1 244 041
Net increase /(decrease) in operating liabilities			
Amounts due to credit institutions		28 058 593	(101 951 747)
Money market deposits		(6 445 000)	(15 380 493)
Amounts due to customers		58 635 511	29 143 183
Promissory notes		28 726	70 274
Other liabilities		(271 310)	(746 829)
Net cash flows from/(used in) operating activities before income tax		**102 829**	**(48 383 133)**
Income tax paid		(2 634 941)	(1 244 176)
Net cash used in operating activities		**(2 532 112)**	**(49 627 309)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		34 960	29 016
Proceeds from redemption of investment securities		90 931	2 019 181
Proceeds from sale of fixed and intangible assets		4 928	6 683
Purchase of fixed and intangible assets		(1 279 725)	(1 866 678)
Net cash (used in)/from investing activities		**(1 148 906)**	**188 202**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds	19	15 000 000	–
Redemption of bonds issued		–	(50 500)
Redemption of subordinated debt		(2 936 254)	–
Increase of share capital	21	4 199 988	–
Dividends paid	21	(4 176 322)	–
Net cash from/(used in) financing activities		**12 087 412**	**(50 500)**
Effect of exchange rates changes on cash and cash balances		(98 869)	4 306 476
Net increase/(decrease) in cash and cash balances		**8 307 525**	**(45 183 131)**
Cash and cash balances, beginning		**22 899 111**	**68 082 242**
Cash and cash balances, ending	**6**	**31 206 636**	**22 899 111**

The accompanying notes on pages 69 to 119 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of ZAO UniCredit Bank (hereinafter – the "Bank") and its subsidiaries and associate. ZAO UniCredit Bank and its subsidiaries and associate are hereinafter collectively referred to as the "Group".

As at 31 December 2010, the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredit Group, is responsible for the commercial banking in Central and Eastern Europe within the UniCredit Group.

The primary activities of the Group are deposit taking, lending, providing payment and settlement services, operations with foreign currencies and securities and providing finance leases.

As at 31 December 2010, the Group comprises the Bank, the lead operating entity of the Group, two leasing companies, CJSC IMB Leasing and LLC UniCredit Leasing Company, and a real estate company, LLC B.A. Real Estate, which owns one of the Bank's buildings.

In November 2009 the Bank decreased its stake in LLC UniCredit Leasing Company from 100% to 40% by means of dilution of its share. Effective from 1 November 2009, Bank accounts for its investments in LLC UniCredit Leasing Company as an investment in associate.

ZAO UniCredit Bank (the former International Moscow Bank) was established as a closed joint stock company under the laws of the Russian Federation in 1989. The Bank operates under General Banking License No. 1 reissued by the Central Bank of Russia (hereinafter – the "CBR") on 20 December 2007 as well as the CBR license for operations with precious metals issued on 20 December 2007. The Bank also possesses licenses for securities operations and custody services from the Federal Service for the Securities Market issued on 25 April 2003, the license to act as an exchange broker on operations with futures and options issued on 27 May 2008 and Russian Federal Customs Service permission to act as a guarantor in relation to customs authorities issued on 1 October 2010. ZAO UniCredit Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 December 2010 the Bank has 13 branches and 13 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Basis of preparation

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value.

Presentation currency

These consolidated financial statements are presented in Russian Roubles ("RUR"). Amounts in Russian Roubles are rounded to the nearest thousand.

3. Summary of accounting policies

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

Principles of consolidation

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of voting rights of a company's share capital and is able to govern financial and operating policies of an enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The significant influence is normally evidenced when the Group owns, either directly or indirectly, between 20% and 50%. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate. Intra-group balances and transactions, and any unrealised

3. Summary of accounting policies (Continued)

gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Where necessary, accounting policies of subsidiaries and associates are changed to conform with the accounting policies adopted by the Group.

The consolidated financial statements include the following subsidiaries and associates:

Entities	Ownership, %			
	2010	2009	Country	Industry
CJSC IMB Leasing	100%	100%	Russia	Finance
LLC B.A. Real Estate	100%	100%	Russia	Real estate
LLC UniCredit Leasing Company	40%	40%	Russia	Finance

Financial assets

Initial recognition

Financial assets in the scope of International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of 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.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss

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 by the Group as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them 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 intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

Available-for-sale assets are subsequently measured at fair value. Non-marketable equity instruments, for which it is impracticable to determine fair value, are stated at cost.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously.

Cash and cash balances

The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Trading securities

Securities are classified as trading if they are acquired for the purpose of selling in the near term. Realized and unrealized gains and losses are recognised in profit or loss as net gains or losses from trading securities. Interest income from trading securities comprises coupon interest only and it is recognised in profit or loss as interest income from trading securities.

In determining estimated fair value, securities are valued at the last bid price. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from sale over a period of time, assuming current market conditions.

Money market deposits held for trading

Money market deposits placed and taken are classified as held for trading if they are part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short-term profit taking. The Group trades in money market deposits to obtain short-term profits from interest rate and currency rate arbitrage.

Money market deposits are measured at fair value determined using discounted cash flow technique. Inputs for this technique, such as interest rates and currency rates, are observable on an active market. Interest on money market deposits determined using effective interest method is recognised as interest income or expenses in profit or loss.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due to credit institutions are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any provision for impairment.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, foreign exchange and interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

Hedge accounting

In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. Within fair value hedge relations assets or liabilities are hedged against future fair value changes, if those changes affect the Group`s result and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. The hedged item is also stated at fair value; gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item and are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading.

Repurchase and reverse repurchase agreements and securities lending

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

Operating lease

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, borrower's financial position, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

3. Summary of accounting policies (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument 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 through profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment.

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

All impairment losses in respect of non-financial assets are recognised 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.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. 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 income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other administrative costs in the consolidated statement of comprehensive income.

Fixed assets

Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets including goodwill

Intangible assets other than goodwill include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of three years.

Goodwill is initially measured at cost, being the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

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.

Notes to Consolidated Financial Statements (Continued)

3. Summary of accounting policies (Continued)

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.

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group makes contributions to the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as salaries and benefits, and related liabilities to employees are recorded within other liabilities.

Share capital

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated statement of financial position, as they are not the assets of the Group.

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.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ***Fee income earned from services that are provided over a certain period of time***

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- ***Fee income from providing transaction services***

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

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

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

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. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

- IFRS 9 "Financial Instruments" will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.

Reclassifications

With effect from 31 March 2010, the Group presents gains and losses from trading securities within gains (losses) on financial assets and liabilities held for trading in the consolidated statement of comprehensive income. The Group previously presented net gains (losses) from trading securities as a separate item in its consolidated statement of comprehensive income for the year ended 31 December 2009.

With effect from 31 March 2010, the Group presents gains and losses from foreign exchange, interest-based derivatives and changes in fair value of money market deposits within gains (losses) on financial assets and liabilities held for trading in the consolidated statement of comprehensive income. The Group previously presented gains and losses from foreign exchange, interest based derivatives and changes in fair value of money market deposits as net gains (losses) from spot, derivative and money market deposits trading and as net gains (losses) from translation of other foreign currency assets and liabilities in its consolidated statement of comprehensive income for the year ended 31 December 2009.

With effect from 31 March 2010, the Group presents gains and losses on disposal of loans, available-for-sale financial assets and held-to-maturity investments as separate items in the consolidated statement of comprehensive income. The Group previously presented these items within gains (losses) on disposals of financial assets in its consolidated statement of comprehensive income for the year ended 31 December 2009.

Notes to Consolidated Financial Statements (Continued)

3. Summary of accounting policies (Continued)

With effect from 31 March 2010, the Group presents depreciation of fixed assets and amortisation of intangible assets as separate items in the consolidated statement of comprehensive income. The Group previously presented these items within depreciation and amortisation of fixed and intangible assets in its consolidated statement of comprehensive income for the year ended 31 December 2009.

With effect from 31 March 2010, the Group presents gains (losses) on disposal of investments as a separate item in the consolidated statement of comprehensive income. The Group previously presented gains (losses) on disposal of investments within net other operating income (expense) in its consolidated statement of comprehensive income for the year ended 31 December 2009.

The following reclassifications are made to the statement of comprehensive income for the year ended 31 December 2009 to conform to the 2010 presentation:

	As previously reported	Effect of reclassifications	As adjusted
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009			
Net gains from trading securities	1 164 821	(1 164 821)	–
Net gains from foreign exchange, interest based derivatives and changes in fair value of money market deposits:			
- spot, derivative and money market deposits trading	3 665 220	(3 665 220)	–
- translation of other foreign currency assets and liabilities	533 490	(533 490)	–
Gains on financial assets and liabilities held for trading	–	5 363 531	5 363 531
Losses on disposals of financial assets	(136 060)	136 060	–
Gains/(losses) on disposal of:			
- loans	–	(89 571)	(89 571)
- available-for-sale financial assets	–	40 135	40 135
- held-for-maturity investments	–	(86 624)	(86 624)
Depreciation and amortisation of fixed and intangible assets	(1 142 497)	1 142 497	–
Depreciation of fixed assets	–	(873 111)	(873 111)
Amortisation of intangible assets	–	(269 386)	(269 386)
Net other operating (expenses) /income	(10 134)	7 054	(3 080)
Gains/(losses) on disposal of investments	–	(7 054)	(7 054)

4. Significant accounting judgements and estimates

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

Loan impairment estimates – Notes 3, 11, 26.

5. Operating segments

For management purposes, the Group has four reporting business segments:
- Corporate banking – includes current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products, corporate advisory services.
- Markets and Investment banking (“MIB”) – includes financial instruments trading, project and commodity finance, corporate solutions, custody services.
- Retail banking – comprises private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- Other – represents the Group’s funding activities.

Information about each segment is measured on the same basis as the information used for decision making purposes of allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group’s funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	2010	2009
ASSETS		
Corporate banking	317 911 081	276 585 898
Retail banking	62 053 823	58 603 956
MIB	111 302 772	93 184 452
Other	83 738 752	53 939 113
Total assets	**575 006 428**	**482 313 419**
LIABILITIES		
Corporate banking	249 202 751	246 534 179
Retail banking	65 649 937	61 705 691
MIB	37 207 136	77 404 612
Other	153 189 301	36 882 145
Total liabilities	**505 249 125**	**422 526 627**

Notes to Consolidated Financial Statements (Continued)

5. Operating segments (Continued)

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

	Corporate Banking	Retail Banking	MIB	Other	Total
Net interest income from external customers	16 182 866	6 766 301	2 160 455	(2 484 439)	22 625 183
Inter-segment income (expense)	(2 004 611)	(2 050 414)	(901 867)	4 956 892	–
Net interest income	**14 178 255**	**4 715 887**	**1 258 588**	**2 472 453**	**22 625 183**
Net fee and commission income from external customers	3 288 055	2 101 086	(84 683)	–	5 304 458
Dividend income	–	–	–	31 909	31 909
Losses (gains) on financial assets and liabilities held for trading:					
- from external customers	324 247	–	(697 452)	6 732	(366 473)
- from internal customers	–	–	1 460 066	(1 460 066)	–
Losses (gains) on disposals	(465 267)	–	–	323 778	(141 489)
Operating income	**17 325 290**	**6 816 973**	**1 936 519**	**1 374 806**	**27 453 588**
Loan impairment	(4 717 628)	(419 706)	51 678	–	(5 085 656)
Net income from financial activities	**12 607 662**	**6 397 267**	**1 988 197**	**1 374 806**	**22 367 932**
General administrative expenses	(2 459 476)	(6 479 495)	(347 666)	(243 116)	(9 529 753)
Share of losses of associate	–	–	–	(95 890)	(95 890)
Gain (losses) on disposal of investments	–	–	–	(7 628)	(7 628)
Profit /(loss) before income tax expense	**10 148 186**	**(82 228)**	**1 640 531**	**1 028 172**	**12 734 661**
Income tax expenses					(2 639 759)
Profit for the year					**10 094 902**
Cash flow hedge reserve					(146 796)
Revaluation reserve for available-for-sale securities					(1 261)
Total comprehensive income for the year					**9 946 845**

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

	Corporate Banking	Retail Banking	MIB	Other	Total
Net interest income from external customers	17 806 034	7 361 797	2 488 182	(11 828 759)	15 827 254
Inter-segment income (expense)	(3 389 071)	(2 437 745)	(2 815 137)	8 641 953	–
Net interest income	**14 416 963**	**4 924 052**	**(326 955)**	**(3 186 806)**	**15 827 254**
Net fee and commission income from external customers	3 048 917	2 028 408	(12 947)	2 164	5 066 542
Dividend income	–	–	–	26 476	26 476
Losses (gains) on financial assets and liabilities held for trading:					
- from external customers	2 212	–	5 307 036	54 283	5 363 531
- from internal customers	–	–	2 478 451	(2 478 451)	–
Losses (gains) on disposals	(86 624)	–	–	(49 436)	(136 060)
Operating income	**17 381 468**	**6 952 460**	**7 445 585**	**(5 631 770)**	**26 147 743**
Loan impairment	(7 070 182)	(1 875 904)	(17 600)	(95 774)	(9 059 460)
Net income/(loss) from financial activities	**10 311 286**	**5 076 556**	**7 427 985**	**(5 727 544)**	**17 088 283**
General administrative expenses	(1 816 325)	(6 387 905)	(302 547)	(345 187)	(8 851 964)
Share of losses of associate	–	–	–	(38 817)	(38 817)
Gain (losses) on disposal of investments	–	–	–	147 639	147 639
Profit /(loss) before income tax expenses	8 494 961	(1 311 349)	7 125 438	(5 963 909)	8 345 141
Income tax expenses					(1 661 635)
Profit for the year					**6 683 506**
Cash flow hedge reserve					43 127
Revaluation reserve for available-for-sale securities					(22 583)
Total comprehensive income for the year					**6 704 050**

Information about major customers and geographical areas

The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Geographical information on revenues and assets for 2010 is presented below.

	Revenues	Assets
Russian Federation	40 648 704	515 738 061
OECD countries	(637 485)	51 045 607
Non-OECD countries	638 466	8 222 760
Total	**40 649 685**	**575 006 428**

Geographical information on revenues and assets for 2009 is presented below.

	Revenues	Assets
Russian Federation	44 039 124	393 457 894
OECD countries	11 144 703	81 018 539
Non-OECD countries	908 900	7 836 986
Total	**56 092 727**	**482 313 419**

6. Cash and cash balances

Cash and cash balances comprise:

	2010	2009
Cash on hand	6 954 915	8 160 567
Current accounts with the CBR	24 251 721	14 738 544
Cash and cash balances	**31 206 636**	**22 899 111**

7. Trading securities

Trading securities comprise:

	2010	2009
USD DENOMINATED		
Corporate bonds	3 524 988	125 776
Russian Government Eurobonds	933 803	3 898
Treasury bills of the Ministry of Finance of Russia	–	61 453
RUR DENOMINATED		
Central Bank bonds	16 084 664	–
Corporate bonds	8 032 978	9 579 509
Russian Government Bonds	6 309 968	11 252 531
Regional bonds and other domestic securities	47 521	–
Trading securities	**34 933 922**	**21 023 167**

As at 31 December 2010 approximately 94% of trading securities held by the Group (excluding Central Bank bonds) were issued by organisations rated not lower than “BBB-“ (31 December 2009: 90%).

Nominal interest rates and maturities of trading securities are as follows:

	2010		2009	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Russia	–	–	3%	2011
Central Bank bonds	–	2011	–	–
Russian Government Bonds	6.2 – 12%	2011 – 2016	6.1 – 12%	2011 – 2014
Russian Government Eurobonds	7.5 – 11%	2018, 2030	7.5 – 11%	2010, 2018, 2030
Corporate bonds (Large Russian Corporations)	1.45 – 16.75%	2011 – 2014, 2016, 2017, 2019, 2020	6.875 – 17.5%	2010 – 2015, 2017, 2019
Regional bonds and other domestic securities	8%	2012	–	–

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	2009
Current accounts with credit institutions	10 507 790	12 877 861
Time deposits	56 290 955	51 279 879
Reverse repurchase agreements with credit institutions	23 246 867	2 114 076
Obligatory reserve with the CBR	3 921 924	2 485 006
Amounts due from credit institutions	**93 967 536**	**68 756 822**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2010, there are three counterparties with balances that individually exceeded 10% of equity. As at 31 December 2010, the aggregate amount of these balances is RUR 43 551 880 thousand (31 December 2009: two counterparties with aggregate amount of RUR 25 045 462 thousand).

As at 31 December 2010, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate bonds issued by Russian companies with the total fair value of RUR 24 557 175 thousand.

As at 31 December 2010 approximately 95% (31 December 2009: 100%) of total amount of reverse repurchase agreements with credit institutions were placed with non-rated banks or banks rated lower than "BBB-".

As at 31 December 2010 approximately 34% (31 December 2009: 93%) of current accounts with credit institutions and term deposits were placed with banks rated not lower than "BBB-" and approximately 23% (31 December 2009: 7%) were placed with not-rated banks. The rest of the current accounts with credit institutions and term deposits are represented by the term placements with the CBR (31 December 2010: RUR 28 503 575 thousand; 31 December 2009: none).

9. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Bank values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

	2010			2009		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Cross-currency interest rate swaps	120 442 433	8 125 732	4 769 771	80 691 526	8 625 302	4 509 661
Interest rate swaps	334 476 293	5 246 615	8 384 520	378 887 068	5 562 862	9 875 341
Foreign exchange forwards	272 039 656	2 956 044	2 799 224	95 171 309	4 598 631	2 417 616
Futures on foreign exchange	23 287 106	–	–	16 431 373	–	–
Total derivative assets/liabilities		**16 328 391**	**15 953 515**		**18 786 795**	**16 802 618**

10. Derivative financial instruments designated for hedging

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	2010			2009		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
CASH FLOW HEDGE						
Interest rate swaps	111 846 286	782 926	1 955 016	93 973 266	113 412	1 119 570
Cross-currency interest rate swaps	38 795 722	248 713	727 988	–	–	–
Total cash flow hedge		**1 031 639**	**2 683 004**		**113 412**	**1 119 570**
FAIR VALUE HEDGE						
Interest rate swaps	42 210 507	866 723	–	–	–	–
Total fair value hedge		**866 723**	**-**		**-**	**-**
Total derivative financial assets/liabilities designated for hedging		**1 898 362**	**2 683 004**		**113 412**	**1 119 570**

The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2023 for interest rate swaps. The Group designates certain interest rate swaps as hedging instruments to hedge variability of fair value of several deposits with major customer, nominated in USD and having a fixed interest rate till maturity.

As at 31 December 2010, the effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised as part of other comprehensive income in equity was RUR 675 847 thousand (31 December 2009: RUR 529 051 thousand), net of tax RUR 168 962 thousand (31 December 2009: RUR 132 263 thousand). The Group recognised RUR 118 032 thousand of gains on the cash flows hedging instrument in other interest income for the period ended 31 December 2010 in relation to the interest rate swaps and cross-currency interest rate swaps (31 December 2009: loss in other interest expense in the amount of RUR 494 417 thousand).

Hedging instruments to hedge variability of fair value are measured at fair value with changes in fair value in the amount of RUR 503 502 thousand recognised as gains in (losses)/gains on financial assets and liabilities held for trading for the period ended 31 December 2010. The Group recognised RUR 271 673 thousand of gain on interest rate swaps designated as a hedging instrument in relation to micro fair value hedge in other interest income for the period ended 31 December 2010. The changes in the fair value of hedged items (customer deposits) that are attributable to the hedged risk are recognised as losses in the amount of RUR 496 329 thousand in (losses)/gains on financial assets and liabilities held for trading for the period ended 31 December 2010.

11. Loans to customers

Loans to customers comprise:

	2010	2009
Corporate customers	323 918 177	291 564 945
Retail customers	66 591 343	62 931 027
Reverse repurchase agreements with companies	11 022 000	1 947 547
Gross loans to customers	**401 531 520**	**356 443 519**
Allowance for loan impairment	(15 315 288)	(14 782 337)
Loans to customers	**386 216 232**	**341 661 182**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2010 is as follows:

	Corporate customers	Retail customers	Total
At 1 January 2010	10 358 445	4 423 892	**14 782 337**
Charge for the year	4 530 265	555 391	**5 085 656**
Loans sold during the year	(4 356 360)	–	**(4 356 360)**
Loans written-off during the year	(114 731)	(81 614)	**(196 345)**
At 31 December 2010	**10 417 619**	**4 897 669**	**15 315 288**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2009 is as follows:

	Corporate customers	Retail customers	Finance lease receivables	Total
At 1 January 2009	4 347 303	2 638 863	260 496	**7 246 662**
Charge for the year	7 089 073	1 785 029	185 358	**9 059 460**
Loans sold during the period	(1 077 931)	–	–	**(1 077 931)**
Effect of deconsolidation of subsidiary	–	–	(445 854)	**(445 854)**
At 31 December 2009	**10 358 445**	**4 423 892**	**–**	**14 782 337**

Notes to Consolidated Financial Statements (Continued)

11. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2010:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past dueidentified on an individual basis, not past due	**302 397 447**	**(2 482 908)**	**299 914 539**
out of which are renegotiated	*13 764 567*	*(543 744)*	*13 220 823*
Impaired loans			
- Not past due	7 737 884	(959 115)	6 778 769
- Past due less than 31 days	1 493 347	(388 846)	1 104 501
- Past due 31 – 90 days	1 068 574	(549 001)	519 573
- Past due 90 – 180 days	1 808 821	(759 974)	1 048 847
- Past due over 180 days	9 412 104	(5 277 775)	4 134 329
Total loans to corporate customers	**323 918 177**	**(10 417 619)**	**313 500 558**
RETAIL CUSTOMERS			
Standard loans, not past due	**57 068 347**	**(493 916)**	**56 574 431**
out of which are renegotiated	*1 913 594*	*(9 781)*	*1 903 813*
Standard loans, past due			
- Past due less than 31 days	1 391 020	(197 712)	1 193 308
- Past due 31 – 90 days	699 677	(100 665)	599 012
Impaired loans			
- Not past due	28 959	(5 078)	23 881
- Past due less than 31 days	4 252	(1 791)	2 461
- Past due 31 – 90 days	38 075	(12 787)	25 288
- Past due 90 – 180 days	802 919	(281 753)	521 166
- Past due over 180 days	6 558 094	(3 803 967)	2 754 127
Total loans to retail customers	**66 591 343**	**(4 897 669)**	**61 693 674**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	**11 022 000**	**–**	**11 022 000**
Total loans to customers	**401 531 520**	**(15 315 288)**	**386 216 232**

The following table shows gross loans and related impairment as at 31 December 2009:

	Gross loans	Impairment	Net loans
CORPORATE CUSTOMERS			
Loans for which no indications of impairment have been identified on an individual basis, not past due	267 601 441	(3 557 544)	264 043 897
out of which are renegotiated	*15 845 419*	*(740 554)*	*15 104 865*
Loans for which no indications of impairment have been identified on an individual basis, past due			
- Past due less than 31 days	221 632	(11 900)	209 732
- Past due 31 – 90 days	6 487	(87)	6 400
Impaired loans			
- Not past due	7 778 712	(1 253 686)	6 525 026
- Past due less than 31 days	918 803	(129 231)	789 572
- Past due 31 – 90 days	2 167 177	(250 431)	1 916 746
- Past due 90 – 180 days	2 452 152	(707 874)	1 744 278
- Past due over 180 days	10 418 541	(4 447 692)	5 970 849
Total loans to corporate customers	**291 564 945**	**(10 358 445)**	**281 206 500**
RETAIL CUSTOMERS			
Standard loans, not past due	53 540 310	(945 854)	52 594 456
out of which are renegotiated	*2 990 574*	*(40 630)*	*2 949 944*
Standard loans, past due			
- Past due less than 31 days	1 677 149	(31 022)	1 646 127
- Past due 31 – 90 days	1 014 823	(318 006)	696 817
- Past due 90 – 180 days	2 016	(101)	1 915
- Past due over 180 days	1 299	(65)	1 234
Impaired loans			
- Not past due	67 517	(23 613)	43 904
- Past due less than 31 days	631	(174)	457
- Past due 31 – 90 days	200	(101)	99
- Past due 90 – 180 days	1 025 665	(426 286)	599 379
- Past due over 180 days	5 601 417	(2 678 670)	2 922 747
Total loans to retail customers	**62 931 027**	**(4 423 892)**	**58 507 135**
REVERSE REPURCHASE AGREEMENTS WITH COMPANIES			
Loans for which no indications of impairment have been identified on an individual basis, not past due	1 947 547	–	1 947 547
Total loans to customers	**356 443 519**	**(14 782 337)**	**341 661 182**

Notes to Consolidated Financial Statements (Continued)

11. Loans to customers (Continued)

Key assumptions and judgments for estimating the loan impairment

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

The objective indicators of loan impairment for loans to corporate customers include the following:
- a breach of contract, such as a default or delinquency in interest or principal payments;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate 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 has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following general key assumptions:
- The principal collateral taken into account in the estimation of future cash flows comprises reliable collateral, mainly real estate. Valuations for real estate have been discounted by 30-40 percent depending on type of the real estate to reflect current market conditions.
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2010 would be RUR 3 135 006 thousand lower/higher (2009: RUR 2 812 065 thousand lower/higher).

The Group estimates loan impairment for loans to retail customers based on its internal model which takes into account historical loss experience on each type of loan, probability of default and loss given default.

In determining the impairment allowance for loans to retail customers, management makes the following key assumptions:
- loss given default rate varies from 26% to 99% depending on the risk profile of a portfolio;
- probability of default varies from 0.89% to 100 %.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be RUR 616 937 thousand lower/higher (2009: RUR 585 071 thousand).

Impaired loans

Accrued interest income on impaired loans as at 31 December 2010 comprised RUR 1 190 273 thousand (31 December 2009: RUR 1 338 229 thousand). As at 31 December 2010, impaired loans with a gross value of RUR 18 315 526 thousand (31 December 2009: RUR 17 642 899 thousand) are secured by real estate, motor vehicles and securities with a fair value of RUR 5 419 809 thousand (31 December 2009: RUR 5 173 175 thousand). In addition, these impaired loans are secured by other collateral for which it is impracticable to determine fair value. For the remaining impaired loans of RUR 10 637 503 thousand (31 December 2009: RUR 12 787 916 thousand) it is also impracticable to determine the fair value of collateral.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities,
- For commercial lending to corporate customers, pledge over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties and motor vehicles.

The following table provides the analysis of the loan portfolio, net of impairment, by type of collateral as at 31 December 2010:

	Securities	Real estate	Motor vehicles	Guarantees	Other collateral	No collateral	Total
Corporate customers	11 571 312	32 272 559	3 630 629	8 305 590	158 901 356	98 819 112	**313 500 558**
Retail customers	-	21 415 993	24 545 100	-	980 081	14 752 500	**61 693 674**
Reverse repurchase agreements with companies	11 022 000	–	–	–	–	–	**11 022 000**
Total	**22 593 312**	**53 688 552**	**28 175 729**	**8 305 590**	**159 881 437**	**113 571 612**	**386 216 232**

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2009:

	Securities	Real estate	Motor vehicles	Guarantees	Other collateral	No collateral	Total
Corporate customers	5 519 138	31 296 418	4 214 527	7 871 456	157 854 660	74 450 301	**281 206 500**
Retail customers	9 118	20 571 921	32 053 230	–	488 776	5 384 090	**58 507 135**
Reverse repurchase agreements with companies	1 947 547	–	–	–	–	–	**1 947 547**
Total	**7 475 803**	**51 868 339**	**36 267 757**	**7 871 456**	**158 343 436**	**79 834 391**	**341 661 182**

Other collateral mainly consists of goods in turnover, equipment, land lease rights and trademarks.

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

When lending to the legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Reverse repurchase agreements

As at 31 December 2010 and 2009, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian Government bonds, municipal bonds and corporate bonds issued by Russian companies with the total fair value of RUR 11 605 730 thousand (31 December 2009: RUR 2 133 620 thousand).

Concentration of loans to customers

As at 31 December 2010, the Group had RUR 49 501 783 thousand due from the ten largest borrowers (12% of gross loan portfolio) (31 December 2009: RUR 48 987 533 thousand or 14%). An allowance of RUR 227 074 thousand was recognised against these loans (31 December 2009: RUR 414 300 thousand).

As at 31 December 2010, the Group had one borrower with aggregate loan amounts that individually exceeded 10% of equity (31 December 2009: three borrowers). As at 31 December 2010, the aggregate amount of these loans is RUR 7 621 595 thousand (31 December 2009: RUR 21 940 501 thousand).

Notes to Consolidated Financial Statements (Continued)

11. Loans to customers (Continued)

Loans to customers are made principally within Russia in the following industry sectors:

	2010	2009
Mining and metallurgy	47 804 656	38 050 601
Agriculture and food	41 874 393	18 118 342
Energy	38 781 443	19 173 205
Trade	36 997 123	60 695 622
Chemicals	28 479 753	27 621 918
Other manufacturing	25 293 076	29 485 592
Finance	24 431 556	16 899 326
Real estate and construction	22 317 749	21 354 650
Telecommunications	19 768 539	18 808 085
Transportation	17 117 819	19 570 876
Machinery construction	16 607 593	11 162 337
Timber processing	9 591 617	7 337 405
Other	7 736 424	6 718 139
	336 801 741	**294 996 098**
Loans to individuals	64 729 779	61 447 421
Gross loans to customers	**401 531 520**	**356 443 519**

12. Investment securities

Available-for-sale securities comprise:

	2010	2009
RUR DENOMINATED		
Investments in financial institutions	358 763	126 160
EUR DENOMINATED		
Investments in financial institutions	1 031	1 031
Available-for-sale securities before revaluation reserve	**359 794**	**127 191**
Revaluation reserve for available-for-sale securities	(62 923)	(61 347)
Available-for-sale securities after revaluation reserve	**296 871**	**65 844**

Available-for-sale securities comprise unquoted equity investments. As at 31 December 2010 the Group has no intention to sell these investments in the foreseeable future.

Held-to-maturity securities comprise:

	2010		2009	
	Nominal value	Carrying value	Nominal value	Carrying value
Corporate bonds	565 000	587 347	565 000	586 661
Held-to-maturity securities		**587 347**		**586 661**

Nominal interest rates and maturities of these securities are as follows:

	2010		2009	
	%	Maturity	%	Maturity
Corporate bonds	7.95%, 14%	2011, 2014	7.6%, 14%	2011, 2014

Notes to Consolidated Financial Statements (Continued)

13. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
COST					
1 January 2010	**3 744 270**	**2 580 511**	**624 623**	**787 157**	**7 736 561**
Additions	470 184	219 009	25 118	9 273	723 584
Disposals	–	(41 237)	(21 206)	(26 468)	(88 911)
31 December 2010	**4 214 454**	**2 758 283**	**628 535**	**769 962**	**8 371 234**
ACCUMULATED DEPRECIATION					
1 January 2010	**(707 955)**	**(1 648 629)**	**(416 242)**	**(369 587)**	**(3 142 413)**
Depreciation charge	(106 400)	(395 904)	(78 344)	(165 476)	(746 124)
Disposals	–	36 090	16 618	4 829	57 537
31 December 2010	**(814 355)**	**(2 008 443)**	**(477 968)**	**(530 234)**	**(3 831 000)**
NET BOOK VALUE:					
31 December 2010	**3 400 099**	**749 840**	**150 567**	**239 728**	**4 540 234**

	Buildings	Computers and equipment	Other fixed assets	Leasehold improvements	Total
COST					
1 January 2009	**3 078 587**	**2 097 884**	**567 952**	**640 613**	**6 385 036**
Additions	665 683	525 134	73 125	158 083	1 422 025
Disposals	–	(36 475)	(16 454)	(11 539)	(64 468)
Effect of deconsolidation of subsidiary	–	(6 032)	–	–	(6 032)
31 December 2009	**3 744 270**	**2 580 511**	**624 623**	**787 157**	**7 736 561**
ACCUMULATED DEPRECIATION					
1 January 2009	**(603 422)**	**(1 179 855)**	**(338 944)**	**(191 601)**	**(2 313 822)**
Depreciation charge	(104 533)	(498 925)	(88 526)	(181 127)	(873 111)
Disposals	–	27 717	11 228	3 141	42 086
Effect of deconsolidation of subsidiary	–	2 434	–	–	2 434
31 December 2009	**(707 955)**	**(1 648 629)**	**(416 242)**	**(369 587)**	**(3 142 413)**
NET BOOK VALUE:					
31 December 2009	**3 036 315**	**931 882**	**208 381**	**417 570**	**4 594 148**
1 January 2009	**2 475 165**	**918 029**	**229 008**	**449 012**	**4 071 214**

14. Intangible assets

The movements in intangible assets and goodwill were as follows:

	Intangible assets	Goodwill	Total
COST			
1 January 2010	**1 487 948**	**389 911**	**1 877 859**
Additions	659 598	–	659 598
Disposals	(5)	–	(5)
31 December 2010	**2 147 541**	**389 911**	**2 537 452**
ACCUMULATED AMORTISATION			
1 January 2010	**(727 979)**	**–**	**(727 979)**
Amortisation charge	(222 433)	–	(222 433)
Disposals	5	–	5
31 December 2010	**(950 407)**	**–**	**(950 407)**
NET BOOK VALUE:			
31 December 2010	**1 197 134**	**389 911**	**1 587 045**

	Intangible assets	Goodwill	Total
COST			
1 January 2009	**1 014 665**	**389 911**	**1 404 576**
Additions	473 321	–	473 321
Disposals	(38)	–	(38)
31 December 2009	**1 487 948**	**389 911**	**1 877 859**
ACCUMULATED AMORTISATION			
1 January 2009	**(458 631)**	**–**	**(458 631)**
Amortisation charge	(269 386)	–	(269 386)
Disposals	38	–	38
31 December 2009	**(727 979)**	**–**	**(727 979)**
NET BOOK VALUE:			
31 December 2009	**759 969**	**389 911**	**1 149 880**
1 January 2009	**556 034**	**389 911**	**945 945**

15. Taxation

The corporate income tax expense comprises:

	2010	2009
Current tax charge	2 960 804	1 337 530
Deferred tax (reversal) charge – origination of temporary differences	(321 045)	324 105
Income tax expense	**2 639 759**	**1 661 635**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2010 and 2009. The tax rate for interest income on state securities was 15% for 2010 and 2009.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2010	2009
Profit before tax	**12 734 661**	**8 345 141**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**2 546 932**	**1 669 028**
Effect of income taxed at lower tax rates	(76 855)	(30 710)
Non-deductible costs and non-taxable income	185 417	168 544
Tax refund	(15 735)	(145 227)
Income tax expense	**2 639 759**	**1 661 635**

Deferred tax assets and liabilities as at 31 December 2010 and 2009 comprise:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Fixed and intangible assets	313 864	238 941	(598 559)	(379 689)	**(284 695)**	**(140 748)**
Securities, derivatives and money market deposits	3 311 119	3 361 711	(2 944 761)	(3 055 187)	**366 358**	**306 524**
Loan impairment and credit related commitments	253 864	119 381	(796 293)	(891 533)	**(542 429)**	**(772 152)**
Deferred revenue	264 010	219 296	–	–	**264 010**	**219 296**
Other items	328 693	204 473	(9 522)	(53 037)	**319 171**	**151 436**
Total deferred tax assets/(liabilities)	**4 471 550**	**4 143 802**	**(4 349 135)**	**(4 379 446)**	**122 415**	**(235 644)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2010 is presented in the table below:

	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Fixed and intangible assets	(140 748)	(143 947)	–	**(284 695)**
Securities, derivatives and money market deposits	306 524	22 820	37 014	**366 358**
Loan impairment and credit related commitments	(772 152)	229 723	–	**(542 429)**
Deferred revenue	219 296	44 714	–	**264 010**
Other items	151 436	167 735		**319 171**
	(235 644)	**321 045**	**37 014**	**122 415**

Movement in deferred tax assets and liabilities during the year ended 31 December 2009 is presented in the table below:

	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Effect of deconsolidation of subsidiary	31 December 2009
Fixed and intangible assets	932	(141 680)	–	–	**(140 748)**
Securities, derivatives and money market deposits	(343 582)	657 258	(7 152)	–	**306 524**
Loan impairment and credit related commitments	36 448	(808 600)	–	–	**(772 152)**
Deferred revenue	289 613	(70 317)	–	–	**219 296**
Lease assets	14 207	29 721	–	(43 928)	**-**
Other items	141 923	9 513	–	–	**151 436**
	139 541	**(324 105)**	**(7 152)**	**(43 928)**	**(235 644)**

Tax effect 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
Cash flow hedge reserve	(183 495)	36 699	(146 796)	53 910	(10 783)	43 127
Revaluation reserve for available-for-sale securities	(1 576)	315	(1 261)	(26 214)	3 631	(22 583)
Other comprehensive income	**(185 071)**	**37 014**	**(148 057)**	**27 696**	**(7 152)**	**20 544**

16. Other assets and liabilities

Other assets comprise:

	2010	2009
Advances, prepayments and deferred expenses	1 583 799	1 165 294
Settlements with derivatives clearers	571 958	350 121
Other	272 626	162 707
Other assets	**2 428 383**	**1 678 122**

Other liabilities comprise:

	2010	2009
Accrued compensation expense	1 855 919	1 759 927
Accounts payable	565 641	346 742
Deferred income	558 428	404 639
Transit accounts	113 673	77 377
Taxes payables	105 269	99 933
Other	71 127	121 004
Other provisions	28 821	–
Other liabilities	**3 298 878**	**2 809 622**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	2009
Current accounts	7 826 703	6 834 882
Time deposits and loans	112 425 096	86 082 733
Subordinated debt (Note 20)	16 891 831	20 477 494
Amounts due to credit institutions	**137 143 630**	**113 395 109**

As at 31 December 2010, the ten largest deposits (excluding subordinated debt) represented 81% of total amounts due to credit institutions (31 December 2009: 69%).

As at 31 December 2010, the Group had two counterparties with aggregate balances that individually exceeded 10% of equity (31 December 2009: three counterparties). As at 31 December 2010, the aggregate amount of these balances is RUR 80 607 865 thousand (31 December 2009: RUR 46 099 182 thousand).

18. Amounts due to customers

The amounts due to customers include the following:

	2010	2009
Current accounts	82 214 897	57 218 129
Time deposits	247 930 720	223 930 462
Subordinated debt (Note 20)	268 551	283 966
Amounts due to customers	**330 414 168**	**281 432 557**

As at 31 December 2010, approximately 54% of total amounts due to customers (excluding subordinated debt) was placed with the Group by its ten largest customers (31 December 2009: 60%).

Analysis of customer accounts by type of customer is as follows:

	2010	2009
CORPORATE		
Current accounts	35 439 384	20 813 345
Time deposits	229 086 788	198 645 206
Subordinated debt	268 551	283 966
Total corporate accounts	**264 794 723**	**219 742 517**
RETAIL		
Current accounts	46 775 513	36 404 784
Time deposits	18 843 932	25 285 256
Total retail accounts	**65 619 445**	**61 690 040**
Amounts due to customers	**330 414 168**	**281 432 557**

Included in retail time deposits are deposits of individuals in the amount of RUR 12 645 519 thousand (31 December 2009: RUR 16 681 796 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUR 6 198 413 thousand (31 December 2009: RUR 8 603 460 thousand) is represented by deposits placed by small business enterprises.

19. Debt securities issued

Debt securities issued consisted of the following:

	2010	2009
Bonds issued	15 204 452	–
Promissory notes	229 244	189 356
Debt securities issued	**15 433 696**	**189 356**

On 7 September 2010 the Group placed a RUR 5 000 000 thousand bonds issue with a five-year maturity. The bonds each have a face value of RUR one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 7.5% for the first six semi-annual periods. In September 2013 the coupon rate will be set for the further four semi-annual periods. The issuer has an obligation to buy the bonds back at their nominal value upon the bonds' holders request after the coupon rate for the four semi-annual periods will be set.

On 16 November 2010 the Group placed a RUR 10 000 000 thousand bonds issue with a five-year maturity. The bonds each have a face value of RUR one thousand and carry ten semi-annual interest coupons. The coupon rate was set as 7.0% for the first four semi-annual periods. In November 2012 the coupon rate will be set for the further six semi-annual periods. The issuer has an obligation to buy the bonds back at their nominal value upon the bonds' holders request after the coupon rate for the six semi-annual periods will be set.

20. Subordinated debt

	2010	2009
UNICREDIT BANK AUSTRIA AG, VIENNA	13 621 564	6 823 912
USD 30 000 thousand, semi-annual interest payment, maturing November 2012, LIBOR+2.5% p.a.;		
USD 21 500 thousand, annual interest payment, maturing July 2011, LIBOR+5% p.a.;		
USD 8 500 thousand, quarterly interest payment, maturing July 2011, LIBOR+4% p.a.;		
USD 10 000 thousand, semi-annual interest payment, maturing January 2012, LIBOR+4% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing November 2013, LIBOR+1.43%p.a.;		
USD 100 000 thousand, semi-annual interest payment, maturing June 2014, LIBOR+1.43%p.a.;		
USD 5 000 thousand, semi-annual interest payment maturing January 2012, LIBOR+4% p.a. EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+1.83% p.a.; EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.15% p.a.		
UNICREDIT BANK AG	2 444 330	2 425 696
USD 30 000 thousand, semi-annual interest payment, maturing February 2013, LIBOR+2.3% p.a.;		
USD 50 000 thousand, semi-annual interest payment, maturing August 2013, LIBOR+1.5%p.a.		
DEUTSCHE INVESTITIONS-UND ENTWICKLUNGSGELLSCHAFT (DEG)	825 937	889 193
EUR 20 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.		
FINNISH FUND FOR INDUSTRIAL COOPERATION LTD., HELSINKI	268 551	283 966
USD 2 000 thousand, semi-annual interest payment, maturing February 2011, LIBOR+4% p.a.;		
EUR 5 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4% p.a.		
UNICREDIT CAIB AG, VIENNA	–	8 744 167
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017, EURIBOR+1.83% p.a.;		
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018, EURIBOR+2.15% p.a.		
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, LONDON	–	927 630
USD 10 000 thousand, semi-annual interest payment, maturing February 2011, LIBOR+4% p.a.;		
USD 20 000 thousand, semi-annual interest payment, maturing January 2012, LIBOR+4% p.a.;		
NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR-ONTWIKKELINGSLANDEN N.V., THE HAGUE	–	666 896
EUR 15 000 thousand, semi-annual interest payment, maturing January 2012, EURIBOR+4%p.a.		
Subordinated Debt	**17 160 382**	**20 761 460**

During the year 2010 the following subordinated loans were repaid early after negotiations with the counterparties and receiving approval of the CBR:

a) to European Bank for Reconstruction and Development, London, in the amount of USD 10 000 thousand, initial contractual maturity was February 2011, and in the amount of USD 20 000 thousand, initial contractual maturity was January 2012;
b) to Nederlandse Financierings-Maatschappij Voor-Ontwikkelingslanden N.V., The Hague, in the amount of EUR 15 000 thousand, initial contractual maturity was January 2012;
c) to UniCredit Bank Austria AG, Vienna, in the amount of USD 21 500 thousand and of USD 8 500 thousand, initial contractual maturities were July 2011; in the amount of USD 10 000 thousand and of USD 5 000 thousand, initial contractual maturities were January 2012.

In the first quarter of 2010, in accordance with assignment agreement relating to the subordinated loans in the total amount of EUR 200 000 thousand concluded between UniCredit CAIB AG and UniCredit Bank Austria AG, all rights on the above mentioned subordinated loans were transferred to UniCredit Bank Austria AG.

21. Shareholder's equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares			Carrying amount			Total
	Preferred		Ordinary	Preferred		Ordinary	
	Class A	Class B		Class A	Class B		
1 January 2009	**34 782**	**18 284**	**1 318 180**	**549 530**	**306 968**	**23 557 340**	**24 413 838**
Conversion of shares	(34 782)	(18 284)	53 066	(549 530)	(306 968)	856 498	–
31 December 2009	**–**	**–**	**1 371 246**	**–**	**–**	**24 413 838**	**24 413 838**
Increase in share capital	–	–	249 702	–	–	4 199 988	4 199 988
31 December 2010	**–**	**–**	**1 620 948**	**–**	**–**	**28 613 826**	**28 613 826**

In accordance with the decision of the sole shareholder dated 31 August 2010, the Bank issued additional 249 702 ordinary shares with a par value of RUR 16 820 each, totalling RUR 4 199 988 thousand. The share issue was registered by the CBR on 15 October 2010. As a result of this additional share issue the total number of shares comprised 1 620 948 shares with a total statutory nominal value of RUR 27 264 345 thousand.

During 2009, the Bank issued 53 066 ordinary non-documentary shares through conversion of 34 782 preferred non-documentary convertible shares of class "A" and 18 284 preferred non-documentary convertible shares of class "B". The share issue was registered by the CBR as at 1 April 2009. No changes in the amount of share capital occurred as a result of this issue.

During 2010, the Bank paid dividends in respect of the year ended 31 December 2009, in the amount of RUR 3 045.64 per one share totalling RUR 4 176 322 thousand.

22. Commitments and contingencies

Credit related commitments

	2010	2009
Undrawn loan commitments	75 665 896	51 781 666
Undrawn commitments to issue documentary instruments	45 590 428	14 633 876
Guarantees issued	44 185 979	23 819 661
Letters of credit	12 989 001	14 191 645
Total undrawn commitments, guarantees and letters of credit	**178 431 304**	**104 426 848**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. With respect to the documentary instruments shown above, as at 31 December 2010, collateral deposits of RUR 3 846 638 thousand were held by the Group (31 December 2009: RUR 7 180 001 thousand).

Operating lease commitments

	2010	2009
Not later than 1 year	1 225 117	1 010 230
Later than 1 year but not later than 5 years	1 830 258	2 183 606
Later than 5 years	137 020	317 366
	3 192 395	**3 511 202**

22. Commitments and contingencies (Continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open for review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, the borrowers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. To the extent that information is available, Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

23. (Losses) gains on financial assets and liabilities held for trading

(Losses) gains on financial assets and liabilities held for trading comprise:

	2010	2009
Net gains from trading securities	1 060 676	1 164 821
Net (losses) gains from foreign exchange, interest based derivatives and changes in fair value of money market deposits:		
- spot, derivative and money market deposits trading	(2 144 817)	3 665 220
- translation of other foreign currency assets and liabilities	717 668	533 490
(Losses) gains on financial assets and liabilities held for trading	**(366 473)**	**5 363 531**

24. Fee and commission income

Fee and commission income comprises:

	2010	2009
Customer foreign exchange commissions	2 073 522	2 597 485
Retail services	1 250 466	1 038 106
Customer accounts handling and settlements	1 149 174	924 188
Documentary business	789 324	646 959
Loan fees that are not part of the effective interest rate	458 009	210 254
Other	67 534	80 123
Fee and commission income	**5 788 029**	**5 497 115**

25. Personnel and other administrative costs

Personnel and other administrative costs comprise:

	2010	2009
Salaries and bonuses	3 721 281	3 126 284
Social security costs	330 523	392 041
Other compensation expenses	66 120	64 308
Other employment taxes	370 822	410 630
Personnel expenses	**4 488 746**	**3 993 263**
Rent, repairs and maintenance	1 592 441	1 701 192
Communication and information services	553 978	546 056
Advertising and marketing	367 495	261 632
Security expenses	199 477	187 379
Legal, audit and other professional services	191 587	146 730
Other taxes	106 723	266 989
Insurance	55 900	51 594
Other	736 968	551 552
Other administrative expenses	**3 804 569**	**3 713 124**

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity, and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure

The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks.

The Board of Management has overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is the Member of the Board of Management of the Bank.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes two Credit Committees and several levels of joint and single personal approval authority, depending on type and amount of exposure.

The standardized products procedures and manuals for lending to private individuals and small business enterprises (which includes the rules for underwriting, management and control the risks involved) are to be agreed with the CRO area and approved by the Board of Management. The underwriting of the deals within the framework of the standardized (retail) products is performed through the single personal approval authority. All deviations/exceptions from standardized products have to be approved by the CRO area.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other unrecognised sheet credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance

Credit risk management policies, procedures and manuals are approved by the Board of Management of the Bank.

The following Credit Committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 10 million or equivalent in other currencies. It is chaired by President of the Board of Management and meets on a weekly basis;
- The Small Credit Committee reviews and approves all loan/credit applications from customers in the amount up to EUR 10 million or equivalent in other currencies. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis.

All credit exposures above EUR 30 million or equivalent in other currencies have to be approved by the UniCredit Group (by the authorized members of Supervisory Board).

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured analysis focusing on the customer's business and financial performance. The loan/credit applications are then independently reviewed by the Credit Underwriting and a second opinion is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

All existing credit deals/approved limits for corporate clients are subject to annual review according to the procedure similar to that for the approval of the credit application.

All corporate customers are rated using the Group's internal rating model. The ratings reflect the risk assessment of the customer and form the basis for transaction pricing.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top 10, 50 and 100 borrowers.

Retail loan/credit applications are approved according to standardized product procedures and manuals by the single personal approval authority granted to employees of Bank's retail lending units through the use of scoring models and application data verification procedures developed together with the CRO. Every exception/deviation from the standards should be approved by the responsible persons from Retail Risk Unit.

In order to reduce the risk of potential losses in the Bank's credit transactions a Monitoring Unit was established in 2009 in line with the implementation of the UniCredit Group project "Corporate Monitoring and Watch List process". Since the establishment of the Unit it has not only developed and implemented a procedure of systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers, but also became a valuable member of the credit process by providing special attention to each of the cases. Monitoring Unit continues working on the elaboration of the process by means of the upgrading IT systems and methodology.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

The Group continues active work to manage and decrease the problem loan portfolio. In 2009 a new specialized unit – Restructuring Department was established. During 2010 the Group further developed and improved the systemic approach for handling problem loans. Under Watch List procedures the monitoring of corporate customers and warning signals was applied on a daily basis.

Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure 31 December 2010	Maximum gross exposure 31 December 2009
Cash and cash balances (excluding cash on hand)	6	24 251 721	14 738 544
Trading securities	7	34 933 922	21 023 167
Amounts due from credit institutions	8	93 967 536	68 756 822
Derivative financial assets	9	16 328 391	18 786 795
Derivative financial assets designated for hedging	10	1 898 362	113 412
Loans to customers	11	386 216 232	341 661 182
Available-for-sale securities	12	296 871	65 844
Held-to-maturity investment securities	12	587 347	586 661
Investments in associate		893 054	988 944
Other assets	16	2 155 757	1 515 415
		561 529 193	**468 236 786**
Financial commitments and contingencies	22	178 431 304	104 426 848
Total credit risk exposure		**739 960 497**	**572 663 634**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for statement of financial position items, based on the Bank's credit rating system.

The tables below show the credit quality by class of asset for statement of financial position items as at 31 December 2010 and 2009:

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total 2010
Cash and cash balances (excluding cash on hand)	6	24 251 721	–	–	**24 251 721**
Trading securities	7	34 933 922	–	–	**34 933 922**
Amounts due from credit institutions	8	93 967 536	–	–	**93 967 536**
Derivative financial assets	9	16 328 391	–	–	**16 328 391**
Derivative financial assets designated for hedging	10	1 898 362	–	–	**1 898 362**
Loans to customers	11				
Corporate customers		200 716 834	99 197 705	13 586 019	**313 500 558**
Retail customers		55 121 119	1 453 312	5 119 243	**61 693 674**
Reverse repurchase agreements with companies		11 022 000	–	–	**11 022 000**
Available-for-sale securities	12	296 871	–	–	**296 871**
Held-to-maturity investment securities	12	587 347	–	–	**587 347**
Total		**439 124 103**	**100 651 017**	**18 705 262**	**558 480 382**

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total 2009
Cash and cash balances (excluding cash on hand)	6	14 738 544	–	–	**14 738 544**
Trading securities	7	20 955 895	–	67 272	**21 023 167**
Amounts due from credit institutions	8	68 756 822	–	–	**68 756 822**
Derivative financial assets	9	18 786 795	–	–	**18 786 795**
Derivative financial assets designated for hedging	10	113 412	–	–	**113 412**
Loans to customers	11				
Corporate customers		124 537 113	139 506 784	17 162 603	**281 206 500**
Retail customers		51 469 218	1 125 238	5 912 679	**58 507 135**
Reverse repurchase agreements with companies		1 947 547	–	–	**1 947 547**
Available-for-sale securities	12	65 844	–	–	**65 844**
Held-to-maturity investment securities	12	586 661	–	–	**586 661**
Total		**301 957 851**	**140 632 022**	**23 142 554**	**465 732 427**

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk 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 the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk of the Bank. ALCO delegates Assets and Liabilities Management Department to monitor and maintain within limits set the Bank's liquidity profile on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and makes escalation in case of limits breaches. Assets and Liabilities Management Department as well as Market Risk Unit report to both local and the UniCredit Group ALCO on a weekly basis.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on annual budget data. On a quarterly basis, the funding plan and contingency plan are updated taking into account the current recognised and unrecognised positions, changes in the assets and liabilities mismatches of the Bank, available funding sources and market analysis.

2. Structural liquidity of the Bank is analysed using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on a weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies:
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid securities positions, failure of Bank's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
   - ALCO sets trigger limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline).

4. Starting from the beginning of 2010 a more conservative approach to structural and short-term liquidity management was established by the Group. Separate cash flows in each currency as well as asset and liability term structures are to be thoroughly monitored.

5. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customers' funds concentration are reported to management and analyzed on a weekly basis.

6. Liquidity ratios in line with regulatory requirements (the CBR) are to be monitored and met:
   - On daily basis Assets and Liabilities Management Department evaluates N2 and calculates projects of N3 and N4 ratios for one month horizon:
     - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
     - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
     - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year.

As at 31 December 2010 and 2009, these ratios were as follows:

	2010, %	2009, %
N2 "Instant liquidity Ratio" (minimum 15%)	103.1	102.1
N3 "Current Liquidity Ratio" (minimum 50%)	69.7	67.0
N4 "Long-Term Liquidity Ratio" (maximum 120%)	95.3	89.9

The following table shows the liquidity gap profile as at 31 December 2010. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. This information is used internally for risk management purposes and differs from financial statements amounts.

The information presented below relates to assets and liabilities of the Bank only prepared using statutory accounting methods.

	2010							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
ASSETS								
Cash and cash balances	31 205 629	–	–	–	–	–	–	**31 205 629**
Trading securities	30 237 028	–	1 663 584	2 691 801	–	–	–	**34 592 413**
Amounts due from credit institutions	86 273 536	981 779	650 000	3 382 385	2 508 152	150 000	–	**93 945 852**
Loans to customers	20 830 875	27 670 064	43 067 797	76 929 757	160 783 451	55 402 768	–	**384 684 712**
Investment securities								
- available-for-sale	–	–	–	–	–	–	354 963	**354 963**
- held-to-maturity	–	–	–	265 000	300 000	–	–	**565 000**
Fixed assets	–	–	–	–	–	–	4 665 892	**4 665 892**
Other assets	–	–	–	7 098 419	–	–	–	**7 098 419**
Total Bank's assets	**168 547 068**	**28 651 843**	**45 381 381**	**90 367 362**	**163 591 603**	**55 552 768**	**5 020 855**	**557 112 880**
LIABILITIES								
Amounts due to credit institutions	42 365 412	8 497 006	4 832 198	38 589 802	27 304 489	15 276 836	–	**136 865 743**
Amounts due to customers								
- current accounts	47 372 076	4 143 717	4 143 717	6 448 816	4 470 549	16 275 344	–	**82 854 219**
- time deposits	154 554 851	8 771 604	3 345 563	22 311 278	53 487 772	2 481 998	–	**244 953 066**
Debt securities issued	–	–	–	–	15 215 077	–	–	**15 215 077**
Other liabilities	–	–	–	7 467 472	–	–	–	**7 467 472**
Equity	–	–	–	–	–	–	69 757 303	**69 757 303**
Total Bank's equity and liabilities	**244 292 339**	**21 412 327**	**12 321 478**	**74 817 368**	**100 477 887**	**34 034 178**	**69 757 303**	**557 112 880**
Net Bank's position	**(75 745 271)**	**7 239 516**	**33 059 903**	**15 549 994**	**63 113 716**	**21 518 590**	**(64 736 448)**	**-**
Accumulated gap of the Bank	**(75 745 271)**	**(68 505 755)**	**(35 445 852)**	**(19 895 858)**	**43 217 858**	**64 736 448**	**-**	

The Group estimates that the negative accumulated gap in 1 month to 1 year periods will be sufficiently covered by the Group's money market daily borrowing capacity and shareholders funding available from the UniCredit Group.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

The table below presents liquidity gap profile according to the approved internal approach as at 31 December 2009:

	2009							
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
ASSETS								
Cash and cash balances	22 899 111	–	–	–	–	–	–	**22 899 111**
Trading securities	18 788 389	–	–	1 645 030	–	–	–	**20 433 419**
Amounts due from credit institutions	34 646 460	375 611	30 762 305	1 001 000	1 264 000	565 000	–	**68 614 376**
Loans to customers	14 738 978	29 725 992	37 559 535	85 607 232	116 813 598	50 397 483	–	**334 842 818**
Investment securities								
- available-for-sale	–	–	–	–	–	–	122 974	**122 974**
- held-to-maturity	–	–	–	300 000	265 000	–	–	**565 000**
Fixed assets	–	–	–	–	–	–	4 339 499	**4 339 499**
Other assets	–	–	–	8 311 799	–	–	–	**8 311 799**
Total Bank's assets	**91 072 938**	**30 101 603**	**68 321 840**	**96 865 061**	**118 342 598**	**50 962 483**	**4 462 473**	**460 128 996**
LIABILITIES								
Amounts due to credit institutions	38 231 860	296 211	–	6 474 605	57 279 320	18 863 690	–	**121 145 686**
Amounts due to customers								
- current accounts	30 912 122	11 496 631	–	6 670 020	7 482 680	921 704	–	**57 483 157**
- time deposits	40 841 067	24 334 164	59 356 887	51 627 108	35 139 146	2 755 217	–	**214 053 589**
Debt securities issued	12 050	26 700	41 300	90 560	–	–	–	**170 610**
Other liabilities	–	–	–	11 473 917	–	–	–	**11 473 917**
Equity	–	–	–	–	–	–	55 802 037	**55 802 037**
Total Bank's equity and liabilities	**109 997 099**	**36 153 706**	**59 398 187**	**76 336 210**	**99 901 146**	**22 540 611**	**55 802 037**	**460 128 996**
Net Bank's position	**(18 924 161)**	**(6 052 103)**	**8 923 653**	**20 528 851**	**18 441 452**	**28 421 872**	**(51 339 564)**	**-**
Accumulated gap of the Bank	**(18 924 161)**	**(24 976 264)**	**(16 052 611)**	**4 476 240**	**22 917 692**	**51 339 564**	**-**	

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of financial assets and liabilities at 31 December 2010 and the financial liabilities as at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2010							
Cash and cash balances	31 206 636	–	–	–	–	–	**31 206 636**
Trading securities	34 933 922	–	–	–	–	–	**34 933 922**
Amounts due from credit institutions	84 795 925	1 165 095	768 240	3 950 293	3 562 628	407 028	**94 649 209**
Derivative financial assets							
- Contractual amounts payable	(38 739 215)	(48 761 843)	(31 570 962)	(36 641 264)	(24 684 235)	(8 173 606)	**(188 571 125)**
- Contractual amounts receivable	39 793 952	51 907 452	35 345 591	39 212 817	31 221 583	9 024 829	**206 506 224**
Derivative financial assets designated for hedging							
- Contractual amounts payable	(8 954)	(17 404)	(95 026)	(140 161)	(2 061 777)	(13 904 449)	**(16 227 771)**
- Contractual amounts receivable	18 435	191 705	100 955	971 433	2 884 068	15 163 184	**19 329 780**
Loans to customers	24 868 163	39 941 056	53 674 360	80 508 690	171 090 627	68 515 632	**438 598 528**
Investment securities							
- held-to-maturity	11 892	18 500	–	295 392	59 460	311 892	**697 136**
Total undiscounted financial assets	**176 880 756**	**44 444 561**	**58 223 158**	**88 157 200**	**182 072 354**	**71 344 510**	**621 122 539**
Financial liabilities as at 31 December 2010							
Amounts due to credit institutions	42 516 545	9 101 458	19 246 981	25 851 612	25 731 874	19 890 917	**142 339 387**
Derivative financial liabilities							
- Contractual amounts payable	40 135 390	69 399 346	51 037 798	32 016 658	26 743 930	5 544 683	**224 877 805**
- Contractual amounts receivable	(39 340 885)	(67 150 264)	(48 062 668)	(28 758 563)	(20 773 334)	(4 200 310)	**(208 286 024)**
Derivative financial liabilities designated for hedging							
- Contractual amounts payable	27 038	10 587	46 521	182 877	9 395 216	17 167 436	**26 829 675**
- Contractual amounts receivable	(14 983)	(38 563)	(79 196)	(201 619)	(8 463 134)	(15 592 956)	**(24 390 451)**
Amounts due to customers	232 904 181	11 295 914	6 296 936	23 904 286	61 303 974	1 333 804	**337 039 095**
Debt securities issued	15 357	243 410	447 154	603 979	16 448 973	-	**17 758 873**
Total undiscounted financial liabilities	**276 242 643**	**22 861 888**	**28 933 526**	**53 599 230**	**110 387 499**	**24 143 574**	**516 168 360**

26. Risk management (Continued)

The maturity profile of the financial assets and liabilities at 31 December 2009 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2009							
Cash and cash balances	22 899 111	–	–	–	–	–	**22 899 111**
Trading securities	21 023 167	–	–	–	–	–	**21 023 167**
Amounts due from credit institutions	32 863 006	661 099	31 713 025	876 412	987 862	4 725 486	**71 826 890**
Derivative financial assets							
- Contractual amounts payable	(12 173 138)	(7 083 163)	(13 085 859)	(21 579 764)	(35 637 460)	(2 396 312)	**(91 955 696)**
- Contractual amounts receivable	12 579 395	9 082 244	14 376 308	24 726 295	45 614 990	3 241 471	**109 620 703**
Derivative financial assets designated for hedging							
- Contractual amounts payable	–	42 869	42 869	92 982	94 100	233 707	**506 527**
- Contractual amounts receivable	–	(18 907)	(105 043)	(373 259)	(186 581)	(17 723)	**(701 513)**
Loans to customers	18 853 566	35 563 091	45 884 476	96 129 428	134 307 712	62 115 497	**392 853 770**
Investment securities							
- held-to-maturity	11 370	18 500	–	29 870	347 479	345 480	**752 699**
Total undiscounted financial assets	**96 056 477**	**38 265 733**	**78 825 776**	**99 901 964**	**145 528 102**	**68 247 606**	**526 825 658**
Financial liabilities as at 31 December 2009							
Amounts due to credit institutions	39 494 894	1 843 461	584 264	1 326 127	57 393 564	20 785 092	**121 427 402**
Money market deposits held for trading	72 542	70 918	138 445	6 587 276	–	–	**6 869 181**
Derivative financial liabilities							
- Contractual amounts payable	10 489 460	9 137 088	11 884 510	18 839 669	45 729 548	8 983 967	**105 064 242**
- Contractual amounts receivable	(10 293 681)	(7 947 721)	(9 350 822)	(15 546 928)	(39 575 682)	(7 097 336)	**(89 812 170)**
Derivative financial liabilities designated for hedging							
- Contractual amounts payable	–	39 166	632 708	427 152	1 903 271	3 924 708	**6 927 005**
- Contractual amounts receivable	(30 999)	(34 815)	(65 928)	(495 743)	(1 068 761)	(586 717)	**(2 282 963)**
Amounts due to customers	118 511 633	25 492 829	64 722 696	50 115 548	27 618 968	949 528	**287 411 202**
Debt securities issued	65 385	28 865	56 147	42 081	–	–	**192 478**
Total undiscounted financial liabilities	**158 309 234**	**28 629 791**	**68 602 020**	**61 295 182**	**92 000 908**	**26 959 242**	**435 796 377**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. Refer to note 18.

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2010	4 029 813	11 475 446	29 630 588	77 571 270	39 056 144	16 668 044	**178 431 305**
2009	4 609 599	8 068 913	13 347 497	39 667 556	34 738 969	3 994 314	**104 426 848**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes four market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments.
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.
3. Spread Risk is the risk that changes in credit spreads will affect bond prices.
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VAR") methodology for the measuring of all of the above risks. The VAR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99 % confidence level over a 1-day horizon. The Group distinguishes the following types of VAR:
1. Total VAR is calculated for all risk factors taken in aggregate;
2. Interest Rate VAR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VAR is originated from currency risk exposure of the portfolio;
4. Spread VAR is originated from spread risk exposure of the bond portfolio;
5. Residual VAR is originated from other factors exposure of the bond portfolio.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate increases by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group established Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread increase by one basis point. Since monitoring of VAR BPV and CPV is an integral part of the risk management procedures, VAR and BPV limits have been established and exposures are reviewed daily against the limits by Market Risk Unit (hereinafter – "MRU").

The Group has adopted the following limits:
- Total VAR limit for whole portfolio;
- Total BPV limit for whole portfolio;
- BPV limit split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

Usage of VAR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VAR figures and sets trigger BPV limits which help traders and the Asset and Liability Management Department to optimize risk profiles in volatile market environments. In addition the MRU monitors on daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

Moreover, in 2010 on a monthly basis MRU started to provide stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factors' movements

All limits violations are analyzed by the MRU, and all limits breaches are escalated and reported to local ALCO and to Bank Austria.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

Interest rate risk management of the banking book

The Bank uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

One important point in banking book interest rate management is that there is a discrepancy between the legal run –off of client current accounts and the observable behaviour of them. Based on historical observation the Bank developed a model which allows better managing of the interest rate risk position.

In addition, the Bank implemented the replication portfolio approach, which allows mitigating repricing risk of the rouble position through the usage of equities and current accounts.

For avoiding accounting discrepancy between hedged items of banking book calculated on accrual basis and hedging instruments calculated on mark-to-market basis and, as a result, to stabilize net interest income the Bank uses hedge accounting methodology. Starting from Micro Cash Flow Hedge at the end of 2008 the Bank implemented Macro Cash Flow hedge approach in 2009 and Micro Fair Value hedge approach in the middle of 2010.

Objectives and limitation of VAR methodology

The Group uses a VAR methodology based on historical and Monte-Carlo simulations, where 1000 scenarios of joint risk factors behaviour are modelled. The portfolios are revalued according to the scenarios set. The VAR measure results as the 99% quantile of the above distribution. Interest and exchange rates are modelled on a historical data basis. Bonds credit spread changes are modelled using the Student 5 distribution.

VAR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to underestimation of the future losses. The VAR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VAR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

Computational results

A more conservative trading policy together with partial position closing have led to a VAR decrease at a total bank level for all risk factors in 2010 in comparison to 2009 when market conditions were still characterized by high volatility of rouble interest rates and corporate bond credit spreads.

The following table shows total VAR estimates for all risk factors:

	2010	2009
Total VAR	114 351	174 964
Interest Rate VAR	96 524	154 919
Spread VAR	28 318	52 244
Foreign exchange VAR	36 258	48 115
Residual VAR	18 309	52 734

The banking book includes corporate and retail loans and bonds from investment portfolio on the asset side and deposits on the liability side offset by internal interest rate swaps to transfer interest rate risk to the trading book. The banking book positions increased in 2010 so that banking book VAR for all risk factors rose in comparison to 2009.

The following table shows VAR estimates for the banking book:

	2010	2009
Total VAR	60 438	42 397
Interest Rate VAR	59 112	42 493
Spread -VAR [1]	2 027	3
Foreign exchange VAR [2]	–	–
Residual VAR	2 437	10

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

[2] Foreign exchange risk is defined as the risk arising from the net open position of the Bank and allocated to the trading book. The foreign exchange risk component of the banking book is therefore considered to be zero.

Trading book VAR declined in 2010 in comparison to 2009 for all risk factors. The same dynamics can be seen for bonds only in trading book.

The following table shows VAR estimates for the trading book:

	2010	2009
Total VAR	108 655	153 720
Interest Rate VAR	88 787	136 729
Spread VAR	28 295	52 247
Foreign exchange VAR	36 259	48 115
Residual VAR	18 286	52 736

The following table shows VAR estimates for the trading bond portfolio:

	2010	2009
Total VAR	47 468	109 511
Interest Rate VAR	31 635	80 965
Spread VAR	28 318	52 247
Residual VAR	18 309	52 736

Operational risk

The Group defines as operational the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events.

Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.

Operational risk governance

The Board of Management is responsible for:

- approving all the material aspects of the operational risk framework, including the operational risk rulebook and the set up of the office responsible for its implementation and for operational risk control.
- effective oversight over operational risk exposure. It is part of the operational risk office responsibilities to inform and report such risks to the Board of Management.

26. Risk management (Continued)

The Operational risk management (hereinafter – "ORM") office ensures regular control on operational risks. Among the most important functions, the ORM office carries out the following activities:

- ensures that operational loss data is regularly collected in the ORM database;
- performs the risk indicators' identification, the scenario analysis assessment and assures the quality of gathered loss data;
- verifies that risk limits are respected, notifies breaches to management, internal audit;
- cooperates in analysis of operational risk impact in case of significant new products/processes introduction;
- verifies the Bank has continuity plans in place;
- proposes risk mitigation and transfer plans, including insurance hedging;
- performs the analysis of outsourcing activities in the Bank.

Internal audit can cooperate with the ORM function in charge for the setting, development, implementation and maintenance of the operational risk management system and the inherent internal validation process.

Operational risk capital calculation

The Bank uses the Basel II Standardized Approach (hereinafter – "STA") for operational risk capital calculation. Under STA the capital requirement is the average value of the last three years to the date of STA calculation. For each year the capital requirement is obtained by summing gross income for each business line multiplied by the regulatory rates.

According to the UniCredit Group standards, the ORM office performs the gross income distribution between business lines and sends the results to the UniCredit Group for further capital calculation.

27. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a significant part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the consolidated statement of financial position at fair value.

	2010		2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS				
Amounts due from credit institutions	93 967 536	93 967 536	68 756 822	68 756 822
Loans to customers	386 216 232	389 760 122	341 661 182	340 141 849
Investment securities held-to-maturity	587 347	589 007	586 661	574 927
FINANCIAL LIABILITIES				
Amounts due to credit institutions	137 143 630	137 143 630	113 395 109	113 395 109
Amounts due to customers	330 414 168	331 688 379	281 432 557	281 747 382
Debt securities issued	15 433 696	15 373 696	189 356	189 356

Financial instruments recorded at fair value

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 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 table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total 2010
Financial assets				
Trading securities	**30 587 680**	**4 346 242**	**–**	**34 933 922**
Derivative financial assets	–	16 328 391	–	**16 328 391**
Derivative financial assets designated for hedging	–	1 898 362	–	**1 898 362**
	30 587 680	**22 572 995**	**–**	**53 160 675**
Financial liabilities				
Derivative financial liabilities	–	15 953 515	–	**15 953 515**
Derivative financial liabilities designated for hedging	–	2 683 004	–	**2 683 004**
	–	**18 636 519**	**–**	**18 636 519**

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total 2009
Financial assets				
Trading securities	**4 996 896**	**15 958 999**	**67 272**	**21 023 167**
Derivative financial assets	–	18 786 795	–	**18 786 795**
Derivative financial assets designated for hedging	–	113 412	–	**113 412**
	4 996 896	**34 859 206**	**67 272**	**39 923 374**
Financial liabilities				
Money market deposits held for trading	–	6 536 648	–	**6 536 648**
Derivative financial liabilities	–	16 802 618	–	**16 802 618**
Derivative financial liabilities designated for hedging	–	1 119 570	–	**1 119 570**
	–	**24 458 836**	**–**	**24 458 836**

The following table shows a reconciliation for the year ended 31 December 2009 for fair value measurement in Level 3 of the fair value hierarchy.

	2010	2009
	Trading securities	Trading securities
Balance at beginning of the year	**67 272**	**–**
Total losses in profit or loss	(67 272)	(308 022)
Sales	–	(22 239)
Transfers into level 3	–	397 533
Balance at end of the year	**–**	**67 272**

28. Related party disclosures

The Bank's ultimate parent is the UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities produce publicly available financial statements.

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and more senior parents within the UniCredit Group were as follows:

	31 December 2010	Average interest rate, %	31 December 2009	Average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	250 000	12.1%	2 965 966	11.9%
- In EUR	947 789	0.0%	22 171 950	1.1%
- In USD	6 861 056	0.4%	2 996	0.0%
Derivative financial assets	215 776		4 185 287	
Other assets	45 772		16 202	
Amounts due to credit institutions				
- In Russian Roubles	49 089 047	4.6%	34 048 316	8.2%
- In EUR	9 446 305	2.7%	8 744 167	3.0%
- In USD	21 792 913	1.7%	11 442 823	2.2%
Money market deposits held for trading				
- In Russian Roubles	–	–	6 536 648	8.6%
Derivative financial liabilities	211 182		5 924 582	
Other liabilities	5 176		86 321	
Commitments and guarantees issued	1 636 274		2 036 840	
Commitments and guarantees received	411 359		625 144	

	2010	2009
Interest income	441 908	1 341 262
Interest expense	(2 743 888)	(10 057 217)
Fee and commission income	16 258	16 601
Fee and commission expense	(7 971)	(6 180)
(Losses) gains on financial assets and liabilities held for trading	(2 214 575)	3 017 327
Salaries and benefits	(19 503)	(51 177)

Balances and transactions with other companies controlled by the UniCredit Group are as follows:

	31 December 2010	Average interest rate, %	31 December 2009	Average interest rate, %
Amounts due from credit institutions				
- In EUR	1 186 694	6.4%	2 037 052	0.9%
Derivative financial assets	6 677 599		4 766 853	
Derivative financial assets designated for hedging	1 839 650		113 412	
Loans to customers				
- In Russian Roubles	840 099	3.4%	90 006	2.5%
Other assets	14 827		636	
Amounts due to credit institutions				
- In Russian Roubles	457 291	0.2%	422 796	0.0%
- In EUR	839 411	2.5%	903 639	2.6%
- In USD	5 967 569	2.2%	5 741 754	2.3%
Derivative financial liabilities	8 934 975		5 017 283	
Derivative financial liabilities designated for hedging	2 582 530		1 060 130	
Amounts due to customers				
- In Russian Roubles	225 022	0.9%	1 143 032	3.7%
- In EUR	33 057	0.0%	2 748	0.0%
- In USD	80 872	0.0%	1 317	0.0%
Debt securities issued	3 873 141	7.0%	–	–
Other liabilities	62 584		46 646	
Commitments and guarantees issued	11 531 068		2 026 616	
Commitments and guarantees received	631 814		665 667	

	2010	2009
Interest income	1 753 937	42 088
Interest expense	(1 547 223)	(761 177)
Fee and commission income	15 519	13 462
Fee and commission expense	(19 631)	(26 800)
Gains on financial assets and liabilities held for trading	3 211 008	1 139 434
Other income	2 280	–
Salaries and benefits	(4 890)	(11 225)
Other administrative costs	(46 020)	(10 974)

Notes to Consolidated Financial Statements (Continued)

28. Related party disclosures (Continued)

Subordinated loans from the members of the UniCredit Group were as follows for 2010 and 2009:

	2010		2009	
	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group	UniCredit Bank Austria AG and more senior parents within the UniCredit Group	Other companies controlled by the UniCredit Group
Subordinated loans at the beginning of the year	15 568 079	2 425 696	15 082 167	2 362 984
Subordinated debts repaid during the year	(1 388 444)	–	–	–
Accrual of interest, net of interest paid	11 083	18	(97 883)	(6 392)
Effect of exchange rates changes	(569 154)	18 616	583 795	69 104
Subordinated loans at the end of the year	**13 621 564**	**2 444 330**	**15 568 079**	**2 425 696**

For 2010, compensation of the key management personnel comprised short-term benefits in the amount of RUR 84 968 thousand and other long-term benefits in the amount of RUR 27 529 thousand (2009: RUR 119 625 thousand and RUR 9 740 thousand, respectively) and post-employment benefits in the amount of RUR 10 928 thousand (2009: RUR 4 755 thousand).

	2010	2009
	Key management personnel	Key management personnel
Loans outstanding at 1 January, gross	14 698	19 540
Loan repayments during the year	(3 636)	(4 842)
Loans outstanding at 31 December, gross	**11 062**	**14 698**
Less loan impairment at 31 December	(45)	(154)
Loans outstanding at 31 December, net	**11 017**	**14 544**

29. Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian accounting legislation. As at 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis was as follows:

	2010	2009
Main capital	55 128 543	48 970 457
Additional capital	22 422 751	20 987 811
Total capital	**77 551 294**	**69 958 268**
Risk weighted assets	**484 092 400**	**463 169 179**
Capital adequacy ratio	16.0%	15.1%

Main capital comprises share capital, share premium, reserve fund and retained earnings including current year profit confirmed by external auditors. Additional capital includes subordinated debt, preferred shares, current year profit not included in the main capital and revaluation reserves.

Capital adequacy ratio under the Basel II requirements

Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Bank Austria AG internal policies.

The capital adequacy ratio, computed in accordance with the Basel II requirements, as at 31 December 2010 and 2009, was as follows (unaudited):

	2010	2009
Tier 1 capital	55 462 552	49 400 143
Tier 2 capital	11 657 402	14 574 516
Tier 3 capital	1 748 170	278 594
Total capital	**68 868 124**	**64 253 253**
Risk weighted assets	**475 737 258**	**396 281 669**
Tier 1 capital ratio	11.7%	12.5%
Total capital ratio	14.5%	16.2%

During 2010 and 2009 the Group complied with all external capital requirements.

UniCredit Bank