



Bank of Moscow

**Group of Joint Stock Commercial Bank
Bank of Moscow
(Open Joint Stock Company)**

**Consolidated Financial Statements
for the Year Ended 31 December 2010
and
Independent Auditor's Report**

**Moscow
2011**

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company)

We have audited the accompanying consolidated financial statements of the Group of Joint stock commercial bank – Bank of Moscow (open joint stock company), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The item "Loans to customers" of the consolidated statement of financial position includes loans issued to non-resident borrowers and borrowers acting as intermediaries and/or dealing with securities, in the total amount of not less than RUR 137 180 182 thousand. The amount of RUR 62 057 363 thousand represents the provision for impairment of these loans. Besides, this item includes loans issued to borrowers involved in insurance, leasing and manufacturing business in various industries in the total amount of not less than RUR 66 486 060 thousand, with the impairment provision of RUR 19 702 885 thousand. We have discovered the following circumstances in respect of these borrowers:

As described in more detail in Note 36 "Subsequent Events", there is a certain probability that a significant portfolio of assets is connected with financing of various projects for the benefit of the former management of Bank of Moscow, and a number of other persons related to it, at the expense of Bank of Moscow. Moreover, the current management of Bank of Moscow is aware of the attempts of third parties to sell part of the assets representing collaterals under the loans previously granted by Bank of Moscow, and does not exclude any such further attempts in future. Bank of Moscow cannot exclude further deterioration of the loan portfolio to the extent representing the transactions to finance the projects connected with the former management of the Bank, and the corresponding increase of the impairment provisions for the loans extended to finance such projects.

These circumstances cause us to believe that, considering other events occurred after the reporting date, that a substantial portion of the above borrowers may represent the companies related to Bank of Moscow through either significant influence, or control exercised by the administration of Bank of Moscow in the office as at 1 January 2011. We have requested that the new management of Bank of Moscow officially confirm or deny the related party relationship between such borrowers with Bank of Moscow or its former management and received the confirmation that as at the date of these consolidated financial statements Bank of Moscow has no documented information evidencing the related party relationship between the said borrowers and the former management of Bank of Moscow.

In our opinion, these circumstances exercise significant influence over the assessment of credit risks in respect of the loans mentioned above, and on the information disclosed in Note 35 "Related Party Transactions". At the same time, the uncertainty as regards the borrowers' being the related parties of Bank of Moscow, the on-going internal investigations conducted in the Bank of Moscow and the inspections of the law enforcement authorities do not allow to estimate reliably the adequate amount of provisions for impairment in respect of the above loans and assess the completeness of disclosures in accordance with IAS 24 "Related Party Transactions", as well as the extent of the retrospective effect of the actions of the former management on the consolidated financial statements of Bank of Moscow.

Qualified opinion

In our opinion, except for the effects on the consolidated financial statements of the matters described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group of Joint stock commercial bank – Bank of Moscow (open joint stock company) as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 3 "Basis of Presentation" and Note 36 "Subsequent Events". On 22 February 2011 a stake in Bank of Moscow, which was formerly held by the Government of Moscow (46.48%), as well as 25% + 1 share in JSC Metropolitan Insurance Group, which holds 17.3% of shares in Bank of Moscow, was transferred to JSC VTB Bank. Upon results of the audits conducted by the Accounting Chamber of the Russian Federation, the Bank of Russia and the new management of Bank of Moscow, the financial results of Bank of Moscow for the year 2010 have been substantially adjusted mainly on account of the increase of the provision for loans impairment. The Group does not exclude further increase of provisions for impairment of loans extended previously to persons related to the former management of the Bank. The plans of the Group's management relating to stabilization of the Group's financial position are described in Note 3 "Basis of Presentation", Note 36 "Subsequent Events" and Note 32 section "Capital Management".

Anton V. Efremov

Senior Partner

27 July 2011

ZAO BDO

Moscow, Russian Federation



Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2010

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Joint Stock Commercial Bank – Bank of Moscow and its subsidiaries (the Group).

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

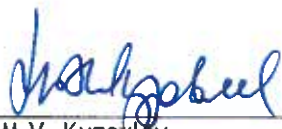
In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

On behalf of the Group's management the consolidated financial statements for the year ended 31 December 2010 were authorised for issue on 27 July 2011 by:



M.V. Kuzovlev,
President



S.E. Bykova,
Acting Chief Accountant

Bank of Moscow OJSC
27 July 2011



Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
 Consolidated Statement of Financial Position as at 31 December 2010
 (in thousands of Russian Roubles)

	Note	2010	2009
Assets			
Cash and cash equivalents	5	73 028 296	75 955 760
Mandatory cash balances with central banks		5 588 823	4 748 438
Financial assets at fair value through profit or loss	6	137 214 658	118 461 672
Due from other banks	7	79 402 561	50 703 283
Loans to customers	8	497 570 795	534 489 549
Financial assets available for sale	9	11 152 406	13 738 026
Investments held to maturity	10	418 361	265 211
Investments in associates and non-consolidated subsidiaries	11	3 247 814	3 820 845
Premises and equipment and intangible assets	12	14 741 266	16 895 277
Investment property	13	3 637 994	-
Other assets	14	5 932 719	5 239 209
Current tax asset		3 671 603	750 310
Deferred tax asset	26	18 603 067	76 072
Total assets		854 210 363	825 143 652
Liabilities			
Due to other banks	15	159 330 606	225 714 723
Customer accounts	16	543 140 280	428 028 589
Financial liabilities at fair value through profit or loss	6	4 899 711	2 340 289
Debt securities issued	17	102 172 382	78 098 779
Other liabilities	18	4 208 444	2 774 776
Current tax liability		39 446	89 705
Deferred tax liability	26	134 969	1 500 756
Total liabilities		813 925 838	738 547 617
Equity			
Share capital	20	20 476 746	18 313 544
Share premium		53 624 131	34 090 420
Fair value reserve for financial assets available for sale		2 605	(4 972)
Revaluation reserve for premises and equipment		3 882 551	3 882 551
Accumulated exchange differences		13 489	(39 905)
(Accumulated loss)/Retained earnings		(38 143 811)	30 109 149
Equity attributable to the shareholders of the parent Bank		39 855 711	86 350 787
Non-controlling interest	19	428 814	245 248
Total equity		40 284 525	86 596 035
Total liabilities and equity		854 210 363	825 143 652

M.V. Kuzovlev,
 President
 27 July 2011



S.E. Bykova,
 Acting Chief Accountant

The notes set out on pages 99-105 are an integral part of these consolidated financial statements

*Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2010
(in thousands of Russian Roubles)*

	Note	2010	2009
Interest income	21	77 027 932	82 264 178
Interest expense	21	(37 367 732)	(50 988 739)
Net interest income		39 660 200	31 275 439
Provision for impairment of due from other banks and loans to customers	7, 8	(104 953 701)	(30 751 474)
Net interest (expense)/income after provision for impairment of due from other banks and loans to customers		(65 293 501)	523 965
Gains less losses arising from financial assets at fair value through profit or loss	22	3 824 667	9 595 572
Gains less losses arising from financial liabilities at fair value through profit or loss		(212 274)	(1 141 514)
Gains less losses arising from financial assets available for sale		119 814	935 369
Gains less losses from dealing in foreign currency and precious metals		2 406 669	638 493
Gains less losses from revaluation of foreign currency and precious metals		(2 196 873)	(497 849)
Fee and commission income	23	7 135 299	6 966 411
Fee and commission expense	23	(1 647 209)	(1 486 008)
Dividends received		44 356	19 040
Provision for impairment of financial assets available for sale	9	(5 131 187)	(233 888)
Provision for impairment of other assets	14	(1 222 284)	(600 239)
Provision for impairment of investments held to maturity	10	368	(4 191)
Provision for impairment of premises and equipment and intangible assets	12	(3 082 600)	(205 201)
Net (loss)/income		(65 254 755)	14 509 960
General and administrative expenses	24	(17 118 197)	(14 317 805)
Contributions to the Deposit Insurance Fund		(731 544)	(633 476)
Other operating income less expenses	25	1 583 350	1 856 331
Operating (loss)/income		(81 521 146)	1 415 010
Share in net profit /(loss) of the associates	11	(3 091 103)	(129 368)
Net share in other movements in equity of non-consolidated subsidiaries		26	(1 559)
Net (loss)/gain on acquisition and sale of subsidiaries, associates and banks	29	(2 755 963)	(31 962)
(Loss)/Profit before taxation		(87 368 186)	1 252 121
Income tax (recovery)/expense	26	19 123 117	(535 118)
Net (loss)/profit		(68 245 069)	717 003

The notes set out on pages 11 to 102 are an integral part of these consolidated financial statements.

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
 Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2010
 (in thousands of Russian Roubles)

	Note	2010	2009
Other comprehensive income:			
Revaluation of financial assets available for sale	9	9 943	(8 948)
Exchange differences		43 261	(201 252)
Revaluation of premises and equipment		-	(1 835 768)
Income tax relating to components of comprehensive income:			
- Financial assets available for sale	26	(2 366)	1 498
- Revaluation of premises and equipment	26	-	367 154
Other comprehensive income/(loss) after taxation		50 838	(1 677 316)
Total comprehensive loss for the period		(68 194 231)	(960 313)
Net (loss)/profit of the reporting period attributable to the shareholders of the parent Bank		(68 252 960)	711 263
Net profit of the reporting period attributable to the non-controlling interest	19	7 891	5 740
Comprehensive loss for the reporting period attributable to the shareholders of the parent Bank		(68 191 989)	(974 116)
Comprehensive(loss)/ income for the reporting period attributable to the non-controlling interest		(2 242)	13 803
Basic and diluted (loss)/earnings per share (RUR/per share)	27	(402.59)	4.81



M.V. Kuzovlev,
 President

27 July 2011




S.E. Bykova,
 Acting Chief Accountant

*Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
Consolidated Statement of Cash Flows for the Year Ended 31 December 2010
(in thousands of Russian Roubles)*

	2010	2009
Cash flows from operating activities		
Interest received	77 002 752	78 228 863
Interest paid	(36 538 206)	(49 785 368)
Gains less losses arising from financial assets at fair value through profit or loss	5 514 258	4 135 224
Gains less losses from dealing in foreign currencies and precious metals	2 406 669	638 493
Fees and commissions received	7 125 202	6 919 790
Fees and commissions paid	(1 647 209)	(1 486 008)
General and administrative expenses paid	(14 279 305)	(13 238 031)
Contributions to the Deposit Insurance Fund	(731 544)	(633 476)
Other net operating income received less expenses	1 139 136	1 072 012
Income tax paid	(3 743 583)	(581 681)
Cash flows from operating activities before changes in operating assets and liabilities	36 248 170	25 269 818
Net (increase)/decrease in operating assets		
Mandatory cash balances with central banks	(840 385)	(3 586 346)
Financial assets at fair value through profit or loss	(21 854 731)	(76 411 747)
Due from other banks	(28 775 527)	23 558 545
Loans to customers	(68 038 592)	(48 142 299)
Other assets	(1 457 436)	335 155
Net increase/(decrease) in operating liabilities		
Due to other banks	(66 395 387)	(1 640 665)
Customer accounts	114 352 132	14 810 575
Debt securities issued (excluding eurobonds)	536 732	(1 210 219)
Other liabilities	(734 766)	(5 222 634)
Net cash flows from operating activities	(36 959 790)	(72 239 817)
Cash flows from investing activities		
Acquisition of subsidiaries and associates (Note 29)	(6 456 315)	(368 991)
Disposal of subsidiaries and associates (Note 29)	251 572	415
Acquisition of financial assets available for sale (Note 9)	(3 126 405)	(6 549 256)
Redemption of financial assets available for sale (Note 9)	1 290	544 242
Proceeds from sale of financial assets available for sale (Note 9)	918 399	3 095 449
Acquisition of investments held to maturity	(258 802)	(455 772)
Redemption of investments held to maturity	125 530	946 208
Increase in cash and cash equivalents on acquisition of the subsidiary bank	91 732	-
Purchase of premises and equipment	(2 646 356)	(1 377 343)
Proceeds from sale of premises and equipment	314 284	5 405
Dividends received	44 356	19 040
Net cash flows from investing activities	(10 740 715)	(4 140 603)

The notes set out on pages 11 to 102 are an integral part of these consolidated financial statements.

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
 Consolidated Statement of Cash Flows for the Year Ended 31 December 2010
 (in thousands of Russian Roubles)

	2010	2009
Cash flows from financing activities		
Share issue (Note 20)	21 696 913	19 999 999
Eurobonds issued by the Bank	32 956 705	-
Eurobonds repaid by the Bank	(9 379 260)	(12 817 628)
Subordinated loan	-	11 107 970
Dividends paid (Note 28)	(1)	(25)
Net cash flows from financing activities	45 274 357	18 290 316
Effect of exchange rate changes on cash and cash equivalents	(501 316)	777 202
Net change in cash and cash equivalents	(2 927 464)	(57 312 902)
Cash and cash equivalents at the beginning of the year (Note 5)	75 955 760	133 268 662
Cash and cash equivalents at the end of the year (Note 5)	73 028 296	75 955 760



M.V. Kuzovlev,
 President

27 July 2011




S.E. Bykova,
 Acting Chief Accountant

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
 Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010
 (in thousands of Russian Roubles)

	Equity attributable to the shareholders of the parent Bank					Non-controlling interest	Total equity		
	Note	Share capital	Share premium	Fair value reserve for financial assets available for sale	Revaluation on reserve for premises and equipment differences			(Accumulated Loss)/ Retained earnings	
Balance as at 31 December 2008		16 212 704	16 191 261	2 478	5 371 156	149 419	29 397 886	325 514	67 650 418
Comprehensive income/(loss) for the reporting period		-	-	(7 450)	(1 488 605)	(189 324)	711 263	13 803	(960 313)
Share issue	20	-	-	-	-	-	-	-	-
- nominal value		2 100 840	-	-	-	-	-	-	2 100 840
- share premium		-	17 899 159	-	-	-	-	-	17 899 159
Change in the non-controlling interest on acquisition/(disposal) of subsidiaries	19	-	-	-	-	-	-	(94 069)	(94 069)
Balance as at 31 December 2009		18 313 544	34 090 420	(4 972)	3 882 551	(39 905)	30 109 149	245 248	86 596 035
Comprehensive income/(loss) for the reporting period		-	-	7 577	-	53 394	(68 252 960)	(2 242)	(68 194 231)
Share issue	20	-	-	-	-	-	-	-	-
- nominal value		2 163 202	-	-	-	-	-	-	2 163 202
- share premium		-	19 533 711	-	-	-	-	-	19 533 711
Change in the non-controlling interest on acquisition/(disposal) of subsidiaries	19	-	-	-	-	-	-	185 808	185 808
Balance as at 31 December 2010		20 476 746	53 624 131	2 605	3 882 551	13 489	(38 143 811)	428 814	40 284 525

M. V. Kuzovlev

M. V. Kuzovlev,
 President

27 July 2011



S. E. Bykova

S. E. Bykova,
 Acting Chief Accountant

1. Principal Activities of the Group

These consolidated financial statements comprise the financial statements of Joint-Stock Commercial Bank - Bank of Moscow (open joint stock company) (hereinafter the "Bank" or the "Bank of Moscow") and its subsidiaries. The Bank and its subsidiaries are jointly referred to as the "Group" or "Group of the Bank of Moscow". The list of subsidiaries and associates included in these consolidated financial statements is disclosed in Note 3.

The Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. The Bank of Moscow was set up in March 1995 through reorganisation of Moscow Settlement Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of the Russian Federation (hereinafter the CBR or the Bank of Russia) on 14 October 2004. The Bank also holds licenses of the professional securities market participant and a license for trading in precious metals.

The principal activity of the Group is commercial banking comprising corporate, investment and retail banking services, asset management, private banking and transactions on financial markets. Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals.

Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals.

In autumn 2010 VTB Bank announced that it was interested in gaining control over the Bank of Moscow. On 22 February 2011 the Bank of Moscow shares previously held by Moscow City Government (46.48%) and 25% plus one share in Metropolitan Insurance Group (MIG), which owns 17.3% shares of the Bank of Moscow, were acquired by OJSC VTB Bank. Moscow City Government, which since the establishment of the Bank of Moscow has been directly or indirectly (through MIG) the largest shareholder, ceased to be the owner of the Bank of Moscow.

The Bank is registered at the following address: 8/15, Rozhdestvenka Str., Moscow, Russian Federation.

As at 31 December 2010, the Bank had 384 divisions on the territory of the Russian Federation and 7 subsidiary banks (as at 31 December 2009: 396 divisions on the territory of the Russian Federation and 7 subsidiary banks): in the Russian Federation (Moscow) - OJSC Mosvodokanalbank, Group's interest of 65.87%; (Bryansk) - Commercial Joint Stock Bank Bezhitsa-Bank (OJSC), Group's interest of 100%; in the Republic of Belarus (Minsk) - OJSC Bank Moscow-Minsk, Group's interest of 100%; in the Republic of Latvia (Riga) - JSC Latvian Businessbank (AS Latvijas Biznesa Banka), Group's interest of 99.97%; in the Republic of Estonia (Tallinn) - Estonian Credit Bank (Eesti Krediidipank), Group's interest of 76.59 %; in the Republic of Ukraine (Kiev) - BM Bank LLC, Group's interest of 100%, in the Republic of Serbia (Belgrade) - JSC Bank of Moscow - Belgrade, Group's interest of 100%.

The Bank's head office is located in Moscow. The Bank's 140 offices and sub-offices are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorised dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to many municipal and commercial organisations participating in the implementation of the Moscow Government programs.

As at 31 December 2010, the Bank of Moscow regional network comprised 48 branches, 25 operating offices and 171 sub-branches located on the territory of the Russian Federation (as at 31 December 2009: 48 branches, 29 operating offices and 181 sub-branches). The subsidiary bank OJSC Mosvodokanalbank has 2 sub-branches on the territory of the Russian Federation (as at 31 December 2009: 3 sub-branches). The subsidiary bank Commercial Joint Stock Bank Bezhitsa-Bank (OJSC) has no branches (as at 31 December 2009: 2 branches). The subsidiary bank OJSC Bank Moscow-Minsk has 5 branches and 41 sub-branches located on the territory of the Republic of Belarus (as at 31 December 2009: 5 branches and 41 sub-branches). The subsidiary bank BM Bank LLC has 44 sub-branches on the territory of the Republic of Ukraine (as at 31 December 2009: 45 sub-branches). The subsidiary bank JSC Latvian Businessbank (AS Latvijas Biznesa Banka) has 2 sub-branches located on the territory of the Republic of Latvia (as at 31 December 2009: 1 sub-branch). Estonian Credit Bank (Eesti Krediidipank) has 8 branches and 13 sub-branches located on the territory of the Republic of Estonia (as at 31 December 2009: 8 branches and 13 sub-branches). The subsidiary bank JSC Bank of Moscow - Belgrade has 2 branches located on the territory of the Republic of Serbia (as at 31 December 2009: no branch).

As at 31 December 2010, the average number of the Group employees was 10 258 (as at 31 December 2009: 10 420).

The international rating agency Fitch Ratings affirmed the Bank's ratings as follows: long-term foreign currency IDR at "BBB-", short-term foreign currency IDR at "F3", the national long-term rating at "AA+"(rus), Rating Watch Negative. Support rating at "2" and individual rating at "D". On 5 July 2011 the agency decreased the individual rating to "F", rating watch outlook was changed to stable.

Since January 2011 the international rating agency Moody's Investors Service has repeatedly downgraded the following ratings previously assigned to the Bank of Moscow:

- the long-term foreign and local currency deposit ratings: on 19 January - from "Baa1" to "Baa2", on 28 June - from "Baa2" to "Ba1", on 8 July - from "Ba1" to "Ba2";

- on 28 June the financial stability rating was decreased from "D" to "D-";, on 8 July - decreased from "D" to 'E+';

The outlook for the ratings is negative, the short-term foreign currency deposit rating is "Not Prime" (was decreased from "Prime-2" on 28 June 2011).

2. Operating Environment of the Group

General

Since the early 1990s the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised to be the market economy and a number of main reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented, the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

In 2004 the Bank joined the Mandatory Deposit Insurance System. The activities of the Mandatory Deposit Insurance System are provided for by federal laws and regulations. It is managed by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private customers is up to RUR 700 thousand per each depositor in the event of bankruptcy or withdrawal of the license for banking operations by the Central Bank of Russia.

Currently, the economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity on capital markets;
- inconvertibility of the national currency in most foreign countries.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last six years are given in the table below:

Period ended	Inflation for the period
31 December 2010	8.8%
31 December 2009	8.8%
31 December 2008	13.3%
31 December 2007	11.9%
31 December 2006	9.0%
31 December 2005	10.9%

Currency transactions and currency control

Foreign currencies, in particular the US dollar and euro, play a significant role in measuring economic parameters of certain business transactions in Russia generally relating to export of raw materials and goods.

The table below shows the exchange rates of USD and EUR relative to RUR:

Date	USD	EUR
31 December 2010	30.4769	40.3331
31 December 2009	30.2442	43.3883
31 December 2008	29.3804	41.4411
31 December 2007	24.5462	35.9332
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850

Financial market transactions

In 2010, as a consequence of the worldwide financial crisis in 2008-2009, Russian enterprises and banks continued experiencing difficulties in obtaining borrowings and debt refinancing on the international and domestic capital markets. At the same time, a general improvement in the economic situation allowed to maintain liquidity in the banking sector at the level required for the country's economy. The domestic and international stock markets have slightly revived. The Russian banks managed to escape from drastic consequences of the crisis as opposed to the European countries and the United States of America where there were bank failures and subsequent bank rescues by state authorities in 2008-2009. Timely measures of the RF Government and the CBR to support the Russian economy and financial system allowed to mitigate substantially the adverse effect of the global financial crisis.

Russia's economic recovery in 2010 met the wildest expectations - GDP growth was 4% in 2010. The industrial production rehabilitation started in the second half of 2009 continued in 2010.

The main result of the Russian economy in 2010 was that it reached stable positive trends practically in all its indicators as compared to unstable or negative trends in 2008-2009. This was encouraged by strengthening national currency, gradual recovery in consumer demand and resumed growth of investments (mostly due to implementation of government projects). The only economic sector where the situation in 2010 significantly deteriorated was agriculture, though the downturn was caused by abnormal heat. Draught led to higher food prices thus decelerating the growth of the entire Russian economy in Q3 2011. As the Russian economy overcomes the crisis the condition of the monetary and currency sphere improves as compared with the previous year. The growth in oil prices brought to the increase in international reserves and Rouble appreciation. During the year, the international reserves grew by 10%, actual strengthening of the Rouble against the leading currencies was 10–15%. In 2010 the Central Bank of Russia increased the refinancing rate from 8.00% to 8.25% per annum.

The principal problem of the Russian economy in 2010 was still its high dependence on export of raw materials, while this dependence keeps growing steadily. To a larger extent the economic growth is caused by the return of oil prices to the level of the pre-crisis year 2007.

In spite of a number existing indicators improving the situation, there is an uncertainty in respect to further economic growth, access capability to capital sources and its value, which in turn able to affect the Group's financial position, operation results and the economic prospects. To the extent that information is available, management of the Group has adequately reflected the revised estimates of expected future cash flows in their impairment assessments.

The started processes of the Bank of Moscow Group merger to the VTB Bank Group considerably affected the Group's ability to raise funds in the world financial markets in 2010. A long-standing uncertainty of the situation and unfriendly actions of the former administration led both to the downgrade of the Bank of Moscow ratings and limitation of the interest of international investors in the Group's placements. These circumstances negatively impacted the Group's ability to raise new funds on terms and conditions applied to similar transactions in the pre-crisis period. In the Group's management opinion, all necessary adequate actions are taken by the Group in order to escape from existing situation and for further assistance of the Group's stable development in current conditions. At the same time the accompanying consolidated financial statements don't include the adjustments associated with the global economic crisis impact on the Group's financial position in the future as a consequence of the impossibility of such incidence assessment nowadays.

3. Basis of Presentation

General principles

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), including all previously adopted standards and interpretations. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These consolidated financial statements are presented in Russian Roubles being the Group's functional and presentation currency. The subsidiaries, which are residents of foreign countries, have functional currencies other than the Russian Rouble. In this connection, the financial statements of foreign subsidiaries are translated to roubles for the Group's consolidated financial statements purposes. These consolidated financial statements of the Group are rounded to the nearest thousand.

Estimates and assumption

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Issues that require best estimate and are most significant for the consolidated financial statements are disclosed in Notes 7, 8, 9, 10, 12 and 13.

Going concern

These consolidated financial statements reflect the Group management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Group's control. The Group's management cannot predict what impact these factors can have on the Group's financial position in future.

These consolidated financial statements were prepared on a going concern assumption.

According to the results of the inspections performed by the RF Accounts Chamber, CBR and the management of the Bank of Moscow (Refer to Note 36 "Subsequent Events"), the financial indicators of the Bank for the year 2010 were substantially adjusted, mainly through additional accrual of provisions for impairment in respect of the Bank's loan portfolio. The Group does not exclude a possibility of further accretion of provisions for impairment of loans upon incurrence of new deals evidences, involving financing of projects relating to the Group's former management. The plans of the Group's management to stabilize the Group's financial position are described in Note 36 "Subsequent Events" and Note 32 "Capital Management".

The Group's liquidity position described in Note 32 indicates that the Group has no sufficient funds to cover its current liabilities maturing in more than 1 month.

To remove instability of the financial position and restore the appropriate business activity of the Bank of Moscow, the CBR and the Deposit Insurance Agency developed and approved the Plan of participation of the state corporation Deposit Insurance Agency in prevention of bankruptcy of the Joint Stock Commercial Bank - Bank of Moscow (open joint-stock company) providing for the following major steps:

- to increase the share of VTB group in the share capital of the Bank of Moscow through purchase of the Bank of Moscow shares from its shareholders in amounts allowing to make decisions on all issues relating to the competence of the general shareholders' meeting, including issues of the Bank restructuring and liquidation;
- to obtain from the state corporation Deposit Insurance Agency a secured loan for financial rehabilitation of the Bank in the amount of up to RUR 295 bln for the term of 10 years at the interest rate of 0.51% per annum;
- to increase the share capital of the Bank through additional issue of the Bank's shares in the amount of up to RUR 100 bln by 1 January 2013.

The economic effect of the bankruptcy prevention measures for the Bank is planning to be RUR 150 bln, allowing to restore the viable financial position of the Group.

Increase in the share capital of the Bank of Moscow by 1 January 2013 will allow to satisfy the equity requirements through growth of the Group's assets on the basis of ACB loan injections to comply with capital adequacy requirements (H1) set by the CBR.

The Bank of Moscow will also comply with all requirements for financial stability of credit institutions set by the CBR and Basel Accord.

Subsidiaries

Subsidiary undertakings, i.e. those entities in which the Group owns over one half of the voting shares or is otherwise able to exercise control over the operations, including special purpose entities (SPE) have been consolidated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All intragroup transactions, balances and unrealised gains on such transactions are fully eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and costs incurred or liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the date of acquisition, if the business combination of the companies is made by one transaction; and the date of each share purchase if the business combination of the companies occurs in stages by successive share purchases. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the date of acquisition, irrespective of the extent of non-controlling interest.

The excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Non-controlling interest

Non-controlling interest is the share of the subsidiary that is not owned by the Group. Non-controlling interest at the reporting date is the non-controlling interest's portion of the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of the acquisition and post-acquisition changes in the equity of the subsidiary. Non-controlling interest is recorded within equity.

Losses allocated to non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary and are allocated to the Group unless there is a binding obligation of the non-controlling shareholders to fund the losses.

Group of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)
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Below are the Group's subsidiaries consolidated as at 31 December 2010:

Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
BM Holding LTD	Switzerland	Financial services	100.00	1998
OJSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
CJSC DOSSOM	Russia	Catering	100.00	2001
CJSC Bank of Moscow management company		Financial services	100.00	2002
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Stroiportinvest	Russia	Financial services	100.00	2006
BoM Finance Ltd.	British Virgin Islands	Financial services	100.00	2007
BoM Asset Management Ltd.	Cyprus	Financial services	100.00	2007
Crossplanet Ltd.	Cyprus	Financial services	100.00	2007
LLC Mos-Broker	Russia	Brokerage, dealer and depository services	100.00	2008
CJSC Lespromprocessing	Russia	Financial services	100.00	2008
CJSC Spetsstroy-2	Russia	Construction	100.00	2008
JSC Bank of Moscow - Belgrade	Serbia	Banking services	100.00	2008
OJSC Bezhitsa-Bank	Russia	Banking services	100.00	2008
LLC Baltekh	Russia	Real estate lease	100.00	2010
Closed-end Unit Investment Fund Tsentralny	Russia	Real estate lease	100.00	2010
AS Latvijas Biznesa Banka	Latvia	Banking services	99.97	2002
SIA Bako Kredits Alfa	Latvia	Real estate business	99.97	2010
SIA LBB ĪPAŠUMI 2	Latvia	Real estate business	99.97	2010
CJSC Financial Assistant	Russia	Financial services	99.67	2006
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
AS Eesti Krediidipank	Estonia	Banking services	76.59	2005
AS Martinoza	Estonia	Real estate management	76.59	2005
AS Krediidipanga Liising	Estonia	Leasing	76.59	2005
SIA Radicals Trests	Latvia	Financial services	76.59	2010
OJSC Mosvodokanalbank	Russia	Banking services	65.87	1997
LLC Registrator KRC	Russia	Maintenance of share registers for joint stock companies	58.78	2010
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.35	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003
LLC INVESTPLAZA	Russia	Financial services	50.00	2010
SIA LBB ĪPAŠUMI	Latvia	Real estate business	48.99	2008

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The table below provides the Group's subsidiaries consolidated as at 31 December 2009:

Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
BM Holding LTD	Switzerland	Financial services	100.00	1998
OJSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
CJSC DOSSOM	Russia	Catering	100.00	2001
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Stroiporinvest	Russia	Financial services	100.00	2006
BoM Finance Ltd.	British Virgin Islands	Financial services	100.00	2007
BoM Asset Management Ltd.	Cyprus	Financial services	100.00	2007
Crossplanet Ltd.	Cyprus	Financial services	100.00	2007
LLC Mos-Broker	Russia	Brokerage, dealer, depository services	100.00	2008
CJSC Lespromprocessing	Russia	Financial services	100.00	2008
CJSC Spetsstroy-2	Russia	Construction	100.00	2008
JSC Bank of Moscow - Belgrade	Serbia	Banking services	100.00	2008
AS Latvijas Biznesa Banka	Latvia	Banking services	99.87	2002
CJSC Financial Assistant	Russia	Financial services	99.67	2006
LLC Selkhozstroj	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
OJSC Bezhitsa-Bank	Russia	Banking services	95.15	2008
SIA LBB ĪPAŠUMI	Latvia	Real estate business	92.63	2008
AS Eesti Krediidipank	Estonia	Banking services	89.16	2005
AS Martinoza	Estonia	Real estate management	89.16	2005
AS Krediidipanga Liising	Estonia	Leasing	89.16	2005
OJSC Mosvodokanalbank	Russia	Banking services	65.87	1997
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.35	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

Kuznetski Capital S.A. founded in 2004 and registered in Luxemburg and BOM Capital P.L.C founded in 2009 and registered in Ireland were included into these consolidated financial statements. Both companies were set up for special purposes as SPE (eurobonds issue).

Where the subsidiaries do not have a significant influence on the consolidated financial statements of the Group, they are not consolidated. The investments in the share capitals of these companies are recorded within investments in associates and non-consolidated subsidiaries in the consolidated statement of financial position.

The table below provides a list of the companies, which were not included into the consolidated financial statements as at 31 December 2010:

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Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
CJSC Monolit	Russia	Wholesale trading	99.00	2007
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
LLC VM-Open City	Russia	Publishing	57.35	2008
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

The table below provides a list of the companies, which were not included into the consolidated financial statements as at 31 December 2009:

Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
CJSC Monolit	Russia	Wholesale trading	99.00	2007
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
LLC VM-Open City	Russia	Publishing	57.35	2008
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

Associates

Associates are entities in which the Group directly or indirectly through other entities owns between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence (for example, through representation in management bodies), but which it does not control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associates. The Group's share of its associates' profits or losses is recognised in the consolidated statement of comprehensive income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments on behalf of the associate.

Below is the list of the Group's associates as at 31 December 2010:

Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
Äigrumäe Kinnisvara AS	Estonia	Financial services	38.21	2007
CJSC Automated Banking Technologies	Russia	Information technologies	25.82	2006
O.J.S.C. "Metropolitan Insurance Group" (SSG)	Russia	Insurance	24.92	2007
OJSC Leasing Company LeasingBusiness	Russia	Leasing	23.90	2010
LLC Sibneftegas Enterprise	Russia	Other services	20.00	2010
LLC Pension Reserve	Russia	Financial services	19.00	2008

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The table below provides the list of the Group's associates as at 31 December 2009:

Name	Country of registration	Business activity	Percentage of ownership, %	Year of acquisition
Äigrumäe Kinnisvara AS	Estonia	Financial services	44.49	2007
CJSC Automated Banking Technologies	Russia	Information technologies	25.82	2006
O.J.S.C. "Metropolitan Insurance Group" (SSG)	Russia	Insurance	24.92	2007
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999
LLC Pension Reserve	Russia	Financial services	19.00	2008

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those effective amended standards and interpretations which are or in the future could be relevant to the Group's operations:

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2010). The main amendment is the change in classification of the liability component of a convertible instrument as current or non-current.
- IAS 7 "Statement of Cash Flows" (effective for annual periods beginning on or after 1 January 2010). The revised Standard (paragraph 16) requires that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities.
- IAS 17 "Leases" (effective for annual periods beginning on or after 1 January 2010). The classification of the land and building elements as finance or operating lease should be made separately for each element and should follow the general lease classification guidance. For classification of land leases all factors provided for other lease contracts should be considered.
- IAS 36 "Impairment of Assets" (effective for annual periods beginning on or after 1 January 2010). According to the revised Standard, each cash-generating unit or group of units to which goodwill is allocated shall not be larger than an operating segment before aggregation.
- IAS 39 "Financial Instruments: Recognition and Measurement" (effective for annual periods beginning on or after 1 January 2010). The key areas of amendments included treatment of loan prepayment penalties as closely related embedded derivatives, scope exemption for business combination contracts and cash flow hedge accounting.
- IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2010). The changes relate to treatment of transactions involving share-based payments within the scope of this IFRS.
- IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 July 2009). The main amendments clarify measurement of goodwill and non-controlling interest.
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (effective for annual periods beginning on or after 1 January 2010). The scope of IFRS 5 has been clarified to make it clear that only the disclosures specified in IFRS 5 are applicable to non-current assets (or disposal groups) classified as held for sale, and to discontinued operations.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC provides guidance on treating settlement of a financial liability through additional issue of an entity's own equity to the creditor.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2011). The main amendments clarify disclosures in the consolidated statement of changes in equity.
- IAS 24 (amended in 2009) “Related Party Disclosures” (effective for annual periods beginning on or after 1 January 2011). This standard is a revised version of IAS 24 (amended in 2003). The main objectives of this Standard are as follows:
 - disclosure exemption for entities that are controlled, jointly controlled or significantly influenced by the state or government bodies (government-related entities);
 - clarification of definition of a related party and related party transaction to improve the understanding and remove contradictions.
- IFRS 7 “Financial Instruments: Disclosure” (effective for annual periods beginning on or after 1 January 2011). The changes refer to disclosure of qualitative and quantitative information about the nature and size of risks arising from financial instruments.
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 as the first part of phase 1 of the project to replace IAS 39 and replaces those parts of IAS 39 that relate to recognition and measurement of financial assets. The main principles of the Standard are as follows:
 - classification of financial assets on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
 - initial measurement of the financial asset at fair value, plus, in case of a financial asset not at fair value through profit or loss, particular transaction costs;
 - subsequent measurement of the financial asset at amortised cost or fair value.
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 January 2011). This IFRIC addresses measurement of award credits by reference to fair value.
- IFRIC 14 “The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction” (effective for annual periods beginning on or after 1 January 2011). The main amendments address treatment of prepayments of minimum contributions.

The Group management believes that the above provisions will not affect materially its consolidated financial statements, except for application of IFRS 9.

The Group is currently assessing the impact of IFRS 9 on the consolidated financial statements and the timing of its possible application.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Group. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds of restricted nature, are excluded from cash and cash equivalents.

Gold and other precious metals are recorded at the officially set CBR prices approximating their fair value, quoted at a discount to London Metal Exchange rates. Changes in the CBR prices are recorded as exchange differences within gains less losses from revaluation of foreign currency and precious metals in the consolidated statement of comprehensive income.

Cash and cash equivalents do not include mandatory cash balances held with central banks.

Mandatory cash balances with the central banks

Mandatory cash balances held with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and the central banks of other countries where the Group's members are residents. Mandatory cash balances held in central banks are not available to finance the Group's day-to-day operations and are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- financial assets available for sale;
- investments held to maturity.

The Group determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace (regular way purchases or sales) are recognised on the trade date, i.e. the date the Group commits to purchase or sell the asset. In all other cases such transactions are reported as derivative financial instruments until the payment is made.

In the course of application of the Group's accounting policy with respect to definition of financial assets recognized in the consolidated financial statements, the management used judgments and estimates the most significant of which are presented below.

Initial recognition of financial instruments

The Group recognises financial assets and financial liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using trade date accounting.

All financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset.

Fair value measurement

The fair value of financial instruments traded at the reporting date in an active market is determined on the basis of market or dealer quotations, plus the transaction costs incurred.

If quoted market prices are not available, the fair value of financial assets and liabilities recorded in the consolidated statement of financial position is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Otherwise, the fair value should be determined using the management's best estimate based on liquidity considerations and data used for models, such as correlation and volatility of long-term derivative financial instruments.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or a 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; and
- the Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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.

Reclassifications of financial assets

The Group shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued, except rare circumstances when such reclassification is permitted for non-derivative financial instruments, other than those designated at fair value through profit or loss upon initial recognition, if there is no active market for this financial instrument. In this case debt financial instruments measured at fair value through profit or loss may be reclassified into financial assets available for sale, investments held to maturity or loans to customers depending on the designated purpose. Equity financial instruments measured at fair value through profit or loss may be reclassified into financial assets available for sale in the rare circumstances referred to above.

In exceptional circumstances, such as the absence of an active market, financial assets available for sale representing debt instruments may be reclassified into investments held to maturity or loans to customers, if the entity has the intention to hold that financial asset for the foreseeable future or until maturity.

If financial assets as described in the above two paragraphs are reclassified into investments held to maturity or loans to customers, the market price on the date of reclassification will become the new cost or the amortized cost of these financial assets, accordingly.

If, as a result of a change in intention or ability of the Group, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in the consolidated statement of comprehensive income within other comprehensive income.

The Group shall not classify any financial assets as held to maturity if the Group has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

Due to drastic deterioration of the situation on the world financial markets in 2008, certain financial assets at fair value through profit or loss were reclassified in accordance with Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" to financial assets available for sale (Note 9) and to investments held to maturity (Note 10). In addition, certain financial assets available for sale were reclassified to investments held to maturity (Note 10). These reclassifications were performed by the Group's subsidiary banks: AS Latvijas Biznesa Banka, AS Eesti Krediidipank and OJSCB Mosvodokanal.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss include trading securities and derivative financial instruments.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase.

Trading securities are recorded at fair value. Interest earned on trading securities is reflected in the consolidated statement of comprehensive income using the effective interest method as interest income. Dividend income is recorded within dividends received when the Group's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of comprehensive income as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

Derivative financial instruments. In the normal course of business, the Group uses various derivative financial instruments including options, futures, forwards and swaps. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and subsequently measured 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. Derivative financial instruments are carried as financial assets when their fair value is positive and as financial liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the consolidated statement of comprehensive income as gains less losses arising from financial assets or liabilities at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss.

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

Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method.

Loans to customers are recorded when cash is advanced to borrowers.

Loans purchased from third parties are carried at amortized cost using the effective interest method.

Due from other banks

In the normal course of business, the Group places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are classified as investment securities, which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition of a financial asset are added to the amount initially recognised. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices.

Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management using the services of independent appraisers. The fair value of other financial assets is based on the results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Investments in equity instruments which do not have quotes on an active market and fair value of which can not be determined with sufficient reliability are reflected in consolidated financial statements at cost less any provisions for impairment.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of comprehensive income as other comprehensive income. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised in other comprehensive income are reclassified to profit or loss within gains less losses arising from financial assets available for sale. Impairment of previously remeasured assets is reported in the statement of changes in equity within the fair value reserve for financial assets available for sale which was set up earlier.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the consolidated statement of comprehensive income as interest income. Dividends income on equity investments available for sale are recorded within dividends received in the consolidated statement of comprehensive income when the Group's right to receive dividends is established and dividends are likely to be received.

Investments held to maturity

This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group's management determines the appropriate classification of financial assets at the time of purchase.

The Group assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognised, but also at each subsequent reporting date.

Initially, investments held to maturity are recorded at fair value (which includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on investments held to maturity are recognised in the consolidated statement of comprehensive income when such assets are impaired, as well as through the amortisation process.

If the Group sells a significant portion of its portfolio of investments held to maturity before their maturity the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest income on investments held to maturity is recognised in the consolidated statement of comprehensive income within interest income.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, investments held to maturity, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

The Group assesses on each reporting date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognized in the consolidated statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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 risk characteristics and collectively assesses them for impairment.

Impairment of due from other banks and loans to customers

For due from other banks and loans to customers carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, which are assets the impairment of which may have a significant effect on the average expected level of the Group's operating income, or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired as individually significant assets is as follows:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Group's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status, statistical information about actual losses of the Group (loans written off against allowances) and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in prices for real estate in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

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 through the use of the provision account and the amount of the loss is recognized in the consolidated statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has 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 collateralized asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. To estimate the realizable value of the collateral (taking into account the costs of sale) the Group has used different discount rates applied to the fair value of collateral as at 31 December 2010: real estate - 30-50%, motor vehicles - 40-50%, equipment - 40-70%, goods for sale - 40-50%.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of overdue debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 the future cash flows reflect, and are discretionally consistent with, changes in related observable data from period to period (such as, changes in unemployment rate, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, improvement of the borrower's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the consolidated statement of comprehensive income.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Group shall take necessary and adequate steps, envisaged by law, standard business practice or agreement, to collect this outstanding loan. The write-off of uncollectible loan and relating interest is justified if there are documents to prove that the borrower failed to fulfil its obligations to its creditors within the period not less than one year till the date when the decision was taken to write off the loan.

Impairment of financial assets available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence of impairment loss would include a significant or prolonged decline in the fair value of the equity security below its cost. This determination of what is a significant and/or prolonged decline requires judgement. According to the Group, a 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline. The Group also assesses other factors such as volatility of price per share. Cumulative impairment loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through the profit and loss accounts, is transferred from other comprehensive income to the profit and loss accounts.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in other comprehensive income.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. The interest earned is recorded within interest income in the consolidated statement of comprehensive income.

If in the next year the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

Impairment of investments held to maturity

The Group assesses on an individual basis whether there is any objective evidence that the value of the investments held to maturity has been impaired. In case of such objective evidence of impairment loss the amount of loss is determined as a difference between the carrying value of the asset and the present value of the expected future cash flows. The carrying value of the asset is decreased and the loss is recognised in the consolidated statement of comprehensive income. If in the next year the amount of expected impairment losses decreases due to the event occurred after the recognition of impairment losses, the previously recognised amounts are recorded as income in the consolidated statement of comprehensive income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

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

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated statement of financial position at fair value at the date of acquisition.

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 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 the consolidated statement of comprehensive income.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss if they are incurred for the purpose of selling or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities or obligations to return borrowed securities sold to third parties. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss unless they are designated as hedges. Obligations to return borrowed securities sold to third parties are recorded at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the consolidated statement of comprehensive income.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using the effective interest rate method include due to other banks, customer accounts and debt securities issued. The respective expenses are recorded as interest expense in the consolidated statement of comprehensive income using the effective interest rate method.

Due to other banks. Due to other banks are recorded when funds or other assets are advanced to the Group by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers.

Debt securities issued. Debt securities issued include promissory notes, bonds and eurobonds issued by the Group. If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is reported as gain from early retirement of debt.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, and the securities are not reclassified. The corresponding liability is presented within due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent by the Group to counterparties continue as a loan for fixed compensation to be recognised in the Group's consolidated financial statements as securities. Securities borrowed for fixed compensation are not recorded in the Group's consolidated financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the consolidated statement of comprehensive income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

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

Premises and equipment

Premises and equipment are stated at cost restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 (applied to premises and equipment purchased before this date) or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the consolidated statement of comprehensive income.

The Group's premises are regularly revalued. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After the initial recognition at cost, the buildings shall be carried at a revalued amount being the fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

The Group's premises were revalued at current market prices as at 31 December 2009. The appraisal was performed by an independent professional valuer. The market value was used as a basis for valuation. Revaluation of premises was conducted for OJSC Bank of Moscow and its subsidiaries CJSC Imagine, CJSC DOSSOM and CJSC Concern Vechernyaya Moskva.

As at 31 December revaluation of premises was conducted for CJSC DOSSOM and CJSC Spetsstroy-2. Based on performed analysis of market changes the management believes that as at 31 December 2010 the carrying value of other participants of the Group premises does not materially differ from their fair value.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded within general and administrative expenses.

Repairs and maintenance are charged to the consolidated statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying amount at the transfer date. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Premises 1% - 5% per annum;
- Office and computer equipment and other premises and equipment 10% - 25% per annum.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or both, rather than for: (a) use in the Group's ordinary course of business or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is initially recognised at cost and subsequently remeasured at fair value based on its market value. The market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have professional experience in valuation of property of similar location and category.

Changes in the fair value of investment property are recorded in the consolidated statement of comprehensive income and presented separately. In addition, the following amounts are recognised in the consolidated statement of comprehensive income as other income: rental income; direct operating expenses arising from investment property that generates rental income; other direct operating expenses arising from investment property that does not generate rental income.

If the investment property is used by the Group for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Goodwill

Goodwill acquired in a business combination is initially recognised at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill arising on acquisition of subsidiaries is recorded in the consolidated statement of financial position. Goodwill arising on acquisition of associates is recorded as investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment, as well as when there are indications of impairment. If such indications exist, the Group performs an impairment analysis to evaluate recoverability of the carrying amount of goodwill. Goodwill is written off when the carrying value of goodwill exceeds its recoverable amount.

The excess of the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated statement of comprehensive income as income.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Group;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets include computer software, licenses and other identifiable intangible assets acquired in a business combination.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets have finite or infinite useful lives. Intangible assets with finite useful lives are amortised over the useful economic life ranging from 3 to 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives not exceeding a period of 3 years.

Operating lease - the Group as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses. Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Operating lease - the Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised as other operating income in the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Share capital

Contributions to the share capital made before 1 January 2003 are recorded at cost adjusted for inflation, and contributions to the share capital made after 1 January 2003 are recorded at cost.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising from sale of own shares are recognized as share premium.

Treasury shares

Where the Group purchases its own shares, the consideration paid including any attributable external costs is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed of, any consideration received is included in the equity. Treasury shares are recognized at acquisition cost.

Dividends

Dividends are recognised as a liability and deducted from shareholders' 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 consolidated financial statements were authorized for issue. Payment of dividends and other distribution of earnings are made on the basis of the current year net profits as reported in the financial statements prepared in accordance with the legislation of the Russian Federation.

The amount of dividends that can be paid out by the Group is limited by retained earnings determined in accordance with legislation of the Russian Federation.

Contingent assets and liabilities

Contingent assets are not recognised in the consolidated statement of financial position but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote.

Credit related commitments

This category includes guarantees, letters of credit, and undrawn irrevocable credit lines assumed by the Group in the normal course of its business. Guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group to pay on behalf of the clients the agreed amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Credit related commitments are initially recognised at their fair value. Subsequently, at each reporting date, the commitments are reviewed and revised to obtain the current best estimate. The best estimate of expenditure required to settle the existing commitment will be the amount that the Group would either pay to settle the commitment at the reporting date or transfer it to a third party at that date.

Taxation

Income tax expense/refund is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and other countries where the Group's subsidiaries are operating. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period. The income tax charge/refund comprises current tax and deferred tax and is recorded in the consolidated statement of comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statement purposes.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset only within each individual company of the Group. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Management's judgment is required to determine the amount of deferred tax assets that may be recognised in consolidated financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia and other countries where the Group's subsidiary banks and companies are operating also have various other operating taxes, which are assessed on the Group's activities. These taxes are recorded within general and administrative expenses in the consolidated statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of comprehensive income. Investment portfolio and other management and advisory service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied to services related to property management, financial planning and custody services that are continuously provided over an extended period of time.

Employee benefits and social insurance contributions

The Bank pays social contributions in the territory of the Russian Federation. The contributions are recorded on an accrual basis. The contributions comprise contributions to the Russian Federation State Pension Fund, Social Insurance Fund, and Obligatory Medical Insurance Fund in respect of the Bank's employees. These expenses are recognised as incurred and are included in staff costs. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Bank's employees render the related service.

Foreign currency translation

Transactions in foreign currencies are initially translated into the functional currency at the CBR exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the CBR's official exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation of the transactions in foreign currencies are included within gains less losses from revaluation of foreign currency and precious metals in the consolidated statement of comprehensive income. Non-monetary items denominated in foreign currencies that are stated at historical cost are translated at the CBR exchange rate ruling at the date of the transaction. Non-monetary items denominated in foreign currencies and carried at fair value are translated at the foreign exchange rate ruling at the dates the fair values were determined.

At the date of consolidated financial statements, for companies whose functional currency is other than the Group's presentation currency, the assets and liabilities are translated to Russian Roubles at the exchange rate as at the reporting date, whereas the items recorded in the consolidated statement of comprehensive income are translated at an average rate of exchange for the year. Gains and losses on translation are charged to other comprehensive income. When a subsidiary or associate whose functional currency is other than the Group's presentation currency is sold, the total amount recognised within other comprehensive income and related to this company is reclassified from other comprehensive income to profit or loss of the reporting period.

Fiduciary activities

Assets held by the Group in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Group's consolidated statement of financial position. Commissions received from such operations are shown within fee and commission income in the consolidated statement of comprehensive income.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing either products or services (business segment), or in providing products and services within particular economic environment (geographical segment). Segment information presents to the management of the Group on the regular basis. A segment shall be reported separately in the consolidated financial statements if a majority of its revenue is earned from sales to external customers, and its revenue, its financial result or its assets are ten percent or more of all the segments.

The Group's major activity is banking business. The impact of the Group's other companies (non-banks) on the structure of the Group's assets, liabilities and profits is insignificant.

The Group's banking business can be divided into three core segments: treasury, corporate and retail business. Each segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Over 80% of the Group's banking business is concentrated in the Russian Federation where the Bank of Moscow, the Group's parent company, is located. The remaining business is conducted in Latvia, Estonia, Belarus, Ukraine and Serbia.

5. Cash and Cash Equivalents

	2010	2009
Cash on hand	23 835 608	19 802 960
Precious metals	1 497 576	791 069
Cash balances with central banks (other than mandatory reserve deposits)	23 677 858	38 680 072
Correspondent accounts and overnight deposits with other banks of:		
- the Russian Federation	2 763 008	2 955 101
- other countries	21 254 246	13 726 558
Total cash and cash equivalents	73 028 296	75 955 760

Geographical analysis and analysis of cash and cash equivalents by currency structure are disclosed in Note 32.

6. Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the consolidated statement of financial position include trading securities and derivative financial instruments. As at the reporting date, the Group does not have other types of financial instruments classified into this category.

	2010	2009
Rouble-denominated securities		
Corporate bonds	45 869 009	37 903 876
Russian Federation bonds (OFZ)	16 532 277	20 276 312
Bonds of RF subjects and local authorities	13 703 778	12 584 844
Equity securities	8 359 367	3 900 033
Corporate promissory notes	4 105 500	225 405
Corporate eurobonds	3 083 382	7 490 297
	91 653 313	82 380 767
USD-denominated securities		
Corporate eurobonds	24 525 374	18 897 818
Eurobonds of the Russian Federation	5 552 338	9 010 593
Bonds of foreign governments	4 704 869	2 922 557
Corporate bonds	3 055 705	-
Equity securities	1 522 183	567 675
	39 360 469	31 398 643
EUR denominated securities		
Corporate eurobonds	2 626 752	194 196
Bonds of RF subjects and local authorities	1 036 731	1 352 241
Bonds of foreign governments	1 009 133	1 016 394
	4 672 616	2 562 831
Securities denominated in other currencies		
Corporate eurobonds	34 382	1 121 284
Equity securities	-	527 414
	34 382	1 648 698
Derivative financial instruments in other currencies	677 153	549
Derivative financial instruments in Russian Roubles	602 467	-
Derivative financial instruments in US dollars	214 258	469 740
Derivative financial instruments in EUR	-	444
	1 493 878	470 733
Total financial assets at fair value through profit or loss	137 214 658	118 461 672

Corporate bonds are represented by Rouble and US Dollar-denominated interest-bearing securities issued by large Russian companies and credit institutions, quoted on the Moscow Interbank Currency Exchange (MICEX). As at 31 December 2010, these bonds in the Group's portfolio have maturities from 16 February 2011 to 3 November 2020, coupon rates ranging from 1.45% to 19.00% and yield to maturity ranging from 1.45% to 16.42% per annum, depending on the issue.

As at 31 December 2010, corporate bonds include mortgage-backed bonds of Moscow Mortgage Agency Bank (OJSC) with the fair value of RUR 3 059 902 thousand, maturing from 23 February 2012 to 1 October 2015, with coupon rates ranging from 7.25% to 10.0% per annum and yield to maturity ranging from 7.41% to 10.29% per annum. Out of which, the bonds secured by state guarantees of the City of Moscow amount to RUR 156 404 thousand and have a maturity date on 20 September 2012, coupon rate of 10% per annum and yield to maturity of 10.29% per annum.

OFZ are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2010, OFZ in the Group's portfolio have maturity dates from 29 June 2011 to 15 July 2015, coupon rates ranging from 4.59% to 11.30% and yield to maturity ranging from 4.43% to 7.45% per annum, depending on the issue.

Bonds of RF subjects and local authorities represent Rouble- and EUR-denominated interest-bearing securities quoted on the MICEX and Swiss Stock Exchange. As at 31 December 2010, these bonds in the Group's portfolio have maturities from 1 June 2011 to 14 June 2017, coupon rates ranging from 7.49% to 15.00% per annum and yield to maturity ranging from 5.21% to 8.52% per annum, depending on the issue.

Equity securities are represented by shares of major Russian companies and credit institutions, quoted on the MICEX and Russian Trading System, and depository receipts for shares of major Russian entities, quoted on the London and New York Stock Exchanges and also mutual funds investments, whose fair value determined on the calculation basis, provided by managing companies.

Corporate promissory notes are represented by Rouble-denominated promissory notes issued by large Russian credit institutions. As at 31 December 2010, promissory notes in the Group's portfolio have maturities from 19 August 2011 to 30 August 2012 and yield to maturity of 5% per annum.

Corporate eurobonds are represented by interest-bearing securities denominated in RUR, USD, EUR and SEK, issued by large Russian companies and credit institutions and quoted on international markets. As at 31 December 2010, corporate eurobonds in the Group's portfolio have maturity dates from 4 January 2011 to 13 October 2020, coupon rates ranging from 1.25% to 11.50% per annum and yield to maturity ranging from 1.67% to 9.91% per annum, depending on the issue.

Eurobonds of the Russian Federation are US dollar-denominated securities issued by the Ministry of Finance of the Russian Federation and quoted on international markets. As at 31 December 2010, eurobonds in the Group's portfolio have maturities from 24 June 2028 to 31 March 2030, coupon rates ranging from 7.5% to 12.75% per annum and yield to maturity ranging from 6.12% to 7.46% per annum, respectively.

Bonds of foreign governments are represented by bonds of Germany, Netherlands, Finland, Austria and USA.

As at 31 December 2010, financial assets at fair value through profit or loss comprise securities provided as collateral under sale and repurchase agreements (REPO) (entitling the counterparties to sell or repledge these securities) with the fair value of RUR 29 338 094 thousand (2009: RUR 4 935 956 thousand); the related liabilities are recorded within due to other banks (Note 15) and customer accounts (Note 16).

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Below are securities provided as collateral under sale and repurchase agreements (REPO):

	2010	2009
Rouble-denominated securities		
Russian Federation bonds (OFZ)	3 293 005	-
Equity securities	297 352	-
Bonds of RF subjects and local authorities	229 140	1 662 902
	3 819 497	1 662 902
USD-denominated securities		
Corporate eurobonds	10 081 848	-
Bonds of foreign governments	5 064 453	2 922 561
Eurobonds of the Russian Federation	4 644 776	350 493
Corporate bonds	3 055 705	-
	22 846 782	3 273 054
EUR-denominated securities		
Corporate eurobonds	2 671 815	-
	2 671 815	-
Total financial assets provided as collateral under sale and repurchase agreements (REPO)	29 338 094	4 935 956

Below, there is information on outstanding transactions in derivative financial instruments. Amounts relating to these transactions are shown on a gross basis, before offsetting by each counterparty, and are short-term in nature.

	Contract amount	2010		Contract amount	2009	
		Asset	Liability		Asset	Liability
Forward transactions		577 484	1 507 964		201 051	1 679 636
Foreign currency sale	22 917 355	575 198	-	1 168 542	25 134	-
purchase	34 892 673	-	1 507 964	51 059 705	175 917	1 679 636
Securities purchase	95 408	2 286	-	-	-	-
Swap transactions		916 394	580 278		269 682	660 653
Currency and interest rate swaps	24 653 581	916 394	580 278	18 785 045	269 682	660 653
Total derivative financial instruments		1 493 878	2 088 242		470 733	2 340 289
Fair value of securities sold under reverse repo agreements						
Corporate eurobonds			2 676 760			-
Equity securities			134 709			-
Total financial liabilities at fair value through profit or loss			4 899 711			2 340 289

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The table below shows analysis of financial assets at fair value through profit or loss less derivative financial instruments in accordance with international agencies' ratings as at 31 December 2010:

	Investment rating	Speculative rating	No rating assigned	Total
Corporate bonds	32 974 516	11 602 519	4 347 679	48 924 714
Corporate eurobonds	4 706 761	2 848 517	22 714 612	30 269 890
Russian Federation bonds (OFZ)	16 532 277	-	-	16 532 277
Bonds of RF subjects and local authorities	13 771 074	969 435	-	14 740 509
Equity securities	2 715 029	2 149 910	5 016 611	9 881 550
Bonds of foreign governments	5 714 002	-	-	5 714 002
Eurobonds of the Russian Federation	5 552 338	-	-	5 552 338
Corporate promissory notes	-	4 105 500	-	4 105 500
Total financial assets at fair value through profit or loss less derivative financial instruments	81 965 997	21 675 881	32 078 902	135 720 780

The table below shows analysis of financial assets at fair value through profit or loss less derivative financial instruments in accordance with international agencies' ratings as at 31 December 2009:

	Investment rating	Speculative rating	No rating assigned	Total
Corporate bonds	27 382 154	9 019 468	1 502 254	37 903 876
Corporate eurobonds	7 258 754	219 445	20 225 396	27 703 595
Russian Federation bonds (OFZ)	20 276 312	-	-	20 276 312
Bonds of RF subjects and local authorities	11 917 714	2 019 371	-	13 937 085
Eurobonds of the Russian Federation	9 010 593	-	-	9 010 593
Equity securities	1 561 101	846 386	2 587 635	4 995 122
Bonds of foreign governments	3 938 951	-	-	3 938 951
Corporate promissory notes	169 859	55 546	-	225 405
Total financial assets at fair value through profit or loss less derivative financial instruments	81 515 438	12 160 216	24 315 285	117 990 939

Below is the fair value hierarchy of financial assets at fair value through profit or loss. Level 1 includes financial assets which are traded in an active market, whose fair values is determined on the basis of market quotations. Level 2 includes financial assets whose fair value is determined using different valuation models and assumptions. These models are based on observable market data characterising market conditions and factors that may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined based on judgment.

	2010	2009
Level 1	122 265 157	108 984 304
Level 2	11 497 017	8 269 522
Level 3	3 452 484	1 207 846
Total	137 214 658	118 461 672

7. Due from other Banks

	2010	2009
Reverse repo agreements with other banks	37 387 865	672 550
Loans and deposits with other banks	28 579 861	49 022 351
Deposits with central banks	13 435 451	1 012 126
Overdue placements with other banks	715	965
Less: provision for impairment of due from other banks	(1 331)	(4 709)
Total due from other banks	79 402 561	50 703 283

As at 31 December 2010, the Group had deposits and account balances above 10% of the Group's capital with four banks (as at 31 December 2009: one bank). The aggregate amount of these funds was RUR 33 572 547 thousand (as at 31 December 2009: RUR 8 894 780 thousand) or 42.3% of due from other banks (as at 31 December 2009: 17.5%).

As at 31 December 2010, securities acquired from banks under reverse repo agreements comprise Russian Federation bonds (OFZ) with the fair value of RUR 20 132 306 thousand (as at 31 December 2009: none), bonds of RF subjects and local authorities with the fair value of RUR 9 986 580 thousand (as at 31 December 2009: none), corporate bonds with the fair value of RUR 8 984 220 thousand (as at 31 December 2009: none), corporate eurobonds with the fair value of RUR 1 476 110 thousand (as at 31 December 2009: RUR 236 888 thousand), bonds of foreign governments with the fair value of RUR 1 100 119 thousand (as at 31 December 2009: none), eurobonds of the Russian Federation with the fair value of RUR 655 230 thousand (as at 31 December 2009: RUR 515 361 thousand), equity securities with the fair value of RUR 255 074 thousand (as at 31 December 2009: none).

Movements in the provision for impairment of due from other banks are as follows:

	2010	2009
Provision for impairment of due from other banks as at 1 January	4 709	3 146
(Recovery of provision)/provision for impairment of due from other banks during the year	(3 404)	1 568
Exchange difference	26	(5)
Provision for impairment of due from other banks as at 31 December	1 331	4 709

Due from other banks, with the exception of "reverse repo" transactions, are not collateralised.

Geographical analysis and analysis of due from other banks by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 32. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 35.

8. Loans to Customers

	2010	2009
Corporate loans	517 183 496	431 682 996
Loans to small and medium business	33 472 874	38 340 380
Loans to government and municipal authorities	4 606 700	18 577 961
Reverse repo agreements	10 907 206	899 421
Less: provision for impairment of loans to legal entities	(134 075 409)	(29 719 925)
Total loans to legal entities	432 094 867	459 780 833
Consumer loans	39 755 145	43 194 666
Mortgage loans	26 288 008	27 477 242
Car loans	6 071 571	10 426 096
Credit cards	5 756 157	5 864 108
Scoring loans	1 291 895	1 230 441
Overdrafts	212 445	101 826
Less: provision for impairment of loans to individuals	(13 899 293)	(13 585 663)
Total loans to individuals	65 475 928	74 708 716
Total loans to customers	497 570 795	534 489 549

As at 31 December 2010, accrued interest income on impaired loans amounted to RUR 5 263 839 thousand (as at 31 December 2009: RUR 659 310 thousand).

As at 31 December 2010, the Group had 24 borrowers (as at 31 December 2009: 8 borrowers) with the total amount of debt over 10% of the Group's capital. The aggregate amount of these loans was RUR 197 712 968 thousand (as at 31 December 2009: RUR 96 542 895 thousand) or 30.6% of loans to customers (as at 31 December 2009: 16.7%).

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As at 31 December 2010, securities acquired under reverse repo agreements comprise equity securities with the fair value of RUR 823 784 thousand (as at 31 December 2009: none), corporate bonds with the fair value of RUR 4 070 303 thousand (as at 31 December 2009: none), bonds of RF subjects and local authorities with the fair value of RUR 133 998 thousand (as at 31 December 2009: none), corporate eurobonds with the fair value of RUR 3 047 088 thousand (as at 31 December 2009: RUR 994 590 thousand), Russian Federation bonds (OFZ) with the fair value of RUR 5 040 840 thousand (as at 31 December 2009: none), eurobonds of the Russian Federation with the fair value of RUR 41 444 thousand (as at 31 December 2009: none), bonds of foreign governments with the fair value of RUR 96 928 thousand (as at 31 December 2009: none).

As at 31 December 2010, current loans to customers comprise loans in the amount of RUR 27 250 327 thousand (as at 31 December 2009: RUR 23 368 069 thousand) that would otherwise be past due or impaired and whose terms have been renegotiated.

As it particularly reflected in the note 36 "Subsequent Events", in June 2011 the substantial portfolio of assets was revealed relating to the Bank of Moscow funds financing of the projects which are in the scope of interests of the former Bank of Moscow President A. F. Borodin and other persons. After the resignation of A. F. Borodin the Group faced with the third parties attempts to sell the assets either acquired with the use of the Group loans, or provided as collateral for loans earlier issued by the Group. The results of the inspections of the RF Accounts Chamber, CBR, and the new management of the Group, and all other available information at the date of the financial statements preparation were accounted for the accrual of provisions for impairment of Group's loan portfolio. The Group does not exclude a possibility of further accretion of provisions for impairment of loans upon incurrence of new deal's evidences, involving financing of projects relating to the Group's former management.

Movements in the provision for impairment of loans to legal entities during 2010 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	21 895 218	7 815 207	9 500	29 719 925
Provision for impairment/(Recovery of provision) during the year	104 731 934	(247 249)	(9 500)	104 475 185
Exchange difference	(20 172)	(10 585)	-	(30 757)
Loans written off during the year as uncollectible	(69 884)	(19 060)	-	(88 944)
Provision for impairment of loans to legal entities as at 31 December	126 537 096	7 538 313	-	134 075 409

Movements in the provision for impairment of loans to individuals during 2010 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Over-drafts	Total
Provision for impairment of loans to individuals as at 1 January	8 352 540	1 345 621	1 660 466	838 972	1 368 201	19 863	13 585 663
Provision for impairment/(Recovery of provision) during the year	340 142	300 554	(62 795)	(141 281)	38 810	6 490	481 920
Exchange difference	(22 335)	5 066	675	6 490	(2 358)	281	(12 181)
Loans written off during the year as uncollectible	(65 423)	(31 237)	(2 776)	(8 067)	(48 502)	(104)	(156 109)
Provision for impairment of loans to individuals as at 31 December	8 604 924	1 620 004	1 595 570	696 114	1 356 151	26 530	13 899 293

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Movements in the provision for impairment of loans to legal entities during 2009 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	3 574 918	2 857 426	616	6 432 960
Provision for impairment during the year	18 483 698	5 034 204	8 884	23 526 786
Exchange difference	(52 207)	(49 104)	-	(101 311)
Loans written off during the year as uncollectible	(111 191)	(27 319)	-	(138 510)
Provision for impairment of loans to legal entities as at 31 December	21 895 218	7 815 207	9 500	29 719 925

Movements in the provisions for impairment of loans to individuals during 2009 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Over-drafts	Total
Provision for impairment of loans to individuals as at 1 January	3 772 292	136 349	900 092	860 822	773 344	13 739	6 456 638
Provision for impairment/ (Recovery of provision) during the year	4 621 857	1 216 859	762 180	(21 597)	637 448	6 373	7 223 120
Exchange difference	(41 609)	(5 161)	(1 624)	(190)	(42 591)	(249)	(91 424)
Loans written off during the year as uncollectible	-	(2 426)	(182)	(63)	-	-	(2 671)
Provision for impairment of loans to individuals as at 31 December	8 352 540	1 345 621	1 660 466	838 972	1 368 201	19 863	13 585 663

Analysis of the Group's loan portfolio by type of the borrower's ownership structure is as follows:

Type of ownership	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Loans to non-state entities and organisations	465 577 395	72,1	411 024 958	71,1
Loans to individuals	79 375 221	12,3	88 294 379	15,3
Loans to enterprises in the ownership of the Russian Federation and foreign states	54 202 146	8,4	45 120 287	7,8
Loans to enterprises owned by the Government of the City of Moscow	40 779 115	6,3	13 770 124	2,4
Loans to RF subjects	4 606 700	0,7	18 577 961	3,2
Loans to enterprises in regional (municipal) ownership (other than the Government of the City of Moscow)	1 004 920	0,1	1 007 428	0,2
Total loans to customers (gross)	645 545 497	100,0	577 795 137	100,0

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Economic sector concentrations within the Group's loan portfolio are as follows:

	2010		2009	
	Amount	%	Amount	%
Financial services	278 644 958	43,2	211 252 291	36,6
Individuals	79 375 221	12,3	88 294 379	15,3
Construction	63 991 824	9,9	70 321 659	12,2
Manufacturing	43 645 557	6,8	43 949 689	7,6
Metallurgy	38 633 144	6,0	20 504 181	3,5
Fuel and energy sector	35 031 191	5,4	45 965 056	8,0
Trade	29 669 664	4,6	32 346 359	5,6
Transport and communications	26 744 311	4,1	17 494 919	3,0
Food industry	13 029 963	2,0	9 382 543	1,6
State agencies	4 606 700	0,7	18 577 961	3,2
Agriculture and fishing	3 306 773	0,5	1 523 298	0,3
Other	28 866 191	4,5	18 182 802	3,1
Total loans to customers (gross)	645 545 497	100,0	577 795 137	100,0

Category of "financial services" includes loans to insurance, lease and investment companies, as well as loans to the borrowers acting as financial agents and performing project management functions.

"Other" category includes loans to woodworking, polygraphic, housing and utilities companies and others.

The credit quality analysis of loans to customers as at 31 December 2010 is shown below.

The quality of loans, for which no impairment was identified, is not similar due to a variety of industry risks and characteristics of the borrowers' financial position.

For presentation purposes a past due loan in these consolidated financial statements shall be deemed as the total amount due from the borrower (including the principal and interest amounts and commission income) if at least one of the loan-related payments is past due as at the reporting date.

Below is the analysis of loans to customers and provisions for impairment as at 31 December 2010:

	Current loans	Overdue loans with past due payments less than 1 month	Total
Loans to legal entities individually assessed for impairment			
Corporate loans	335 660 009	4 799 044	340 459 053
Less: provision for impairment of loans to legal entities	(116 543 338)	(4 724 375)	(121 267 713)
Total loans to legal entities individually assessed for impairment	219 116 671	74 669	219 191 340

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	Current loans	Overdue loans with past due payments				Total
		Less than 1 month	From 1 to 3 months	From 3 to 6 months	More than 6 months	
Loans to legal entities collectively assessed for impairment						
Corporate loans	170 734 214	288 845	137 217	594 736	4 969 431	176 724 443
Loans to small and medium business	25 096 675	593 116	83 029	629 060	7 070 994	33 472 874
Loans to government and municipal authorities	4 606 700	-	-	-	-	4 606 700
Reverse repo agreements	10 907 206	-	-	-	-	10 907 206
Less: provision for impairment of loans to legal entities	(8 890 672)	(191 619)	(3 842)	(324 433)	(3 397 130)	(12 807 696)
Total loans to legal entities collectively assessed for impairment	202 454 123	690 342	216 404	899 363	8 643 295	212 903 527
Loans to individuals collectively assessed for impairment						
Consumer loans	29 921 051	791 580	418 778	536 979	8 086 757	39 755 145
Mortgage loans	23 230 412	708 074	678 429	311 350	1 359 743	26 288 008
Car loans	4 256 924	194 530	124 617	121 158	1 374 342	6 071 571
Credit cards	4 305 008	156 525	80 270	68 966	1 145 388	5 756 157
Scoring loans	613 300	9 139	4 708	6 220	658 528	1 291 895
Overdrafts	180 547	5 153	4 414	3 297	19 034	212 445
Less: provision for impairment of loans to individuals	(375 319)	(399 441)	(554 002)	(869 203)	(11 701 328)	(13 899 293)
Total loans to individuals	62 131 923	1 465 560	757 214	178 767	942 464	65 475 928

Below is the analysis of loans to customers and provisions for impairment as at 31 December 2009:

	Current loans	Overdue loans with past due payments less than 1 month	Total
Corporate loans	92 602 892	2 437 714	95 040 606
Less: provision for impairment of loans to legal entities	(6 560 972)	(2 412 536)	(8 973 508)
Total loans to legal entities individually assessed for impairment	86 041 920	25 178	86 067 098

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	Current loans	Overdue loans with past due payments				Total
		Less than 1 month	From 1 to 3 months	From 3 to 6 months	More than 6 months	
Loans to legal entities collectively assessed for impairment						
Corporate loans	329 015 841	633 762	1 230 033	1 390 761	4 371 993	336 642 390
Loans to small and medium business	30 238 156	2 287 792	816 187	2 152 691	2 845 554	38 340 380
Loans to government and municipal authorities	18 577 961	-	-	-	-	18 577 961
Reverse repo agreements	899 421	-	-	-	-	899 421
Less: provision for impairment of loans to legal entities	(10 744 600)	(1 242 892)	(804 521)	(2 282 112)	(5 672 292)	(20 746 417)
Total loans to legal entities collectively assessed for impairment	367 986 779	1 678 662	1 241 699	1 261 340	1 545 255	373 713 735

Loans to individuals collectively assessed for impairment

Consumer loans	33 021 827	1 197 822	1 806 498	734 875	6 433 644	43 194 666
Mortgage loans	24 875 494	647 841	498 290	426 022	1 029 595	27 477 242
Car loans	8 443 313	360 101	210 349	131 694	1 280 639	10 426 096
Credit cards	4 260 831	299 150	161 911	138 547	1 003 669	5 864 108
Scoring loans	397 807	22 529	15 233	15 520	779 352	1 230 441
Overdrafts	79 828	2 372	869	2 629	16 128	101 826
Less: provision for impairment of loans to individuals	(826 561)	(575 440)	(1 437 165)	(1 191 779)	(9 554 718)	(13 585 663)
Total loans to individuals	70 252 539	1 954 375	1 255 985	257 508	988 309	74 708 716

The table below presents information on the collateral as at 31 December 2010:

	Guarantees and sureties	Property	Securities	Total
Corporate loans	550 864 879	237 278 324	170 703 095	958 846 298
Loans to small and medium business	53 648 591	36 043 504	40 013	89 732 108
Reverse repo agreements	-	-	13 254 384	13 254 384
Total collateral against loans to legal entities	604 513 470	273 321 828	183 997 492	1 061 832 790
Consumer loans	13 433 546	4 725 656	111 326	18 270 528
Mortgage loans	9 973 714	26 271 343	6 385 769	42 630 826
Car loans	5 929 424	13 661 844	-	19 591 268
Total collateral against loans to individuals	29 336 684	44 658 843	6 497 095	80 492 622
Total collateral against loans to customers	633 850 154	317 980 671	190 494 587	1 142 325 412

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The table below presents information on the collateral as at 31 December 2009:

	Guarantees and sureties	Property	Securities	Total
Corporate loans	430 108 489	256 665 107	98 811 015	785 584 611
Loans to small and medium business	89 394 093	92 784 306	6 924 726	189 103 125
Reverse repo agreements	-	-	1 746 839	1 746 839
Total collateral against loans to legal entities	519 502 582	349 449 413	107 482 580	976 434 575
Consumer loans	18 719 614	4 107 954	1 434 501	24 262 069
Mortgage loans	9 990 224	29 890 282	5 200 690	45 081 196
Car loans	8 580 636	19 857 526	-	28 438 162
Total collateral against loans to individuals	37 290 474	53 855 762	6 635 191	97 781 427
Total collateral against loans to customers	556 793 056	403 305 175	114 117 771	1 074 216 002

Discounts were used for calculation of the collateral value, depending on its type. The fair value of collateral may differ from the carrying amount in the tables above.

The fair value of collateral provided against loans to legal entities individually assessed for impairment is presented in the table below:

	2010	2009
Guarantees and sureties	254 765 962	69 566 070
Property	151 678 328	5 408 875
Securities	89 009 899	18 270 037
Total collateral provided against loans individually assessed for impairment (Corporate loans)	495 454 189	93 244 982

Total proceeds from sale of collateral may not exceed total collateralized loan debt.

Property received by the Group as collateral against loans includes real estate, equipment and goods for sale.

Geographical analysis and analysis of loans to customers by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 32. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 35.

9. Financial Assets Available for Sale

	2010	2009
Equity securities	15 865 804	13 242 688
Corporate bonds	366 657	372 072
Corporate promissory notes	285 310	-
Bonds of foreign governments	114 217	428 911
Bonds of RF subjects and local authorities	-	47 377
Less: provision for impairment of financial assets available for sale	(5 479 582)	(353 022)
Total financial assets available for sale	11 152 406	13 738 026

Equity securities mainly represent shares and equity holdings of Moscow enterprises: OJSC Serp & Molot, CJSC Investlesprom, JSC Insurance Group, OJSC Pushkinskaya Ploshchad Polygraphic Company, CJSC Mikoyan, OJSC Tushino Machine Building Plant, OJSC Pechatniki Polygraphic Complex as well as shares of JSCB Zarechye and JSCB Bank of Khakasia.

As at 31 December 2010 Group tried to fair value above mentioned equity securities and equity holdings. Fair value of these investments can not be determined reliably. Provisions for impairment of financial assets available for sale is the Group's estimates of credit term risks for mentioned investments.

Corporate bonds are represented by interest-bearing securities issued by major companies and credit institutions with maturities from 16 May 2011 to 7 November 2017, the coupon rate ranging from 7.0% to 23.0% per annum and yield to maturity ranging from 6.51% to 19.0% per annum.

Corporate promissory notes are Rouble-denominated promissory notes issued by major Russian credit institutions. As at 31 December 2010, the promissory notes in the Group's portfolio have maturities from 17 March 2011 to 16 March 2012 and yield to maturity from 5% to 7% per annum.

Bonds of foreign governments are represented by interest-bearing securities denominated in UAH. As at 31 December 2010, these bonds in the Group's portfolio have maturities from 7 August 2013 to 4 September 2013, the coupon rate ranging from 12.0% to 12.5% per annum and yield to maturity ranging from 9.0% to 10.0%, depending on the issue.

Movements in financial assets available for sale are as follows:

	Note	2010	2009
Financial assets available for sale			
as at 1 January (gross)		14 091 048	10 768 020
Gains less losses from revaluation at fair value		9 943	(8 948)
Accrued interest income	21	87 850	94 724
Interest received		(24 674)	(16 289)
Acquisitions		3 126 405	6 549 256
Sale		(918 399)	(3 095 449)
Redemption		(1 290)	(544 242)
Reclassification to investments in associates	11	(9 019)	-
Reclassification from investments held to maturity		285 310	344 173
Transfer to subsidiaries*		(16 940)	-
Financial assets acquired with the subsidiary		9	-
Exchange difference		1 745	(197)
Financial assets available for sale as at 31 December (gross)		16 631 988	14 091 048

* Additional information is disclosed in Note 29.

Movements in the provision for impairment of financial assets available for sale are as follows:

	2010	2009
Provision for impairment of financial assets available for sale as at		
1 January	353 022	123 480
Provision for impairment of financial assets available for sale during the year	5 131 187	233 888
Write-off of financial asset against provision	(5 983)	-
Exchange difference	1 356	(4 346)
Provision for impairment of financial assets available for sale as at		
31 December	5 479 582	353 022

Below is the analysis of assets reclassified into assets available for sale as at 31 December 2010. Reclassification was performed in 2008 by the subsidiary banks of the Group - AS Latvijas Biznesa Banka and AS Eesti Krediidipank due to liquidity decrease in the stock market in autumn 2008 and subsequent change in the purpose of holding of the financial assets at fair value through profit or loss in accordance with amendments to IAS 39 "Financial Instruments - Recognition and Measurement" effective since November 2008:

	Financial assets	
	At fair value through profit or loss	Available for sale
	Equity securities	Equity securities
Reclassified assets as if there were no reclassification		
Carrying value	2 500	-
Fair value	966	-
Income from movements in the fair value of assets which would be recognized in the consolidated statement of comprehensive income	(1 534)	-
Reclassified assets as at the reporting date after reclassification		
Carrying value	-	2 500
Fair value	-	966
Income recognized in the consolidated statement of comprehensive income	-	(1 534)

Below is the analysis of assets reclassified into assets available for sale as at 31 December 2009. Reclassification was made in 2008 by the Group's subsidiary banks - AS Latvijas Biznesa Banka and AS Eesti Krediidipank due to liquidity decrease in the stock market in autumn 2008 and subsequent change in the purpose of holding of the financial assets at fair value through profit or loss in accordance with amendments to IAS 39 "Financial Instruments - Recognition and Measurement" effective since November 2008:

	Financial assets	
	At fair value through profit or loss	Available for sale
	Equity securities	Equity securities
Reclassified assets as if there were no reclassification		
Carrying value	10 858	-
Fair value	9 220	-
Expenses from movements in the fair value of assets which would be recognized in the consolidated statement of comprehensive income	(1 638)	-
Reclassified assets as at the reporting date after reclassification		
Carrying value	-	10 858
Fair value	-	9 220
Expenses recognized within other comprehensive income	-	(1 638)

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The table below provides the credit quality analysis of financial assets available for sale in accordance with the international agencies' ratings as at 31 December 2010:

	Investment rating	Speculative rating	No ratings assigned	Total
Equity securities	-	-	15 865 804	15 865 804
Corporate bonds	96 751	215 080	54 826	366 657
Corporate promissory notes	230 196	55 114	-	285 310
Bonds of foreign governments	-	114 217	-	114 217
Financial assets available for sale (gross)	326 947	384 411	15 920 630	16 631 988

The table below provides the credit quality analysis of financial assets available for sale in accordance with the international agencies' ratings as at 31 December 2009:

	Investment rating	Speculative rating	No rating assigned	Total
Equity securities	647	-	13 242 041	13 242 688
Corporate bonds	87 249	146 286	138 537	372 072
Bonds of foreign governments	-	428 911	-	428 911
Bonds of RF subjects and local authorities	-	44 291	3 086	47 377
Financial assets available for sale (gross)	87 896	619 488	13 383 664	14 091 048

Below is the fair value hierarchy of financial assets available for sale. Level 1 includes financial assets traded in an active market, whose fair value is determined on the basis of market quotations. Level 2 includes financial assets whose fair value is determined using different valuation models. These models are based on observable market data characterising market conditions and factors that may affect the fair value of a financial asset. Level 3 includes financial assets whose fair value is determined using judgment.

	2010	2009
Level 1	366 657	2 142 912
Level 2	285 310	286
Level 3	15 980 021	11 947 850
Total	16 631 988	14 091 048

10. Investments Held to Maturity

	2010	2009
Corporate eurobonds	184 214	169 392
Corporate bonds	141 037	-
Bonds of foreign governments	52 720	34 885
Russian Federation bonds (OFZ)	45 541	66 328
Less: provision for impairment of investments held to maturity	(5 151)	(5 394)
Total investments held to maturity	418 361	265 211

Corporate eurobonds are represented by USD and EUR-denominated interest-bearing securities issued by major Russian companies and large Russian and Latvian credit institutions, quoted on international markets. As at 31 December 2010, corporate eurobonds in the Group's portfolio have maturity dates from 5 May 2011 to 5 March 2014, coupon rates ranging from 5.6% to 9.3% per annum and yield to maturity ranging from 3.4% to 8.3% per annum, depending on the issue.

Corporate bonds are represented by interest-bearing securities denominated in BYR. As at 31 December 2010, these bonds in the Group's portfolio have maturities from 10 August 2011 to 15 June 2014, coupon rates ranging from 12% to 13% and yield to maturity ranging from 12% to 13%.

Bonds of foreign governments are represented by interest-bearing securities denominated in LVL and EUR, freely tradable on the Riga and Vilnius Stock Exchanges. As at 31 December 2010, these bonds in the Group's portfolio have maturity dates from 22 February 2011 to 14 February 2013, coupon rates ranging from 3.5% to 5.13% per annum and yield to maturity ranging from 3.15% to 3.5% per annum.

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Russian Federation bonds (OFZ) are Rouble-denominated interest-bearing government securities issued by the Ministry of Finance of the Russian Federation and quoted on the Moscow Interbank Currency Exchange (MICEX). As at 31 December 2010, OFZ in the Group's portfolio have maturity date on 19 January 2011, coupon rate of 6.11% and yield to maturity of 2.11%.

Below is the analysis of assets reclassified to assets held to maturity as at 31 December 2010. Reclassification was performed in 2008 by the Group's subsidiary banks - AS Latvijas Biznesa Banka, AS Eesti Krediidipank and OJSC Mosvodokanalbank due to liquidity decrease in the stock market in autumn 2008 and subsequent change in the purpose of holding of the financial assets at fair value through profit or loss in accordance with amendments to IAS 39 "Financial Instruments - Recognition and Measurement" effective since November 2008:

	Financial assets and investments				
	At fair value through profit or loss		Available for sale	Held to maturity	
	Corporate eurobonds	Russian Federation bonds (OFZ)	Corporate eurobonds	Corporate eurobonds	Russian Federation bonds (OFZ)
Reclassified assets as if there were no reclassification					
Carrying value	96 215	45 541	15 227	-	-
Fair value	45 022	45 645	15 682	-	-
Income/expenses from movements in the fair value of assets which would be recognized in the consolidated statement of comprehensive income	(51 193)	104	-	-	-
Expenses from movements in the fair value of assets which would be recognized within other comprehensive income	-	-	455	-	-
Reclassified assets as at the reporting date after reclassification					
Carrying value	-	-	-	111 442	45 541
Fair value	-	-	-	60 704	45 645
Income recognized in the consolidated statement of comprehensive income	-	-	-	18 125	-
Income recognized within other comprehensive income	-	-	-	114	-

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Below is the analysis of assets reclassified to assets held to maturity as at 31 December 2009. Reclassification was performed in 2008 by the Group's subsidiary banks - AS Latvijas Biznesa Banka, AS Eesti Krediitipank and OJSC Mosvodokanalbank due to liquidity decrease in the stock market in autumn 2008 and subsequent change in the purpose of holding of the financial assets at fair value through profit or loss in accordance with amendments to IAS 39 "Financial Instruments - Recognition and Measurement" effective since November 2008:

	Financial assets and investments				
	At fair value through profit or loss		Available for sale	Held to maturity	
	Corporate eurobonds	Russian Federation bonds (OFZ)	Corporate eurobonds	Corporate eurobonds	Russian Federation bonds (OFZ)
Reclassified assets as if there were no reclassification					
Carrying value	139 231	66 328	30 146	-	-
Fair value	80 940	65 591	30 389	-	-
Expenses from movements in the fair value of assets which would be recognized in the consolidated statement of comprehensive income	(58 291)	(737)	-	-	-
Income from movements in the fair value of assets which would be recognized within other comprehensive income	-	-	243	-	-
Reclassified assets as at the reporting date after reclassification					
Carrying value	-	-	-	169 377	66 328
Fair value	-	-	-	111 329	65 591
Income recognized in the consolidated statement of comprehensive income	-	-	-	17 166	-
Income recognized within other comprehensive income	-	-	-	182	-

Movements in the provision for impairment of investments held to maturity are presented below:

	2010	2009
Provision for impairment of investments held to maturity		
as at 1 January	5 394	1 484
(Recovery of provision)/provision for impairment of investments held to maturity	(368)	4 191
Exchange difference	125	(281)
Provision for impairment of investments held to maturity		
as at 31 December	5 151	5 394

Below is the credit quality analysis of investments held to maturity as at 31 December 2010 in accordance with the international agencies' ratings:

	Investment rating	Speculative rating	No ratings assigned	Total
Corporate eurobonds	82 709	35 779	65 726	184 214
Corporate bonds	-	-	141 037	141 037
Bonds of foreign governments	52 720	-	-	52 720
Russian Federation bonds (OFZ)	45 541	-	-	45 541
Total investments held to maturity (gross)	180 970	35 779	206 763	423 512

Below is the credit quality analysis of investments held to maturity as at 31 December 2009 in accordance with the international agencies' ratings:

	Investment rating	Speculative rating	No rating assigned	Total
Corporate eurobonds	14 675	90 668	64 049	169 392
Russian Federation bonds	66 328	-	-	66 328
Bonds of foreign governments	-	34 885	-	34 885
Total investments held to maturity (gross)	81 003	125 553	64 049	270 605

11. Investments in Associates and Non-Consolidated Subsidiaries

	2010	2009
Investments in associates		3 247 780
Investments in non-consolidated subsidiaries		34
Total investments in associates and non-consolidated subsidiaries		3 247 814
		3 820 845

Movements in the carrying value of investments in associates during the year are as follows:

	Note	2010	2009
Carrying value as at 1 January		3 820 837	3 950 186
Share in net profit/loss of the associates		(3 091 103)	(129 368)
Fair value of the increase in the share capital of the associates		2 707 422	-
Transfer from associates to consolidated subsidiaries		-	(57)
Transfer from financial assets available for sale	9	9 019	-
Disposal of associates	29	(198 528)	-
Exchange difference		133	76
Carrying value as at 31 December		3 247 780	3 820 837

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The table below provides the list of investments in associates:

Name	2010		2009	
	Amount of investment	Ownership interest, %	Amount of investment	Ownership interest, %
O.J.S.C. "Metropolitan Insurance Group" (SSG)*	3 119 614	24.9	3 567 086	24.9
OJSC Leasing Company LeasingBusiness**	51 168	23.9	-	-
LLC Pension Reserve	46 317	19.0	36 950	19.0
CJSC Automated Banking Technologies	30 681	25.8	25 753	25.8
Äigrumäe Kinnisvara AS	-	38.2	-	44.5
JSCB Russian National Commercial Bank***	-	-	191 048	20.0
LLC Sibneftegas Enterprise**	-	20.0	-	-
Total investments in associates	3 247 780		3 820 837	

* In July 2010 the share capital of O.J.S.C. "Metropolitan Insurance Group" was increased. The Group's contribution totalled RUR 2 705 000 thousand.

** The company was transferred from the "Financial assets available for sale" category in the reporting period.

*** JSCD RNCB was disposed of in the reporting period. Information on disposal of the associate bank is disclosed in Note 29.

Below is a list of investments in non-consolidated subsidiaries:

Name	2010		2009	
	Amount of investment	Percentage of ownership, %	Amount of investment	Percentage of ownership, %
LLC VM - Open City	10	100.0	8	100.0
CJSC Monolit	24	99.0	-	99.0
CJSC Stolichnaya Neftyanaya Kompania	-	75.0	-	75.0
Editorial office of MK-Boulevard magazine, LLC	-	50.0	-	50.0
Total investments in non-consolidated subsidiaries	34		8	

Financial statements of the above subsidiaries were not included in the Group's consolidated financial statements, as they would not have a material effect on the consolidated financial statements (less than 0.1% of total assets and net profit of the Group for 2010 and 2009).

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12. Premises and Equipment and Intangible Assets

	Premises	Office and computer equipment and other premises and equipment	Capital investments	Intangible assets	Total
Carrying value as at 31 December 2009	13 536 026	1 646 424	1 210 975	501 852	16 895 277
Cost/revalued amount					
Balance as at 31 December 2009	13 756 996	3 468 304	1 210 975	975 130	19 411 405
Acquired with the subsidiary	21 102	2 669	-	-	23 771
Additions	1 476 584	383 857	756 458	63 304	2 680 203
Transfer to another category	53 476	10 184	(63 660)	-	-
Disposals	(498 288)	(65 160)	(324 758)	(6 271)	(894 477)
Elimination of accumulated depreciation of revalued premises and equipment	(94 887)	-	-	(308 730)	(403 617)
Impairment	(3 019 847)	-	-	(62 753)	(3 082 600)
Effect of exchange rate movements	(60 686)	(21 673)	(23 605)	(9 131)	(115 095)
Balance as at 31 December 2010	11 634 450	3 778 181	1 555 410	651 549	17 619 590
Accumulated depreciation					
Balance as at 31 December 2009	220 970	1 821 880	-	473 278	2 516 128
Acquired with the subsidiary	4 207	1 510	-	-	5 717
Depreciation charge	221 619	519 906	-	172 723	914 248
Disposals	(65 286)	(58 940)	-	(2 473)	(126 699)
Elimination of accumulated depreciation of revalued premises and equipment	(94 887)	-	-	(308 730)	(403 617)
Effect of exchange rate movements	(6 291)	(18 262)	-	(2 900)	(27 453)
Balance as at 31 December 2010	280 332	2 266 094	-	331 898	2 878 324
Carrying value as at 31 December 2010	11 354 118	1 512 087	1 555 410	319 651	14 741 266

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	Premises	Office and computer equipment and other premises and equipment	Capital investments	Intangible assets	Total
Carrying value as at 31 December 2008	15 892 169	1 715 657	960 480	687 311	19 255 617
Cost/revalued amount					
Balance as at 31 December 2008	16 026 254	3 207 473	960 480	992 124	21 186 331
Additions	491 558	428 446	401 875	146 533	1 468 412
Transfer to another category	89 477	45 405	(134 882)	-	-
Disposals	(761 870)	(173 085)	(21 896)	(1 798)	(958 649)
Revaluation	(1 838 568)	-	-	-	(1 838 568)
Impairment	(44 966)	-	-	(160 235)	(205 201)
Elimination of accumulated depreciation of revalued premises and equipment	(100 094)	-	-	-	(100 094)
Effect of exchange rate movements	(104 795)	(39 935)	5 398	(1 494)	(140 826)
Balance as at 31 December 2009	13 756 996	3 468 304	1 210 975	975 130	19 411 405
Accumulated depreciation					
Balance as at 31 December 2008	134 085	1 491 816	-	304 813	1 930 714
Depreciation charge	229 367	448 905	-	169 845	848 117
Disposals	(43 828)	(99 001)	-	(486)	(143 315)
Elimination of accumulated depreciation of revalued premises and equipment	(100 094)	-	-	-	(100 094)
Effect of exchange rate movements	1 440	(19 840)	-	(894)	(19 294)
Balance as at 31 December 2009	220 970	1 821 880	-	473 278	2 516 128
Carrying value as at 31 December 2009	13 536 026	1 646 424	1 210 975	501 852	16 895 277

The carrying value of premises includes RUR 1 797 147 thousand representing positive revaluation of the Group's premises. Deferred tax liability from this revaluation of premises was charged to revaluation reserve for premises and equipment within the Group's equity. Had these premises been recognized at cost net of depreciation, the carrying value of the premises would have been RUR 3 162 058 thousand as at 31 December 2010.

As at 31 December 2009 the Group's premises were measured by the independent appraiser Neo Centre LLC. Based on the Group's experts conclusion, the change of the market value of the Group's premises was insignificant in 2010, therefore no revaluation has been performed as at 31 December 2010.

As at 31 December 2010 the Group performed test for impairment of a building of the Group's subsidiary CJSC "Spetsstoy-2" and reflected provision for impairment in the amount of RUR 3 019 847 thousand in the "Provision for impairment of premises and equipment and intangible assets" item of the consolidated statement of comprehensive income.

Capital investments mainly represent investments in construction and renovation of premises. Upon completion of the work, these assets are recorded in the corresponding category of premises and equipment.

13. Investment Property

2010

Cost as at 1 January	-
Acquired with subsidiary (Note 29)	3 637 994
Cost as at 31 December	3 637 994

Investment property represents buildings located in Moscow and Saint-Petersburg and leased out to generate income. The fair value of the Group's investment property as at 31 December 2010 was determined by the independent appraiser CJSC Audit and Consulting and was based on the market value.

As a consequence of the Group's subsidiary acquisition at the end of the year 2010, there were no rental income and direct operating expenses in respect of the investment property, recognisable in the Group's consolidated financial statements.

14. Other Assets

	2010	2009
Receivables	3 470 831	3 964 638
Advance payments	1 757 780	1 554 268
Insurance claims	1 111 219	7 869
Property transferred to the Group as debt repayment	763 140	661 531
Prepaid expenses	318 475	156 893
Taxes receivable (other than income tax)	240 105	101 346
Plastic card receivables	45 640	38 855
Other	135 321	136 015
Less: provision for impairment of other assets	(1 909 792)	(1 420 697)
Total other assets	5 932 719	5 200 718

Property transferred to the Group as loan repayment represents real estate received by the Group in settlement of overdue loans. The Group intends to realize these assets in the foreseeable future. The assets are not classified as held for sale in accordance with IFRS 5, as the Group has not started active marketing of these assets to sell them. These assets were recognized at fair value on acquisition.

The insurance claims of the Group are claims filed to the Deposit Insurance Agency to compensate payments made to the individual depositors of the banks with a recalled license. The insurance claims for the year 2010 were generated mostly from the compensations refunded to individual depositors of LLC "Mejprombank Plus".

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The table below shows the analysis of changes in the provision for impairment of other assets:

	Receivables	Prepayments	Total
Provision for impairment of other assets as at 31 December 2008	336 496	29 542	366 038
Provision for impairment during 2009	510 648	89 591	600 239
Assets written off against the provision	(179 832)	-	(179 832)
Exchange difference	(9 371)	-	(9 371)
Provision for impairment of other assets as at 31 December 2009	657 941	119 133	777 074
Provision for impairment during 2010	1 197 226	25 058	1 222 284
Assets written off against the provision	(88 876)	-	(88 876)
Provision on acquisition of the subsidiary	364	-	364
Exchange difference	(1 054)	-	(1 054)
Provision for impairment of other assets as at 31 December 2010	1 765 601	144 191	1 909 792

Receivables are not secured by collateral.

The credit quality analysis of other financial assets as at 31 December 2010 is shown below:

	Current	Overdue			Total	
		Less than 1 month	From 1 to 6 months	From 6 to 12 months		More than 1 year
Receivables	1 701 150	99 266	373 204	374 425	922 786	3 470 831
Insurance claims	1 111 219	-	-	-	-	1 111 219
Plastic card receivables	45 640	-	-	-	-	45 640
Less: provision for impairment of other financial assets	(559 251)	(69)	(93 831)	(189 664)	(922 786)	(1 765 601)
Total other financial assets	2 298 758	99 197	279 373	184 761	-	2 862 089

The credit quality analysis of other financial assets as at 31 December 2009 is shown below:

	Current	Overdue			Total	
		Less than 1 month	From 1 to 6 months	From 6 to 12 months		More than 1 year
Receivables	2 655 413	111 548	260 330	333 699	417 220	3 778 210
Insurance claims	177	-	-	-	-	177
Plastic card receivables	159 064	-	-	-	-	159 064
Less: provision for impairment of other financial assets	(777)	(153)	(64 718)	(175 073)	(417 220)	(657 941)
Total other financial assets	2 813 877	111 395	195 612	158 626	-	3 279 510

The geographical analysis of other assets by currency structure and maturities is disclosed in Note 32.

15. Due to Other Banks

	2010	2009
Term deposits and loans of other banks	83 298 995	91 660 050
Repo agreements with other banks	34 737 638	4 173 097
Syndicated loans of foreign banks	15 723 059	36 942 091
Subordinated loans	14 132 352	14 109 430
Correspondent accounts of other banks	11 438 562	4 984 901
Loans and deposits of CBR	-	73 845 154
Total due to other banks	159 330 606	225 714 723

As at 31 December 2010, the Group raised funds over 10% of the Group's capital from two banks (as at 31 December 2009: two banks). The aggregate amount of these funds was RUR 68 617 650 thousand (as at 31 December 2009: RUR 137 696 155 thousand) or 43.1% of due to other banks (as at 31 December 2009: 61.0%).

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As at 31 December 2010, the Group raised funds from other banks against the collateral in the form of securities sold under REPO agreements. The securities comprise Russian Federation bonds (OFZ) with the fair value of RUR 3 293 005 thousand (as at 31 December 2009: none), eurobonds of the Russian Federation with the fair value of RUR 4 644 776 thousand (as at 31 December 2009: none), bonds of RF subjects and local governments with the fair value of RUR 225 903 thousand (as at 31 December 2009: RUR 1 662 902 thousand), bonds of foreign governments with the fair value of RUR 5 064 453 thousand (as at 31 December 2009: RUR 2 922 561 thousand), corporate eurobonds with the fair value of RUR 12 753 663 thousand (as at 31 December 2009: none), equity securities with the fair value of RUR 8 043 thousand (as at 31 December 2009: none), corporate bonds with the fair value of RUR 3 055 705 thousand (as at 31 December 2009: none). (Note 6).

As at 31 December 2010, the Group raised syndicated loans from foreign banks:

Description	Interest rate	Payment schedule	Date of origination	Maturity date	Nominal value, '000	Carrying amount, RUR'000
I	LIBOR+1.5%	quarterly	20.01.2009	20.07.2011	\$30 000	916 305
II	LIBOR+3.2%	quarterly	23.12.2009	23.12.2011	\$350 000	10 559 038
Total syndicated loans in USD					\$380 000	11 475 343
I	EURIBOR+1.5%	quarterly	20.01.2009	20.07.2011	€105 000	4 247 716
Total syndicated loans in EUR					€105 000	4 247 716
Total syndicated loans						15 723 059

As at 31 December 2009, the Group raised syndicated loans from foreign banks:

Description	Interest rate	Payment schedule	Date of origination	Maturity date	Nominal value, '000	Carrying amount, RUR'000
I	LIBOR+0.55%	semi-annually	19.03.2007	19.03.2010	\$105 000	3 183 124
II	LIBOR+0.55%	monthly	23.11.2007	21.05.2010	\$600 000	18 130 338
III	LIBOR+1.5%	quarterly	20.01.2009	20.07.2011	\$30 000	890 071
IV	LIBOR+3.2%	quarterly	23.12.2009	23.12.2011	\$350 000	10 268 518
Total syndicated loans in USD					\$1 085 000	32 472 051
I	EURIBOR+1.5%	quarterly	20.01.2009	20.07.2011	€105 000	4 470 040
Total syndicated loans in EUR					€105 000	4 470 040
Total syndicated loans						36 942 091

In 2009 the Group raised a loan from Barclays Bank PLC Wholesale, London, in the amount of USD 70 000 thousand (a rouble equivalent of RUR 2 133 383 thousand), maturing on 10 December 2011.

In 2009 the Group raised a subordinated loan from the state corporation "The Bank for Development and Foreign Economic Affairs" (Vnesheconombank) in the amount of RUR 11 107 970 thousand, at the rate of 6.5% per annum, maturing on 18 December 2019.

In 2008 the Group raised a loan from Sumitomo Mitsui Banking Corporation Europe LTD in the amount of JPY 5 500 000 thousand, maturing on 11 July 2011. As at 31 December 2010, the outstanding loan balance was JPY 1 088 950 thousand (or RUR 407 038 thousand).

In 2006 the Group raised a subordinated loan from ABN Amro Bank in the amount of USD 100 000 thousand (a rouble equivalent of RUR 3 046 690 thousand), maturing on 21 December 2016.

16. Customer Accounts

	2010	2009
Federal and regional budgets and funds		
- Current/settlement accounts	39 873 431	18 698 735
- Term deposits	101 879 880	47 589 240
State-owned organisations		
- Current/settlement accounts	24 264 918	24 523 510
- Term deposits	15 113 504	20 452 207
Other legal entities		
- Current/settlement accounts	99 490 530	71 071 008
- Term deposits	80 898 728	68 223 271
Individuals		
- Current accounts/demand deposits	38 095 961	33 345 723
- Term deposits	143 523 328	144 124 895
Total customer accounts	543 140 280	428 028 589

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate applied to demand deposits.

As at 31 December 2010, the Group raised funds over 10% of the Group's capital from 11 clients (as at 31 December 2009: 4 clients). The aggregate amount of these funds was RUR 236 930 006 thousand (as at 31 December 2009: RUR 104 726 028 thousand) or 43.6% of customer accounts (as at 31 December 2009: 24.5%).

As at 31 December 2010, the Group raised funds from customers in the amount of RUR 244 214 thousand against the collateral in the form of securities sold under REPO agreements. The securities comprise equity securities with the fair value of RUR 289 309 thousand (as at 31 December 2009: none), bonds of RF subjects and local governments with the fair value of RUR 3 237 thousand (as at 31 December 2009: none). In 2009 securities sold under REPO agreements included eurobonds of the Russian Federation with the fair value of RUR 350 493 thousand (Note 6).

Geographical analysis and analysis of customer accounts by currency structure and maturity, and analysis of interest rates are disclosed in Note 32.

Information on the funds raised from related parties is disclosed in Note 35.

17. Debt Securities Issued

	2010	2009
Eurobonds	78 649 419	51 978 409
Bonds	18 483 148	17 818 205
Promissory notes	5 039 815	8 302 165
Total debt securities issued	102 172 382	78 098 779

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As at 31 December 2010, eurobonds comprised:

Nominal value, '000	Date of issue	Maturity date	Interest rate	Carrying amount, RUR'000	Market price, %
\$300 000 / subordinated	25.11.2005	25.11.2015	7.5 %, semi-annually during the first 5 years, then the rate equals US Treasury plus 4.567%	8 843 592	96.51
\$500 000	13.05.2006	13.05.2013	7.335%, semi-annually	15 262 431	106.45
\$400 000 / subordinated	10.05.2007	10.05.2017	6.807 %, semi-annually during the first 5 years, then the rate equals US Treasury plus 5.25%	12 224 712	99.28
CHF 250 000	04.03.2008	04.03.2011	6.253%, annually	7 619 002	100.50
\$750 000	11.03.2010	11.03.2015	6.699%, semi-annually	23 241 965	102.65
CHF 350 000	10.09.2010	10.09.2013	4.50%, annually	11 457 717	102.00
Total eurobonds				78 649 419	

As at 31 December 2009, eurobonds comprised:

Nominal value, '000	Date of issue	Maturity date	Interest rate	Carrying amount, RUR'000	Market price, %
\$300 000	26.05.2005	26.11.2010	7.375%, semi-annually	8 707 342	104.37
\$300 000 / subordinated	25.11.2005	25.11.2015	7.5%, semi-annually during the with the right of first 5 years; then the rate redemption in equals US Treasury plus November 2010 4.567%	9 095 382	97.88
\$500 000	13.05.2006	13.05.2013	7.335%, semi-annually	15 166 030	104.49
\$400 000 / subordinated	10.05.2007	10.05.2017	6.807%, semi-annually during the first 5 years; then the rate equals US Treasury plus 5.25%	12 141 257	93.02
CHF 250 000	04.03.2008	04.03.2011	6.253%, annually	6 868 398	100.75
Total eurobonds				51 978 409	

As at 31 December 2010, the bonds comprised:

Series/code of state registration	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price, %
MM48	6%, monthly	07.06.2010	31.05.2011	USD 3 000	91 440	-
Total bonds in USD					91 440	
MM7	11.5%, monthly	07.06.2010	31.05.2011	BYR 20 000 000	203 112	-
MM6	16.0%, quarterly	17.05.2010	12.05.2011	BYR 20 000 000	207 855	-
MM9	15.5%, quarterly	02.08.2010	29.07.2011	BYR 50 000 000	520 934	-
MM10	11.5%, monthly	02.08.2010	29.07.2011	BYR 15 000 000	152 334	-
Total bonds in foreign currency					1 084 235	
40202748B	7.50%, semi-annually	08.02.2008	01.02.2013	RUR 10 000 000	10 301 254	100.20
40102748B*	6.45%, semi-annually	01.08.2008	29.07.2011	RUR 6 918 983	7 006 219	100.00
Total bonds in RUR					17 307 473	
Total bonds					18 483 148	

* In 2009 bonds with nominal value of RUR 3 894 006 thousand were presented for redemption under the terms of the offer. In 2010 part of the above bonds presented for redemption under this offer was resold at the nominal value of RUR 960 000 thousand. Bonds with nominal value of RUR 147 011 thousand were presented for redemption under the terms of the offer

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As at 31 December 2009, the bonds comprised:

Series/code of state registration	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price, %
5-200-02-0359	20%, monthly	09.10.2009	09.04.2010	BYR 30 000 000	322 260	-
5-200-02-0363	20%, monthly	02.11.2009	03.05.2010	BYR 70 000 000	754 553	-
Total bonds in foreign currency					1 076 813	
40202748B	11.75%, semi-annually	08.02.2008	01.02.2013	RUR 10 000 000	10 468 816	101.7
40102748B*	10.64%, semi-annually	01.08.2008	29.07.2011	RUR 6 105 994	6 272 576	99.87
Total bonds in RUR					16 741 392	
Total bonds					17 818 205	

* In 2009 the bonds with nominal value of RUR 3 894 006 thousand were presented for redemption under the terms of the offer.

18. Other Liabilities

	Note	2010	2009
Remuneration to employees payable		2 446 809	505 538
Payables		1 265 945	1 852 426
Taxes payable other than income tax		129 308	147 075
Deferred income		72 188	31 445
Settlements relating to plastic cards		59 965	59 398
Dividends payable	28	46	47
Other		234 183	178 847
Total other liabilities		4 208 444	2 774 776

As at 31 December 2010 remuneration to employees payable includes accrued bonus to the employees in the total amount of RUR 2 188 307 thousand for the year 2010 (2009: RUR 223 878 thousand), which was paid in two installments in February and March 2011 (2009: in March and April 2010).

19. Non-controlling Interest

Movements in the non-controlling interest of the Group are as follows:

	2010	2009
Non-controlling interest as at 1 January	245 248	325 514
Share in net profit	7 891	5 740
Acquisition of subsidiaries / Increase of interest in subsidiaries	185 808	(94 069)
Exchange difference	(10 133)	8 063
Non-controlling interest as at 30 September	428 814	245 248

20. Share Capital

Authorised, issued and fully paid share capital comprises:

	2010		2009	
	Number of shares	Nominal value, RUR'000	Number of shares	Nominal value, RUR'000
Ordinary shares	180 000 000	18 000 000	158 367 983	15 836 798
Restatement of share capital prior to 31 December 2002 under IAS 29	-	2 476 746	-	2 476 746
Total share capital	180 000 000	20 476 746	158 367 983	18 313 544

The nominal value of each ordinary share is 100 roubles. Each share gives the right of one vote.

The Government of the City of Moscow directly and indirectly (through OJSC. "Metropolitan Insurance Group" and its subsidiaries) owns the Bank and is its principal shareholder.

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On 26 July 2010, the CBR registered the 14th issue of the Bank of Moscow ordinary voting shares in the amount of 21 632 017 at the nominal value of RUR 100. The shares were offered at the following prices: RUR 1 003 per share under the pre-emptive rights offer and RUR 1 003 per share under open subscription, totalling RUR 21 696 913 thousand, including share premium of RUR 19 533 711 thousand.

On 28 July 2009, the CBR registered the 13th issue of the Bank of Moscow ordinary voting shares in the amount of 21 008 403 at the nominal value of RUR 100. The shares were offered at the following prices: RUR 952 per share under the pre-emptive rights offer and RUR 952 per share under open subscription, totalling RUR 19 999 999 thousand, including share premium of RUR 17 899 159 thousand.

The share capital structure is as follows:

	2010	2009
Government of the City of Moscow	46.48%	48.11%
OJSC "Metropolitan Insurance Group"	1.72%	-
Group of subsidiaries of O.J.S.C. "Metropolitan Insurance Group":		
LLC TBIH Russian Funds	5.12%	1.72%
OJSC "Insurance Group MSK"	10.47%	-
OJSC "Moscow Insurance Company"	-	11.44%
JSC "MSK-Standard"	-	2.12%
LLC Plastoinstrument**	4.12%	4.60%
LLC Stroyelektromontazh**	3.58%	3.67%
LLC NPO Pharmatsevtika**	3.25%	3.70%
LLC Gazdorstroy**	3.21%	3.65%
LLC Centrotransport**	3.16%	3.15%
LLC Khimpromexport**	3.04%	3.45%
LLC GCM	3.25%	-
LLC GCM Investments	3.16%	-
Other shareholders with less than 5% in the share capital	9.44%	14.39%
Total share capital	100.00%	100.00%

* On 27 February 2010 these companies were merged to Open Joint Stock Company "Insurance Group MSK".

** As at 31 December 2010, the ultimate beneficiaries in the proportion of 80/20 are Mr. A.F. Borodin, President of the Bank, and Mr. L.F. Alaluev, Deputy Chairman of the Board of Directors.

Information about the Group's shareholders interchange for the year 2010 is reflected in the Note 36.

21. Interest Income and Expense

	Note	2010	2009
Interest Income			
Loans to customers		63 171 973	71 901 629
Financial assets at fair value through profit or loss		12 449 120	7 970 398
Due from other banks		1 291 600	2 229 332
Financial assets available for sale	9	87 850	94 724
Investments held to maturity		27 389	68 095
Total interest income		77 027 932	82 264 178
Interest expense			
Current accounts and term deposits of customers		25 428 072	31 944 486
Term deposits of banks		4 895 349	11 705 768
Debt securities issued		7 044 311	7 338 485
Total interest expense		37 367 732	50 988 739
Net interest income		39 660 200	31 275 439

22. Gains less Losses Arising from Financial Assets at Fair Value through Profit or Loss

	2010	2009
Gain/(loss) from transactions in trading securities and derivative financial instruments	6 672 205	4 734 116
Gain/(loss) from revaluation of securities	(2 847 538)	4 861 456
Total gains less losses arising from financial assets at fair value through profit or loss	3 824 667	9 595 572

23. Fee and Commission Income and Expense

	2010	2009
Fee and commission income		
Commission on settlement and cash transactions	4 499 861	3 965 452
Commission on operations with plastic cards	1 328 352	1 582 289
Commission on guarantees issued	495 711	778 917
Commission on cash collection	296 141	232 750
Commission on transactions with securities	243 839	121 939
Commissions under fiduciary activities	228 352	228 870
Other	43 043	56 194
Total fee and commission income	7 135 299	6 966 411
Fee and commission expense		
Commission on cash collection	719 864	559 169
Commission on settlement and cash transactions	439 045	158 944
Commission on operations with plastic cards	302 054	515 760
Commission on transactions with securities	62 508	68 665
Commission on guarantees received	6 007	106 154
Other	117 731	77 316
Total fee and commission expense	1 647 209	1 486 008
Net fee and commission income	5 488 090	5 480 403

24. General and Administrative Expenses

	Note	2010	2009
Staff costs		9 492 443	7 430 049
Rent		2 049 986	2 045 801
Taxes other than income tax		1 340 812	1 083 060
Professional services (security, communications and other)		1 120 713	1 220 347
Expenses related to premises and equipment		1 037 036	612 705
Depreciation and amortization	12	914 248	848 117
Administrative expenses		624 272	484 626
Advertising and marketing		372 286	328 068
Charity		61 885	88 032
Other		104 516	177 000
Total general and administrative expenses		17 118 197	14 317 805

Staff costs include remuneration to employees and insurance contributions.

25. Other Operating Income less Expenses

	2010	2009
Fines and penalties received and paid	1 449 393	1 340 267
Proceeds from property lease	290 888	280 731
Net (loss)/income from sale of goods, work and services by non-banks	62 586	(13 561)
Other	(219 517)	248 894
Total other operating income less expenses	1 583 350	1 856 331

26. Income Tax

Income tax expense comprises:

	2010	2009
Current income tax expense	772 031	360 584
Deferred taxation movement due to origination and reversal of temporary differences	(19 892 781)	(194 118)
Less: deferred taxation charged to other comprehensive income	(2 366)	368 652
Income tax expense for the year	(19 123 117)	535 118

Each entity of the Group files individual tax returns.

The current tax rate applicable to the major portion of the profits earned by the Bank of Moscow and its Russian subsidiaries in the year 2010 is 20% (2009: 20%). The income tax rate for Latvian residents is 15% (2009: 15%), for Ukrainian residents - 25% (2009: 25%), for Serbian residents - 10% (2009:10%), and the effective income tax rate for Byelorussian residents is 26.3% (2009: 26.3%).

In 2010 the tax rate applicable to the coupon income on RF government securities was: 15% on coupon income of OFZ and OVGZ issued in 1999; 0% on OVGZ coupon income of the 5th -7th tranches; 20% on coupon income of eurobonds of the Russian Federation. In 2009, the tax rate applicable to coupon income on state securities of RF subjects was 15% and to coupon income on securities of local authorities - 9%.

Current income tax expense of the Bank and its subsidiaries located on the territory of the Russian Federation was computed based on the amount of profits calculated under Russian federal accounting regulations and adjusted for compliance with the Russian tax legislation. Accordingly, current tax expense of the subsidiary banks located on the territory of Latvia, Estonia, Belarus, Ukraine and Serbia was determined in compliance with their local tax legislations.

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Reconciliation between the theoretical and the actual taxation charge is provided below:

	2010	2009
IFRS profit before taxation	(87 368 186)	1 252 121
Theoretical tax charge at the rate of 20% (2009: 20%)	(17 473 637)	250 424
Tax effect of income less non-taxable or non-deductible expenses	(1 142 976)	651 779
Income on government securities taxed at different rates	(520 044)	(190 723)
Adjustments for non-resident subsidiary banks' profits taxed at different rates	13 540	(176 362)
Income tax expense for the year	(19 123 117)	535 118

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for the Group's profit tax purposes. Deferred tax assets (deferred tax liabilities) are reflected at the rate of 20% (2009: 20%), except for income on government securities taxed at the rate of 15% (2009: 15%).

	2010	Movement	2009
Tax effect of deductible temporary differences			
Loans to customers	18 540 465	17 672 583	867 882
Revaluation of securities at fair value	2 157 025	2 157 025	-
Provision for impairment of financial assets available for sale	1 067 830	1 028 638	39 192
Premises and equipment and intangible assets	52 282	(483 323)	535 605
Recognized deferred tax assets of subsidiary banks	35 147	(40 925)	76 072
Due from other banks	1 739	1 739	-
Other requirements	481 858	258 441	223 417
Total deferred tax assets (gross)	22 336 346	20 594 178	1 742 168
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(1 516 551)	(986 211)	(530 340)
Revaluation of securities at fair value	(1 110 664)	(946 785)	(163 879)
Revaluation of premises and equipment	(966 113)	-	(966 113)
Provision for impairment of loans to customers	(198 289)	1 224 735	(1 423 024)
Due to other banks	(33 614)	18 640	(52 254)
Recognized deferred tax assets of subsidiary banks	(1 473)	29 769	(31 242)
Other liabilities	(41 544)	(41 544)	-
Total deferred tax liabilities (gross)	(3 868 248)	(701 396)	(3 166 852)
Total net deferred tax liabilities	(18 468 098)	19 892 782	(1 424 684)

Comparative information for the year 2009 is provided below:

	2009	Change	2008
Tax effect of deductible temporary differences			
Loans to customers	867 882	867 882	-
Premises and equipment and intangible assets	535 605	226 439	309 166
Other requirements	223 417	257 421	(34 004)
Recognized deferred tax assets of subsidiary banks	76 072	61 528	14 544
Provision for impairment of financial assets available for sale	39 192	39 192	-
Total deferred tax assets (gross)	1 742 168	1 452 462	289 706
Tax effect of taxable temporary differences			
Provision for impairment of loans to customers	(1 423 024)	(1 364 449)	(58 575)
Revaluation of premises and equipment	(966 113)	367 154	(1 333 267)
Premises and equipment and intangible assets	(530 340)	(326 596)	(203 744)
Revaluation of securities at fair value	(163 879)	5 304	(169 183)
Due to other banks	(52 254)	(19 012)	(33 242)
Recognized deferred tax liabilities of subsidiary banks	(31 242)	(12 913)	(18 329)
Provision for impairment of other assets	-	92 168	(92 168)
Total deferred tax liabilities (gross)	(3 166 852)	(1 258 344)	(1 908 508)
Total net deferred tax liabilities	(1 424 684)	194 118	(1 618 802)

Considering the existing structure of the Group, tax losses and current tax assets of certain entities may not be offset against current tax liabilities and taxable profit of other entities and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the Group does not offset deferred tax assets of one entity against the deferred tax liabilities of another entity.

As at 31 December 2010, the total deferred tax liability in the amount of RUR 966 113 thousand (2009: RUR 966 113 thousand) was calculated in respect of revaluation of premises at fair value and recorded within equity in accordance with IAS 16.

27. Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares during the year less the average number of ordinary shares bought out by the Group from its shareholders.

The Group has no potentially dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

	2010	2009
Net profit attributable to the shareholders of the parent Bank (in thousands of RUR)	(68 252 690)	711 263
Weighted average number of ordinary shares in issue (in thousands)	169 534	147 895
Basic earnings per share (RUR per share)	(402.59)	4.81

28. Dividends

	2010	2009
Dividends payable as at 1 January	47	72
Dividends paid during the year	(1)	(25)
Dividends payable as at 31 December	46	47

There are no dividends declared for the year 2009 and 2010.

29. Acquisitions and Disposals

Acquisition of subsidiary banks

AS "Latvijas Biznesa banka"

On 28 June 2010 the Group acquired 0.10% in the share capital of AS "Latvijas Biznesa banka" increasing its shareholding to 99.97%.

The fair value of assets and liabilities of AS "Latvijas Biznesa banka" and the excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of AS "Latvijas Biznesa banka" are presented in the table below:

	At the date of acquisition 28 June 2010
Cash and cash equivalents	4 095 551
Financial assets at fair value through profit or loss	1 442 544
Due from other banks	2 251 449
Loans to customers	8 078 527
Financial assets available for sale	4 319
Investments held to maturity	345 337
Investments in associates	403
Premises and equipment	622 355
Other assets	767 882
Current tax assets	4 637
Due to other banks	(1 681 957)
Customer accounts	(14 728 501)
Financial liabilities at fair value through profit or loss	(1 360)
Other liabilities	(623 410)
Current tax liabilities	(6 310)
Minority interest	(63 510)
Total net assets	507 956
Acquired share in the net assets	485
The excess of the cost of acquisition over the Group's share in the net fair value of the net assets acquired	72
Consideration paid (gross)	557

The excess of the cost of acquisition over the Group's share in the net fair value of identifiable assets and liabilities of AS "Latvijas Biznesa banka" in the amount of RUR 72 thousand was impaired and charged to net (loss)/gain on acquisition and sale of subsidiaries and associates of the consolidated statement of comprehensive income at the time of acquisition.

Commercial joint stock bank Bezhitsa-bank (OJSC)

On 3 February 2010 the Group acquired 4.85% in the share capital of Bezhitsa-Bank (OJSC), increasing its share in the share capital to 100%.

The fair value of assets and liabilities of Bezhitsa-Bank (OJSC) and the excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of Bezhitsa-Bank (OJSC) are presented in the table below:

	At the date of acquisition 3 February 2010
Cash and cash equivalents	279 748
Mandatory cash balances with the CBR	3 644
Due from other banks	180 074
Loans to customers	736 619
Premises and equipment	13 624
Other assets	2 679
Due to other banks	-
Customer accounts	(601 761)
Debt securities issued	(11 227)
Other liabilities	(5 198)
Total net assets	598 202
Acquired share in the net assets	29 013
The excess of the cost of acquisition over the Group's share in the fair value of the net assets acquired	358
Consideration paid	29 371

The excess of the cost of acquisition over the Group's share in the fair value of identifiable assets and liabilities of Bezhitsa-Bank (OJSC) in the amount of RUR 358 thousand was impaired and recorded within net (loss)/gain on acquisition and sale of subsidiaries and associates of the consolidated statement of comprehensive income at the time of acquisition.

AS Eesti Krediidipank

On 2 July 2010 the Group acquired 2.75% in the share capital of AS Eesti Krediidipank increasing its shareholding to 92.0%. On 4 October 2010 the Group acquired 0.01% in the share capital of AS Eesti Krediidipank increasing its shareholding to 92.01%.

On 7 December 2010 an additional share issue resulted in the dilution of the Group's share by 29.9% in the share capital of AS Eesti Krediidipank down to 62.11%. On 7 December 2010 the Group participated in the additional share issue and acquired 22.70% in the share capital of AS Eesti Krediidipank thus increasing its share in the share capital to 84.81%. On 14 December 2010 the Group sold its interest in AS Eesti Krediidipank in the amount of 8.21% of the share capital and decreased its share in the share capital to 76.59%.

The fair value of assets and liabilities of AS Eesti Krediidipank and the excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of AS Eesti Krediidipank as at 2 July 2010 and 4 October 2010 and the excess of the Group's share in the net fair value of the identifiable assets and liabilities of AS Eesti Krediidipank over the cost of acquisition as at 7 December 2010 are presented in the table below.

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Difference between the receipts from sales and fair value of identifiable assets and liabilities of AS Eesti Krediidipank as at 14 December 2010 is also presented in the table:

	As at acquisition date 2 July 2010	As at acquisition date 4 October 2010	As at the dilution date 07 December 2010	As at disposal date 14 December 2010
Cash and cash equivalents	3 682 153	3 045 833	3 570 118	3 602 104
Financial assets at fair value through profit or loss	1 454 603	1 527 176	1 439 067	1 474 699
Due from other banks	2 271 765	2 845 727	3 305 411	3 443 766
Loans to customers	4 711 381	4 839 616	4 414 256	4 523 579
Financial assets available for sale	2 425	2 530	2 078	2 118
Financial assets held to maturity	152 740	149 429	148 252	151 900
Investments in associates	407	176	-	-
Premises and equipment	417 096	449 111	452 082	463 289
Other assets	244 586	293 563	435 531	446 345
Due to other banks	(485 340)	(692 315)	(480 316)	(492 233)
Customer accounts	(11 813 757)	(11 688 345)	(12 170 113)	(12 471 553)
Financial liabilities at fair value through profit or loss	(1 373)	(58 425)	(21 174)	(14 956)
Tax liabilities	(6 369)	(6 465)	(6 841)	(6 572)
Other liabilities	(44 716)	(41 417)	(66 521)	(75 185)
Total net assets	585 601	666 194	1 021 830	1 047 121
Acquired /sold share in the net assets	16 104	80	-	85 989
Decrease in the share in the net assets from additional share issue	-	-	231 964	-
The excess of the cost of acquisition over the Group's share in the net fair value of acquired net assets	1 466	4	(3 070)	-
The excess of receipts from sales over the Group's share in the net fair value of sold net assets	-	-	-	(28 862)
Total cost of acquisition/receipts from sales	17 570	84	228 894	57 127

The total excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of AS Eesti Krediidipank in the amount of RUR 1 600 thousand, and as at 4 October 2010 in the amount of RUR 4 thousand, and the excess of the Group's share in the net fair value of the identifiable assets and liabilities of AS Eesti Krediidipank as at 7 December 2010 over the cost of acquisition in the amount of RUR 3 070 thousand was recorded within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of acquisition. The Group also reported loss from disposal of AS Eesti Krediidipank in the amount of RUR 28 862 thousand within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of sale.

Disposal of an associated bank

OJSC RNCB

On 25 October 2010 the Group sold its interest in OJSC Russian National Commercial Bank (20% in the share capital). The Group reported loss from the disposal of Russian National Commercial Bank in the amount of RUR 4 083 thousand within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of sale.

Sold assets and liabilities, and loss from disposal are presented in the table below:

	As at the disposal date 25 October 2010
Cash and cash equivalents	65 960
Mandatory cash balances with central banks	32 104
Financial assets at fair value through profit or loss	1 131 189
Due from other banks	526 516
Loans to customers	411 260
Financial assets available for sale	6 174
Investments in associates and non-consolidated subsidiaries	31 410
Other assets	41 607
Tax assets	2 052
Premises and equipment and intangible assets	250 816
Investments held to maturity	93 701
Due to other banks	(72 773)
Customer accounts	(1 499 782)
Other liabilities	(27 589)
Total net assets	992 645
Acquired share in the net assets	198 528
The excess of the Group's share in the net fair value of sold net assets over receipts from sale	(4 083)
Receipts from sale	194 445

Acquisition of subsidiaries

LLC Registrator KRC

On 30 June 2010 the Group acquired 38.85% in the share capital of LLC Registrator KRC increasing its share in the share capital to 58.78%.

The fair value of assets and liabilities of LLC Registrator KRC and the excess of the Group's share in the net fair value of the identifiable assets and liabilities of LLC Registrator KRC over the cost of acquisition are shown in the table below:

	As at the acquisition date 30 June 2010
Cash and cash equivalents	91 731
Loans to customers	6 000
Financial assets available for sale	9
Premises and equipment	18 192
Other assets	8 107
Current tax assets	4 594
Customer accounts	(220)
Other liabilities	(2 347)
Total net assets	126 066
Acquired share in the net assets	74 102
The excess of the Group's share in the net fair value of acquired net assets over the cost of acquisition	(24 142)
Consideration paid (gross)	49 960

The excess of the Group's share in the fair value of the identifiable assets and liabilities of LLC Registrator KRC over the cost of acquisition in the amount of RUR 24 142 thousand was recorded within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of acquisition.

LLC Investplaza

On 7 April 2010 the Group acquired 50% in the share capital of LLC Investplaza.

The fair value of assets and liabilities of LLC Investplaza and the excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of LLC Investplaza are shown in the table below:

	At the date of acquisition 7 April 2010
Cash and cash equivalents	1
Loans to customers	10 000
Total net assets	10 001
Acquired share in the net assets	10 001
The excess of the cost of acquisition over the Group's share in the fair value of the acquired net assets	1 599
Consideration paid (gross)	11 600

The total excess of the cost of acquisition over the Group's share in the fair value of identifiable assets and liabilities of LLC Investplaza in the amount of RUR 1 599 thousand was recorded within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of acquisition.

SIA Bako Kredits Alfa

On 28 September 2010 the Group acquired 100% in the share capital of SIA Bako Kredits Alfa.

The fair value of assets and liabilities of SIA Bako Kredits Alfa and the excess of the Group's share in the net fair value of the identifiable assets and liabilities of SIA Bako Kredits Alfa over the cost of acquisition are shown in the table below:

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	At the date of acquisition 28 September 2010
Premises and equipment and intangible assets	4 446
Other liabilities	(4 329)
Total net assets	117
Acquired share in the net assets	117
The excess of the cost of acquisition over the Group's share in the fair value of the net assets acquired	794
Consideration paid (gross)	911

The excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of SIA Bako Kredits Alfa in the amount of RUR 794 thousand was recorded within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of acquisition.

CEIF Tsentralniy (Closed -end Investment Fund)

On 17 December 2010 the Group acquired 100% interest in CEIF Tsentralniy.

The fair value of CEIF Tsentralniy's assets and liabilities, and the excess of the Group's share in the net fair value of the identifiable assets and liabilities of CEIF Tsentralniy over the cost of acquisition are presented below:

	At the date of acquisition 17 December 2010
Cash and cash equivalents	15 817
Investment property	3 637 994
Other assets	265 830
Due to other banks	(166 212)
Other liabilities	(381 998)
Total net assets	3 371 431
Acquired share in the net assets	3 371 431
The excess of the cost of acquisition over the Group's share in the fair value of acquired net assets	2 745 937
Cost of acquisition (gross)	6 117 368

The excess of the cost of acquisition over the Group's share in the net fair value of the identifiable assets and liabilities of CEIF Tsentralniy in the amount of RUR 2 745 937 thousand was recorded within net gain/ (loss) on acquisition and sale of subsidiaries and associates in the consolidated statement of comprehensive income at the time of acquisition.

As a result of Closed-end Unit Investment Fund Tsentralny consolidation, the Group obtained 100% control over the LLC "Baltekh.

30. Fiduciary Management Transactions

The Group manages the customers' assets at their request and receives commission for asset management services. The Group is not liable in respect of fixed payments to customers. The assets managed by the Group at the customers' request are not owned by the Group and are not recorded in the consolidated statement of financial position.

The Group had the following assets recorded at cost as at the date of their transfer into fiduciary management:

	2010	2009
Net assets of unit investment funds	6 995 381	6 189 007
Securities in fiduciary management	3 245 981	6 148 948
Due from other banks on current accounts and other assets in fiduciary management	14 673	385 099
Total	10 256 035	12 723 054

As at 31 December 2010 the Bank has 1 726 depot accounts for resident clients, 123 accounts for non-residents and 18 LORO accounts for other depositories.

As at 31 December 2009 the Bank has 1 771 depot accounts for resident clients, 106 accounts for non-residents and 17 LORO accounts for other depositories.

31. Segment Reporting

Segment information presents to the management of the Group on the regular basis within financial statements. The Group's main business segments are as follows:

Treasury business is the business segment that includes trading in financial instruments, transactions with securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on interbank loan markets, interest rate arbitrage on SWAP transactions. Besides, the treasury function includes the Group's short-term asset management and the Group's position in foreign currencies, i.e. currency risk management.

Corporate business is the business segment that includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, rendering of investment banking services, trade financing of corporate clients, rendering of structured financing, consulting services on mergers and acquisitions.

Retail business is the business segment that covers rendering of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer and mortgage lending.

The Group transactions that are not included in the above business segments are disclosed separately.

Transactions between business segments are conducted on an arm's length basis. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, intersegment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

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Segment information on main business segments of the Group for the year ended 31 December 2010 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	2 136 377	46 741 504	23 835 563	314 852	-	73 028 296
Financial assets at fair value through profit or loss	111 685 394	24 297 456	-	1 231 808	-	137 214 658
Due from other banks	71 371 905	-	-	252 336	-	71 624 241
Other assets	-	-	45 640	690 217	5 196 862	5 932 719
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	185 193 676	71 038 960	23 881 203	2 489 213	5 196 862	287 799 914
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	3 719 401	1 869 422	-	-	5 588 823
Due from other banks	7 778 320	-	-	-	-	7 778 320
Loans to customers	-	431 981 292	65 475 928	113 575	-	497 570 795
Financial assets available for sale	114 217	203 559	-	121 738	10 712 892	11 152 406
Investments held to maturity	-	418 361	-	-	-	418 361
Investments in associates and non-consolidated subsidiaries	-	-	-	3 201 497	46 317	3 247 814
Premises and equipment and intangible assets	-	-	-	3 141 984	11 599 282	14 741 266
Investment property	-	-	-	3 637 994	-	3 637 994
Current tax assets	-	-	-	4 768	3 666 835	3 671 603
Deferred tax assets	-	-	-	499 069	18 103 998	18 603 067
Total assets maturing in more than 1 month and part of assets with no stated maturity	7 892 537	436 322 613	67 345 350	10 720 625	44 129 324	566 410 449
Total assets	193 086 213	507 361 573	91 226 553	13 209 838	49 326 186	854 210 363

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	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	41 296 247	-	389 155	-	-	41 685 402
Customer accounts	-	163 628 516	38 056 741	-	-	201 685 257
Financial liabilities at fair value through profit or loss	4 324 288	-	575 423	-	-	4 899 711
Other liabilities	-	-	59 965	904 938	-	964 903
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	45 620 535	163 628 516	39 081 284	904 938	-	249 235 273
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	-	105 659 201	11 986 003	-	-	117 645 204
Customer accounts	212 293	197 643 206	143 523 328	76 196	-	341 455 023
Debt securities issued	-	80 577 524	19 076 719	2 518 139	-	102 172 382
Other liabilities	-	-	-	-	3 243 541	3 243 541
Current tax liabilities	-	-	-	2 731	36 715	39 446
Deferred tax liabilities	-	-	-	133 496	1 473	134 969
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	212 293	383 879 931	174 586 050	2 730 562	3 281 729	564 690 565
Total liabilities	45 832 828	547 508 447	213 667 334	3 635 500	3 281 729	813 925 838
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	(139 573 141)	92 589 556	15 200 081	(1 584 275)	(5 196 862)	(38 564 641)
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	139 573 141	(100 491 857)	(39 081 284)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	(7 680 244)	(52 442 682)	107 240 700	(7 990 063)	(40 847 595)	(1 719 884)
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	83 359 497	(83 359 497)	-	-	-
Equity financing	7 680 244	(23 014 514)	-	9 574 338	46 044 457	40 284 525
Total uncovered deficit/unallocated surplus on financing	-	-	-	-	-	-

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Segment information on main business segments of the Group for the year ended 31 December 2009 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	2 570 369	53 553 482	19 802 936	28 973	-	75 955 760
Financial assets at fair value through profit or loss	103 146 556	14 989 302	-	325 814	-	118 461 672
Due from other banks	44 209 469	-	-	308 517	-	44 517 986
Other assets	-	-	159 064	2 134 085	2 946 060	5 239 209
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	149 926 394	68 542 784	19 962 000	2 797 389	2 946 060	244 174 627
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	2 777 710	1 970 728	-	-	4 748 438
Due from other banks	6 185 297	-	-	-	-	6 185 297
Loans to customers	-	460 497 841	73 453 909	537 799	-	534 489 549
Financial assets available for sale	428 911	330 952	-	430 642	12 547 521	13 738 026
Investments held to maturity	-	265 211	-	-	-	265 211
Investments in associates and non-consolidated subsidiaries	-	-	-	3 592 847	227 998	3 820 845
Premises and equipment and intangible assets	-	-	-	5 885 333	11 009 944	16 895 277
Current tax assets	-	-	-	44	750 266	750 310
Deferred tax assets	-	-	-	1 114	74 958	76 072
Total assets maturing in more than 1 month and part of assets with no stated maturity	6 614 208	463 871 714	75 424 637	10 447 779	24 610 687	580 969 025
Total assets	156 540 602	532 414 498	95 386 637	13 245 168	27 556 747	825 143 652

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	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	18 344 405	-	617 457	-	-	18 961 862
Customer accounts	-	114 293 253	33 345 723	-	-	147 638 976
Financial liabilities at fair value through profit or loss	1 714 518	-	625 771	-	-	2 340 289
Other liabilities	-	-	59 398	1 167 601	-	1 226 999
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	20 058 923	114 293 253	34 648 349	1 167 601	-	170 168 126
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	10 211 463	185 565 021	10 976 377	-	-	206 752 861
Customer accounts	383 679	135 848 840	144 124 895	32 199	-	280 389 613
Debt securities issued	-	68 817 548	6 868 398	2 412 833	-	78 098 779
Other liabilities	-	-	-	-	1 547 777	1 547 777
Current tax liabilities	-	-	-	2 027	87 678	89 705
Deferred tax liabilities	-	-	-	133 496	1 367 260	1 500 756
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	10 595 142	390 231 409	161 969 670	2 580 555	3 002 715	568 379 491
Total liabilities	30 654 065	504 524 662	196 618 019	3 748 156	3 002 715	738 547 617
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	(129 867 471)	45 750 469	14 686 349	(1 629 788)	(2 946 060)	(74 006 501)
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	129 867 471	(95 219 122)	(34 648 349)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	3 980 934	(73 640 305)	86 545 033	(7 867 224)	(21 607 972)	(12 589 534)
Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	66 583 033	(66 583 033)	-	-	-
Equity financing	(3 980 934)	56 525 925	-	9 497 012	24 554 032	86 596 035
Net uncovered deficit/unallocated surplus on financing	-	-	-	-	-	-

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Segment information by main business segments of the Group against consolidated statement of comprehensive income for the year ended 31 December 2010 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Interest income	7 235 837	59 467 631	10 177 254	147 210	-	77 027 932
Interest expense	(940 944)	(23 502 038)	(12 691 969)	(232 781)	-	(37 367 732)
Gains less losses arising from financial assets at fair value through profit or loss	3 214 388	-	-	610 279	-	3 824 667
Gains less losses arising from financial liabilities at fair value through profit or loss	(212 274)	-	-	-	-	(212 274)
Gains less losses arising from financial assets available for sale	77 599	-	-	42 215	-	119 814
Gains less losses from dealing in foreign currency and precious metals and revaluation of foreign currency and precious metals	(130 620)	-	428 070	(87 654)	-	209 796
Net operating result on banking assets and liabilities	9 243 986	35 965 593	(2 086 645)	479 269	-	43 602 203
Income/(expense) on re-allocation among business segments of funds on demand, maturing in less than 1 month and with no stated maturity	(1 654 114)	1 201 483	452 631	-	-	-
Income/(expense) on re-allocation among business segments of funds maturing in more than 1 month and with no stated maturity	-	(6 679 715)	6 679 715	-	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	7 589 872	30 487 361	5 045 701	479 269	-	43 602 203
Fee and commission income	236 576	4 256 557	2 489 463	152 703	-	7 135 299
Fee and commission expense	(57 998)	(1 281 710)	(302 136)	(5 365)	-	(1 647 209)
Provisions for impairment of due from other banks and loans to customers	3 404	(104 485 494)	(481 920)	10 309	-	(104 953 701)
General and administrative expenses	(287 176)	(4 962 250)	(6 189 958)	(472 807)	(5 206 006)	(17 118 197)
Other income/(expense)	-	425 976	118 354	(6 387 431)	(8 543 480)	(14 386 581)
Profit before taxation	7 484 678	(75 559 560)	679 504	(6 223 322)	(13 749 486)	(87 368 186)
Income tax expense	-	-	-	593 388	18 529 729	19 123 117
Profit after taxation	7 484 678	(75 559 560)	679 504	(5 629 934)	4 780 243	(68 245 069)
Non-controlling interest	-	-	-	-	(7 891)	(7 891)
Net profit	7 484 678	(75 559 560)	679 504	(5 629 934)	4 772 352	(68 252 960)

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Segment information by main business segments of the Group against consolidated statement of comprehensive income for the year ended 31 December 2009 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Unallocated	Total
Interest income	8 636 850	60 352 968	12 899 336	375 024	-	82 264 178
Interest expense	(6 563 961)	(31 992 782)	(12 156 830)	(275 166)	-	(50 988 739)
Gains less losses arising from financial assets at fair value through profit or loss	9 468 449	-	-	127 123	-	9 595 572
Gains less losses arising from financial liabilities at fair value through profit or loss	(1 141 514)	-	-	-	-	(1 141 514)
Gains less losses arising from financial assets available for sale	(10 410)	-	-	945 779	-	935 369
Gains less losses from dealing in foreign currency and precious metals and revaluation of foreign currency and precious metals	(680 101)	-	814 835	5 910	-	140 644
Net operating result on banking assets and liabilities	9 709 313	28 360 186	1 557 341	1 178 670	-	40 805 510
Income/(expense) on re-allocation among business segments of funds on demand, maturing in less than 1 month and with no stated maturity	(4 565 705)	3 034 670	1 531 035	-	-	-
Income/(expense) on re-allocation among business segments of funds maturing in more than 1 month and with no stated maturity	-	(6 478 282)	6 478 282	-	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	5 143 608	24 916 574	9 566 658	1 178 670	-	40 805 510
Fee and commission income	121 815	4 323 949	2 402 528	118 119	-	6 966 411
Fee and commission expense	(67 876)	(899 995)	(515 760)	(2 377)	-	(1 486 008)
Provisions for impairment of due from other banks and loans to customers	(1 568)	(23 515 949)	(7 223 120)	(10 837)	-	(30 751 474)
General and administrative expenses	(509 905)	(4 206 268)	(4 671 128)	(440 532)	(4 489 972)	(14 317 805)
Other income/(expense)	-	165 948	541 807	(106 638)	(565 630)	35 487
Profit before taxation	4 686 074	784 259	100 985	736 405	(5 055 602)	1 252 121
Income tax expense	-	-	-	(47 318)	(487 800)	(535 118)
Profit after taxation	4 686 074	784 259	100 985	689 087	(5 543 402)	717 003
Non-controlling interest	-	-	-	-	(5 740)	(5 740)
Net profit	4 686 074	784 259	100 985	689 087	(5 549 142)	711 263

32. Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks.

The main risk management activity of the Group is to identify, measure and control the above risks, take management decisions to avoid or minimise risks (hedging, reallocation, diversification, etc.).

The Group implemented a three-level risk management system. At the first level, business units exercise preliminary and operational control over the established limits in the course of transactions. At the second level, the back office controls compliance of business units with the established limits. At the third level, preliminary and subsequent risk control is exercised independently by specialised divisions, which are charged with risk control functions.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures of their minimisation.

In accordance with strategic tasks a comprehensive system for management of all types of risks is functioning and developing within the Group. Further efforts will be aimed at development of the existing risk management methods and instruments, as well as systematisation and integration of risk assessment and management methods with regard for international standards.

Credit risk. Credit risk is the risk of financial losses caused by the inability of the Group's borrower or counterparty to meet their liabilities.

The following methods of control and management are applied to manage credit risk.

Risk assessment. The risk by each credit product is assessed on the basis of internal bank ratings. The level of risk for individual borrowers is assessed with the use of scoring methods. At the same time, stress-testing of the loan portfolios is carried out on a regular basis to evaluate stability in the conditions of maximum financial losses relating to loan portfolios under extreme scenarios. To evaluate the risks relating to credit products provided to legal entities the Group uses the instruments below.

Limits on transactions for provision of credit products. The limiting system comprises:

- scope limits, which limit credit risk concentration by division, type of products, region, industry, etc.;
- scope limits for separate counterparties;
- limits by each credit product calculated in accordance with the internal methods of credit risk assessment;
- risk limits, which set up maximum admissible risk of separate divisions' portfolios;
- maturity limits depending on risk level by product, type and other terms of lending;
- limits of personified lending authority.

Limit values are updated on a regular basis in accordance with current level of credit risk and macro- and microeconomic situation. Compliance of authorised persons and management bodies with set limits is monitored daily.

Monitoring of credit risk of operating products is conducted regularly and is aimed at detection of risk-increasing factors in order to further neutralise them and reduce concentration.

The Group developed the policy and procedures related to credit risk management, including requirements for setting and complying with the limits on loan portfolio concentration and establishment of the Credit Committee to monitor credit risk exposure of the Group.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, among other methods, by obtaining collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For loan guarantees and commitments, the maximum exposure to credit risk is equal to total liabilities (Note 33).

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 6, 7, 8, 9 and 10.

In the conditions of the global deterioration of macroeconomic indicators in the second half of 2008 and the relating increase of the credit risk for the banking sector as a whole, the Bank of Moscow implemented a package of measures aimed at raising the quality of the loan portfolio and minimization of possible losses on asset-related transactions. These measures include:

- signing with the CBR of an agreement on compensation of part of possible losses from transactions on the interbank market subject to Article 3 of Federal Law No. 173-FZ "On additional measures to support the financial system of the Russian Federation" of 13 October 2008;
- tightened approach to borrower risk assessment due to a heightened possibility of defaults in the corporate lending sector in accordance with the applicable methods, for instance, expansion of a list of categories of the borrower's payments taken into account in calculating the risk limit and introduction of a new factor describing the public credit history of the customer;
- changes in procedures used to monitor the borrower's financial position allowing a pro-active response to any deterioration in the situation;
- revision of approaches to evaluation of the counterparty's credit quality;
- more rigid requirements to liquidity and reliability of collateral;
- development and implementation of a comprehensive program of restructuring the Bank's retail loans for bona fide borrowers experiencing temporary difficulties with servicing current loans;
- upward revision of provisions for possible losses;
- suspension of lending authority for the number of divisions and all authorized representatives of the Bank of Moscow.

Under the risk management system set up in 2006 the Bank of Moscow divisions have in place an effective risk management system enabling to monitor credit and operational risks. Besides, the Bank is involved in transition started in 2007 to the uniform standards of banking risks management in subsidiary banks.

A restructuring program was put in place to manage retail credit risks enabling the customers to ease the debt burden through the selection of the most optimal restructuring option. The program applies to force-majeure circumstances suffered by the customers as a result of crisis in the economy or other events. Besides, each force-majeure event should be supported by documentary evidence thereby eliminating any unfair customers.

The Bank has implemented the retail loan portfolio quality control system. The control is exercised on the basis of permanent monitoring of key performance indicators. The KPI allow to identify negative trends at all stages of the loan production process (from visual customer assessment to loan repayment) as well as credit products that may cause potential problems. Based on the detected changes, preventive measures are elaborated to mitigate the negative trends. The KPI control is maintained in the SAS environment implemented in 2008 and includes daily, weekly and monthly monitoring of the entire KPI range. Control is exercised in points of sales on the basis of the developed SAS regulations and is also performed from one centre by a specialized unit.

In 2008 the Bank of Moscow started the implementation of a centralized service of underwriting and verification of retail credit products. This service will allow to remove prejudiced decision-making on lending in the Bank's divisions and mitigate the level of credit risks accepted.

Credit risk on off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in managing contingent obligations as it does for financial instruments based on procedures of authorisation of deals, risk control limits and monitoring of the financial position of counterparty.

The policy of the credit risk management is reviewed and approved by the Bank's Board.

Market risks. Market risks are the risks of potential losses due to decreases in the value of securities portfolio and other traded assets as a result of adverse movements in market parameters (prices, interest and currency exchange rates). The following methods of control and management are applied to market risks.

Market risk assessment is performed using two main methods: statistical probability method and method of historical modelling. These methods allow to calculate the amount of potential gains or losses of the portfolio over a specified time horizon and level of reliability.

The market risk *limiting system* is similar to the credit risk limiting system, but it has a number of peculiarities consisting in the use of special limits applicable only to this type of risk (stop-loss limits, etc.).

Market risk *monitoring* encompasses revaluing all open positions at market prices in order to identify present value of portfolios and changes in estimates of expected potential losses.

Hedging implies additional transactions with financial instruments with similar characteristics for guaranteed limitation of losses.

Market risks may be reduced without decrease in the expected yield by means of portfolio *diversification*, mainly, diversification into different market instruments and segments.

The Group manages market risks by increasing or decreasing its position within the limits set by the Group management. These limits mitigate possible effect of changes in the market financial indicators on the Group's income and value of sensitive assets and liabilities.

The procedures of market risk management, as well as the tariff policy of the Group, are reviewed and approved by the Financial Committee.

Interest rate risk is determined by the impact of changes in interest rates on interest margin and net interest income. Interest margins may increase or decrease as a result of such changes, depending on the extent of difference in the structure of interest-bearing assets and liabilities.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The management of the Group sets limits on the level of acceptable mismatch of interest rate re-pricing terms, which are monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

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The table below summarises the Group's exposure to interest rate risks for the year ended 31 December 2010. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ Non-interest bearing	Total
Assets						
Cash and cash equivalents	24 017 254	-	-	-	49 011 042	73 028 296
Mandatory cash balances with central banks	-	-	-	-	5 588 823	5 588 823
Financial assets at fair value through profit or loss	1 444 614	18 721 026	10 124 450	97 043 018	9 881 550	137 214 658
Due from other banks	69 729 873	7 877 760	20 991	1 773 937	-	79 402 561
Loans to customers	115 058 894	96 225 349	113 577 589	166 824 377	5 884 586	497 570 795
Financial assets available for sale	597 333	550	4 969	115 778	10 433 776	11 152 406
Investments held to maturity	48 845	39 837	91 400	238 279	-	418 361
Investments in associates and non-consolidated subsidiaries	-	-	-	-	3 247 814	3 247 814
Premises and equipment and intangible assets	-	-	-	-	14 741 266	14 741 266
Investment property	-	-	-	-	3 637 994	3 637 994
Other assets	-	-	-	-	5 932 719	5 932 719
Current tax asset	-	-	-	-	3 671 603	3 671 603
Deferred tax asset	-	-	-	-	18 603 067	18 603 067
Total assets	210 896 813	122 864 522	123 819 399	265 995 389	130 634 240	854 210 363
Liabilities						
Due to other banks	87 622 907	45 679 547	2 947 574	23 080 578	-	159 330 606
Customer accounts	144 996 790	164 779 290	73 085 014	131 779 349	28 499 837	543 140 280
Financial liabilities at fair value through profit or loss	4 899 711	-	-	-	-	4 899 711
Debt securities issued	2 065 935	21 653 424	8 246 534	70 206 489	-	102 172 382
Other liabilities	-	-	-	-	4 208 444	4 208 444
Current tax liability	-	-	-	-	39 446	39 446
Deferred tax liability	-	-	-	-	134 969	134 969
Total liabilities	239 585 343	232 112 261	84 279 122	225 066 416	32 882 696	813 925 838
Net interest rate gap as at 31 December 2010	(28 688 530)	(109 247 739)	39 540 277	40 928 973	97 751 544	40 284 525
Cumulative interest rate gap as at 31 December 2010	(28 688 530)	(137 936 269)	(98 395 992)	(57 467 019)	40 284 525	-

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General analysis of interest rate risk of the Group for the year ended 31 December 2009 is provided below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ Non-interest bearing	Total
Assets						
Cash and cash equivalents	16 681 659	-	-	-	59 274 101	75 955 760
Mandatory cash balances with central banks	-	-	-	-	4 748 438	4 748 438
Financial assets at fair value through profit or loss	6 587 934	550 454	3 883 859	102 430 239	5 009 186	118 461 672
Due from other banks	43 846 532	6 224 493	22 079	610 179	-	50 703 283
Loans to customers	66 163 936	121 214 073	122 507 013	205 550 343	19 054 184	534 489 549
Financial assets available for sale	2 099	3 173	4 949	755 069	12 972 736	13 738 026
Investments held to maturity	20 755	-	-	244 456	-	265 211
Investments in associates and non-consolidated subsidiaries	-	-	-	-	3 820 845	3 820 845
Premises and equipment and intangible assets	-	-	-	-	16 895 277	16 895 277
Other assets	-	-	-	-	5 239 209	5 239 209
Current tax asset	-	-	-	-	750 310	750 310
Deferred tax asset	-	-	-	-	76 072	76 072
Total assets	133 302 915	127 992 193	126 417 900	309 590 286	127 840 358	825 143 652
Liabilities						
Due to other banks	88 949 205	71 122 518	45 073 699	20 569 301	-	225 714 723
Customer accounts	82 470 712	110 618 479	106 325 622	95 719 982	32 893 794	428 028 589
Financial liabilities at fair value through profit or loss	2 340 289	-	-	-	-	2 340 289
Debt securities issued	2 570 256	4 981 459	18 116 546	52 430 518	-	78 098 779
Other liabilities	-	-	-	-	2 774 776	2 774 776
Current tax liability	-	-	-	-	89 705	89 705
Deferred tax liability	-	-	-	-	1 500 756	1 500 756
Total liabilities	176 330 462	186 722 456	169 515 867	168 719 801	37 259 031	738 547 617
Net interest rate gap as at 31 December 2009	(43 027 547)	(58 730 263)	(43 097 967)	140 870 485	90 581 327	86 596 035
Cumulative interest rate gap as at 31 December 2009	(43 027 547)	(101 757 810)	(144 855 777)	(3 985 292)	86 596 035	-

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If as at 31 December 2010, the interest rates had been by 100 basis points lower, provided all other conditions remained unchanged, the profit for the year would have been by RUR 1 596 622 thousand higher (2009: by RUR 559 352 thousand higher) as a result of lower interest expense on customer accounts.

If the interest rates had been by 50 basis points higher, provided all other conditions remained unchanged, the profit for the year would have been by RUR 1 236 230 thousand lower (2009: by RUR 559 352 thousand lower) as a result higher interest expense on customer accounts.

The table below shows analysis of average effective interest rates by major currency for main monetary financial instruments. The analysis was prepared on the basis of the weighted average effective interest rates as at the end of the year.

	USD		EUR		RUR	
	2010	2009	2010	2009	2010	2009
Assets						
Due from other banks	2.41%	5.76%	1.02%	0.62%	3.80%	14.00%
Loans to customers	7.90%	9.19%	5.99%	6.67%	9.70%	12.09%
Financial assets at fair value through profit or loss	6.60%	7.04%	5.58%	5.33%	8.89%	11.24%
Financial assets available for sale	-	-	-	-	5.19%	10.13%
Investments held to maturity	9.21%	9.10%	4.57%	5.63%	6.10%	6.51%
Liabilities						
Due to other banks	3.30%	2.14%	1.97%	1.96%	4.60%	8.59%
Customer accounts	4.84%	5.17%	3.21%	4.27%	6.36%	6.55%
Financial liabilities at fair value through profit or loss	3.63%	-	6.12%	-	-	-
Debt securities issued	6.95%	6.93%	3.78%	4.42%	7.07%	9.64%

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Geographical concentration of the Group's assets and liabilities as at 31 December 2010 is set out below:

	Russia	OECD*	Other	Total
Assets				
Cash and cash equivalents	47 421 493	20 940 987	4 665 816	73 028 296
Mandatory cash balances with central banks	5 378 314	-	210 509	5 588 823
Financial assets at fair value through profit or loss	97 778 838	38 833 636	602 184	137 214 658
Due from other banks	61 062 188	14 106 129	4 234 244	79 402 561
Loans to customers	427 299 590	4 468 226	65 802 979	497 570 795
Financial assets available for sale	11 029 432	-	122 974	11 152 406
Investments held to maturity	203 672	-	214 689	418 361
Investments in associates and non-consolidated subsidiaries	3 247 814	-	-	3 247 814
Premises and equipment and intangible assets	13 226 823	-	1 514 443	14 741 266
Investment property	3 637 994	-	-	3 637 994
Other assets	4 768 620	6 392	1 157 707	5 932 719
Current tax asset	3 667 696	-	3 907	3 671 603
Deferred tax asset	18 577 843	-	25 224	18 603 067
Total assets	697 300 317	78 355 370	78 554 676	854 210 363
Liabilities				
Due to other banks	34 466 224	63 547 453	61 316 929	159 330 606
Customer accounts	510 539 656	152 506	32 448 118	543 140 280
Financial liabilities at fair value through profit or loss	2 982 980	1 872 686	44 045	4 899 711
Debt securities issued	22 347 288	78 649 419	1 175 675	102 172 382
Other liabilities	3 612 812	15 972	579 660	4 208 444
Current tax liability	14 466	-	24 980	39 446
Deferred tax liability	133 496	-	1 473	134 969
Total liabilities	574 096 922	144 238 036	95 590 880	813 925 838
Net balance sheet position as at 31 December 2010	123 203 395	(65 882 666)	(17 036 204)	40 284 525

*OECD - Organisation for Economic Cooperation and Development.

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Geographical concentration of the Group's assets and liabilities as at 31 December 2009 is set out below:

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	55 880 285	10 594 571	9 480 904	75 955 760
Mandatory cash balances with central banks	4 409 152	-	339 286	4 748 438
Financial assets at fair value through profit or loss	116 208 764	1 208 732	1 044 176	118 461 672
Due from other banks	2 026 124	43 525 551	5 151 608	50 703 283
Loans to customers	446 904 759	666 942	86 917 848	534 489 549
Financial assets available for sale	13 302 859	-	435 167	13 738 026
Investments held to maturity	65 960	-	199 251	265 211
Investments in associates and non-consolidated subsidiaries	3 820 845	-	-	3 820 845
Premises and equipment and intangible assets	14 963 860	-	1 931 417	16 895 277
Other assets	4 508 950	15 617	714 642	5 239 209
Current tax asset	740 435	-	9 875	750 310
Deferred tax asset	8 549	-	67 523	76 072
Total assets	662 840 542	56 011 413	106 291 697	825 143 652
Liabilities				
Due to other banks	37 488 104	120 046 351	68 180 268	225 714 723
Customer accounts	392 698 703	67 002	35 262 884	428 028 589
Financial liabilities at fair value through profit or loss	761 973	1 524 680	53 636	2 340 289
Debt securities issued	25 043 557	51 978 409	1 076 813	78 098 779
Other liabilities	2 208 358	16 432	549 986	2 774 776
Current tax liability	49 742	-	39 963	89 705
Deferred tax liability	1 472 192	-	28 564	1 500 756
Total liabilities	459 722 629	173 632 874	105 192 114	738 547 617
Net balance sheet position as at 31 December 2009	203 117 913	(117 621 461)	1 099 583	86 596 035

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Currency risk. The Group takes on exposure to effects of foreign currency exchange rate fluctuations on its financial position and cash flows. The Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2010. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by major currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	39 349 504	16 950 011	8 408 280	8 320 501	73 028 296
Mandatory cash balances with central banks	5 378 314	-	86 152	124 357	5 588 823
Financial assets at fair value through profit or loss	92 255 780	39 574 727	4 672 616	711 535	137 214 658
Due from other banks	61 282 972	6 103 284	9 747 766	2 268 539	79 402 561
Loans to customers	299 403 230	146 813 460	27 425 468	23 928 637	497 570 795
Financial assets available for sale	11 025 384	1 122	2 089	123 811	11 152 406
Investments held to maturity	45 541	158 533	40 594	173 693	418 361
Investments in associates and non-consolidated subsidiaries	3 247 814	-	-	-	3 247 814
Premises and equipment and intangible assets	13 226 823	-	-	1 514 443	14 741 266
Investment property	3 637 994	-	-	-	3 637 994
Other assets	4 700 874	276 306	95 480	860 059	5 932 719
Current tax asset	3 667 696	-	-	3 907	3 671 603
Deferred tax asset	18 577 843	-	-	25 224	18 603 067
Total assets	555 799 769	209 877 443	50 478 445	38 054 706	854 210 363
Liabilities					
Due to other banks	58 842 192	47 827 492	45 867 363	6 793 559	159 330 606
Customer accounts	416 769 028	75 614 211	40 087 574	10 669 467	543 140 280
Financial liabilities at fair value through profit or loss	134 891	1 078 365	3 111 032	575 423	4 899 711
Debt securities issued	21 642 694	60 322 676	46 059	20 160 953	102 172 382
Other liabilities	3 612 834	54 669	193 490	347 451	4 208 444
Current tax liability	14 466	-	-	24 980	39 446
Deferred tax liability	133 496	-	-	1 473	134 969
Total liabilities	501 149 601	184 897 413	89 305 518	38 573 306	813 925 838
Net balance sheet position as at 31 December 2010	54 650 168	24 980 030	(38 827 073)	(518 600)	40 284 525
Off balance sheet position	7 094 091	(42 699 354)	35 310 806	(674 621)	(969 078)
Net balance sheet and off balance sheet position as at 31 December 2010	61 744 259	(17 719 324)	(3 516 267)	(1 193 221)	39 315 447

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As at 31 December 2009, the Group had the following positions in currency:

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	49 802 892	7 607 188	12 754 628	5 791 052	75 955 760
Mandatory cash balances with central banks	4 409 152	-	49 797	289 489	4 748 438
Financial assets at fair value through profit or loss	82 380 767	31 868 383	2 563 275	1 649 247	118 461 672
Due from other banks	1 096 508	2 618 677	44 857 908	2 130 190	50 703 283
Loans to customers	356 747 744	137 516 788	19 229 514	20 995 503	534 489 549
Financial assets available for sale	13 302 320	1	2 237	433 468	13 738 026
Investments held to maturity	65 960	148 033	21 359	29 859	265 211
Investments in associates and non-consolidated subsidiaries	3 820 845	-	-	-	3 820 845
Premises and equipment and intangible assets	14 963 860	-	-	1 931 417	16 895 277
Other assets	4 556 821	158 574	50 644	473 170	5 239 209
Current tax asset	740 435	-	-	9 875	750 310
Deferred tax asset	8 549	-	-	67 523	76 072
Total assets	531 895 853	179 917 644	79 529 362	33 800 793	825 143 652
Liabilities					
Due to other banks	97 148 703	43 683 046	79 214 268	5 668 706	225 714 723
Customer accounts	296 847 225	76 572 539	44 504 512	10 104 313	428 028 589
Financial liabilities at fair value through profit or loss	9 086	58 864	1 646 049	626 290	2 340 289
Debt securities issued	23 007 655	47 049 616	96 297	7 945 211	78 098 779
Other liabilities	1 872 972	370 210	280 259	251 335	2 774 776
Current tax liability	49 742	-	-	39 963	89 705
Deferred tax liability	1 472 192	-	-	28 564	1 500 756
Total liabilities	420 407 575	167 734 275	125 741 385	24 664 382	738 547 617
Net balance sheet position as at 31 December 2009	111 488 278	12 183 369	(46 212 023)	9 136 411	86 596 035
Off balance sheet position	(22 368 680)	(10 096 789)	35 779 985	(5 184 072)	(1 869 556)
Net balance sheet and off balance sheet position as at 31 December 2009	89 119 598	2 086 580	(10 432 038)	3 952 339	84 726 479

The Group issued loans in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

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The table below shows the change in the financial result and equity as a result of possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged:

	2010	
	Effect on profit before taxation	Effect on equity
USD appreciation by 4%	(708 773)	(567 018)
USD depreciation by 4%	708 773	567 018
EUR appreciation by 5%	(175 813)	(140 651)
EUR depreciation by 5%	175 813	140 651
Appreciation of other currencies by 5%	(59 661)	(47 729)
Depreciation of other currencies by 5%	59 661	47 729
	2009	
	Effect on profit before taxation	Effect on equity
USD appreciation by 6%	83 463	66 771
USD depreciation by 6%	(83 463)	(66 771)
EUR appreciation by 7%	(521 602)	(417 282)
EUR depreciation by 7%	521 602	417 282
Appreciation of other currencies by 5%	197 617	158 094
Depreciation of other currencies by 5%	(197 617)	(158 094)

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

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The Group developed liquidity management tools with the objective of maintaining the availability of funds to meet its liabilities as they come due. The liquidity management policy of the Group is reviewed and approved by the Financial Committee.

Liquidity is managed based on the following main principles:

- substantiated assessment and forecasting of liquidity crisis,
- pro-active approach to prevention/successful overcoming of possible crisis,
- methods of effective liquidity management,
- methods of effective control over functioning of the liquidity management system and preparation of internal and external reports.

To maintain objective reflection of the actual situation the Group implemented a system of mandatory segregation of authority and responsibilities between the bodies constituting the liquidity management system, which:

- take strategic decisions;
- manage liquidity;
- analyse and control the process.

To manage its liquidity, the Group and the Bank are required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick liquidity ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2010, this ratio was 47.5% (2009:61.3%). Minimum level set by CBR equals 15%.
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. As at 31 December 2010, this ratio was 78.4% (2009: 97.6%). Minimum level set by CBR equals 50%.
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2010, this ratio was 99.0% (2009: 110.5%). Maximum level set by CBR equals 120%.

The basic technique of management and control of the Group's liquidity is gap management and duration matching of the Group's assets and liabilities (GAP analysis). This technique allows assessing the Group's position in the short, medium and long term with regard for planned changes in cash accounting and write-off.

To manage *quick liquidity* the Group applies the principle of anticipatory receipt and use in its calculations of the information about its calendar transactions, customer deposits/write-offs on the basis of forecast and insider information. Quick liquidity is monitored and managed using the automated payment accounting system.

To manage *current and medium-term liquidity* the Group uses cash-flow calendar which helps to assess liquidity and impact on liquidity of large transactions and arrangements carried out to obtain the desirable values.

The scenario analysis performed by the Group represents different options of modelling payment flows with regard for planned, probable and strategic indicators of the Group performance.

Within the framework of each scenario, significant positive and negative fluctuations of liquidity are considered over the entire projected period. The information on the market condition and demand is also taken into account.

Based on the scenario analysis, the Bank's liquidity indicators are assessed and tested for compliance with the internal and external standard requirements.

Static analysis of quick, current and long-term liquidity is carried out by calculating economic ratios set by the Central Bank of Russia. In case of significant (over 20%) changes in ratios for the last 3 months, especially for the last month of the period, the analysis of reasons (or movements in assets and liabilities) for such material changes in these ratios is performed.

The Group envisaged measures to be taken in case of insufficient liquidity and inability to cover the gap using traditional sources. Depending on complexity of the situation and general condition of the financial system the Group can act as follows:

- sell part of assets with declining liquidity;
- enter into REPO transactions with the Central Bank of Russia;
- restrict growth of assets in certain types of business;
- change rates and tariffs;
- work purposefully with major clients and counterparties to make long-term placements.

The following table shows the liabilities as at 31 December 2010 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows and total commitments to extend credits. These undiscounted cash flows differ from the amounts recorded in the consolidated statement of financial position as the amounts recorded there are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rates effective at the reporting date.

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The table below shows the maturity analysis of financial liabilities as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	79 741 403	22 683 518	22 670 482	43 353 327	168 448 730
Customer accounts	139 034 015	179 854 435	101 599 194	127 768 661	548 256 305
Debt securities issued	2 129 223	12 986 605	11 216 784	96 133 751	122 466 363
Financial liabilities at fair value through profit or loss	4 899 711	-	-	-	4 899 711
Total potential future payments under financial liabilities	225 804 352	215 524 558	135 486 460	267 255 739	844 071 109

The table below shows the maturity analysis of financial liabilities as at 31 December 2009:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	15 989 672	117 720 972	53 038 442	58 796 706	245 545 792
Customer accounts	66 261 474	125 204 789	94 143 259	146 376 923	431 986 445
Debt securities issued	4 151 693	8 869 832	11 739 218	75 716 851	100 477 594
Financial liabilities at fair value through profit or loss	2 340 289	-	-	-	2 340 289
Total potential future payments under financial liabilities	88 743 128	251 795 593	158 920 919	280 890 480	780 350 120

The customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

The Group does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Group monitors the expected maturity limits taking into account the actual change in the balances for the last 12 months.

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The table below shows the expected maturity analysis of assets and liabilities as at 31 December 2010:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	73 028 296	-	-	-	-	73 028 296
Mandatory cash balances with central banks	-	-	-	-	5 588 823	5 588 823
Financial assets at fair value through profit or loss	137 214 658	-	-	-	-	137 214 658
Due from other banks	69 579 124	8 030 145	20 991	1 772 301	-	79 402 561
Loans to customers	34 685 308	72 474 257	154 422 789	235 988 441	-	497 570 795
Financial assets available for sale	597 333	550	4 969	115 778	10 433 776	11 152 406
Investments held to maturity	48 845	39 837	91 400	238 279	-	418 361
Investments in associates and non-consolidated subsidiaries	-	-	-	-	3 247 814	3 247 814
Premises and equipment and intangible assets	-	-	-	-	14 741 266	14 741 266
Investment property	5 403 814	45 716	71 179	46 009	366 001	5 932 719
Other assets	-	-	-	-	3 637 994	3 637 994
Current tax asset	-	3 671 603	-	-	-	3 671 603
Deferred tax asset	-	-	-	-	18 603 067	18 603 067
Total assets	320 557 378	84 262 108	154 611 328	238 160 808	56 618 741	854 210 363
Liabilities						
Due to other banks	79 679 928	21 745 778	21 747 059	36 157 841	-	159 330 606
Customer accounts	138 780 253	179 025 932	100 498 555	124 835 540	-	543 140 280
Financial liabilities at fair value through profit or loss	4 899 711	-	-	-	-	4 899 711
Debt securities issued	2 067 984	11 654 225	8 244 528	80 205 645	-	102 172 382
Other liabilities	3 946 680	39 994	40 973	1 104	179 693	4 208 444
Current tax liability	-	39 446	-	-	-	39 446
Deferred tax liability	-	-	-	-	134 969	134 969
Total liabilities	229 374 556	212 505 375	130 531 115	241 200 130	314 662	813 925 838
Net liquidity gap as at 31 December 2010	91 182 822	(128 243 267)	24 080 213	(3 039 322)	56 304 079	40 284 525
Cumulative liquidity gap as at 31 December 2010	91 182 822	(37 060 445)	(12 980 232)	(16 019 554)	40 284 525	-

Mandatory cash balances with central banks are included within the no stated maturity category as the Group is unable to use them for operational management of its liquidity position.

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As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as on demand and less than 1 month in accordance with the portfolio liquidity assessment by the management.

The table below shows the expected maturity analysis of assets and liabilities as at 31 December 2009:

	On demand and less than 1 month					From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets										
Cash and cash equivalents	75 955 760	-	-	-	-	-	-	-	-	75 955 760
Mandatory cash balances with central banks	-	-	-	-	-	-	-	4 748 438	-	4 748 438
Financial assets at fair value through profit or loss	118 461 672	-	-	-	-	-	-	-	-	118 461 672
Due from other banks	43 733 384	6 214 992	144 660	610 247	-	-	-	-	-	50 703 283
Loans to customers	28 838 555	102 181 480	134 078 338	269 391 176	-	-	-	-	-	534 489 549
Financial assets available for sale	2 099	3 173	4 949	755 069	-	-	-	-	-	13 738 026
Investments held to maturity	20 755	-	-	244 456	-	-	-	-	-	265 211
Investments in associates and non-consolidated subsidiaries	-	-	-	-	-	-	-	3 820 845	-	3 820 845
Premises and equipment and intangible assets	-	-	-	-	-	-	-	16 895 277	-	16 895 277
Other assets	5 129 582	29 891	39 281	26 767	-	-	-	13 688	-	5 239 209
Current tax asset	-	750 310	-	-	-	-	-	-	-	750 310
Deferred tax asset	-	-	-	-	-	-	-	76 072	-	76 072
Total assets	272 141 807	109 179 846	134 267 228	271 027 715	38 527 056	825 143 652				
Liabilities										
Due to other banks	14 902 808	113 823 910	49 959 287	47 028 718	-	-	-	-	-	225 714 723
Customer accounts	64 131 310	124 393 335	93 377 622	146 126 322	-	-	-	-	-	428 028 589
Financial liabilities at fair value through profit or loss	2 340 289	-	-	-	-	-	-	-	-	2 340 289
Debt securities issued	2 390 282	4 978 458	9 204 140	61 525 899	-	-	-	-	-	78 098 779
Other liabilities	2 613 472	6 786	16 835	15 147	-	-	-	122 536	-	2 774 776
Current tax liability	-	89 705	-	-	-	-	-	-	-	89 705
Deferred tax liability	-	-	-	-	-	-	-	1 500 756	-	1 500 756
Total liabilities	86 378 161	243 292 194	152 557 884	254 696 086	1 623 292	738 547 617				
Net liquidity gap as at 31 December 2009	185 763 646	(134 112 348)	(18 290 656)	16 331 629	36 903 764	86 596 035				
Cumulative liquidity gap as at 31 December 2009	185 763 646	51 651 298	33 360 642	49 692 271	86 596 035					

In the opinion of the Group's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Group. It is unusual for banks ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Operational risk. The Group implemented fundamental measures for operational risk management, which imply regulation of performed transactions and business processes and availability of the internal control system. These measures are supported by the respective risk assessment methodology based on world experience. The methodology of operational risk assessment was developed and approved. For information support of risk assessment the Bank operates special software and maintains database of losses resulted from realisation of operational risks. The following management methods and instruments are applied to operational risks:

Standardisation and development of technologies. Clear and unambiguous description of transaction technologies and decision-making procedures in the internal reference database and its timely update is one of the main factors for reducing the level of operational risk. It also forms the basis for timely detection and effective control of risks. Operational risks are also mitigated by implementing the information technologies allowing to decrease the volume of manual transactions.

Limitation of authority. The Group implemented a multilevel system of limits on authorities of responsible persons and collective bodies, identified responsibility and interchangeability of employees in all segments of work.

Operational risk assessment. In accordance with the existing methodology of assessing the Bank's operational risks the quantitative analysis of operational risk implies modelling of the Bank's losses based on historical data.

The qualitative assessment of operational risk is aimed at ranking the Bank's operations depending on the level of the operational risk based on the data provided by experts from the Bank divisions. In addition, the Bank divisions use self-assessment techniques to assess operational risks.

Control. There is a system of procedures aimed at prevention or detection of departures from laws, regulations and standards of professional activities, settlement of conflict of interests, provision of adequate level of reliability relevant to the nature and scope of transactions performed.

Risk insurance. Certain types of loss arising from realisation of operational risks are covered by insurance, thus transferring possible loss to insurance organisations.

Provisions by main types of risk are made to form sources to cover possible loss. Provision rates and procedures are defined on the basis of the approved regulations.

Based on the results of regular risk analysis the Group prepares management reports for its management. These reports not only provide assessment of the risk level but also offer arrangements to limit and diversify risks.

Capital Management

The Group's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation; to ensure the Group's ability to operate as a going concern and maintain capital base at the level required to sustain the capital adequacy ratio at 8% recommended by the Basel Accord.

The control over the Bank's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised daily based on the calculation of the amount of its equity and risk weighted assets. The calculation of the Bank's mandatory economic norms and ratios is submitted to the Central Bank of the Russian Federation every month.

The Group's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is controlled on the basis of quarterly reports that are verified and signed by the Bank's management.

In accordance with the current capital requirements set by the CBR, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level which equals 10%. As at 31 December 2010, the Group's capital adequacy ratio was 10.4 % (2009: 16.0%).

The Group and the Bank are also obliged to comply with minimum capital requirements stipulated in loan agreements, including capital adequacy ratio, calculated on the basis of the Basel Capital Accord, as defined in "International Convergence of Capital Management and Capital Standards" (revised in April 1998) usually called Basel I and in the Supplement to the Basel Capital Accord which introduced consideration of market risks (revised in November 2005).

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

The structure of the Group's capital calculated in accordance with the Basel Capital Accord is given below:

	2010	2009
Core capital (Tier 1 capital)	35 957 066	82 513 113
Secondary capital (Tier 2 capital)	21 877 178	39 081 598
Total equity (capital)	57 834 244	121 594 711
Risk-weighted assets	666 021 004	643 161 747
Capital adequacy ratio	8,7%	18.9%
Core capital adequacy ratio	5,4%	12.8%
Minimum core capital adequacy ratio	4,0%	4,0%
Minimum capital adequacy ratio	8.0%	8.0%

33. Contingent Liabilities

Insurance. The insurance market in the Russian Federation is still in the phase of development, so many forms of insurance protection applied in other countries are not available in the Russian Federation yet. The Group has not obtained full insurance coverage for premises and equipment, against discontinuance of operations or third party liability with respect to property or ecological damage arising due to malfunction of banking equipment or in connection with the main operations of the Group.

However, the Group has obtained insurance coverage for the most significant assets, including premises, motor vehicles, ATM and other items against damage due to accidents and unlawful actions of third parties.

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

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Taxation legislation. The tax system of the Russian Federation is characterised by a large number of taxes and frequently changed regulations that may have the retroactive effect and often contain ambiguous and contradictory statements open for interpretation. Often, differing opinions exist among various regulatory bodies in respect of the same regulation. Accuracy of tax computations is subject to review and investigation by fiscal authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation, which are substantially more significant than typically found in other countries.

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

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

	2010	2009
Later than 1 year	1 311 833	1 010 061
From 1 to 5 years	224 576	293 320
More than 5 years	10 518	9 425
Total operating lease commitments	1 546 927	1 312 806

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank to pay on behalf of the client the agreed amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments of the Group are as follows:

	2010	2009
Guarantees issued	65 298 895	53 662 681
Commitments to extend credit	36 638 499	31 387 205
Letters of credit	4 661 179	8 826 958
Total credit related commitments	106 598 573	93 876 844

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

The Group management estimates possibility of losses in connection with credit related commitments as immaterial. As at 31 December 2010 and 31 December 2009, the Group did not set up provisions for the respective liabilities.

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34. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between independent knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Group's financial instruments, the fair value is determined on the basis of current economic conditions and 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.

Below is the estimated fair value of the Group's financial instruments as at 31 December 2010 and 2009:

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	73 028 296	73 028 296	75 955 760	75 955 760
Financial assets at fair value through profit or loss	137 214 658	137 214 658	118 461 672	118 461 672
Due from other banks	79 402 561	79 402 561	50 703 283	50 703 283
Loans to customers	497 570 795	497 570 795	534 489 549	534 489 549
Financial assets available for sale	11 152 406	11 152 406	13 738 026	13 738 026
Investments held to maturity	418 361	373 934	265 211	167 625
Financial liabilities				
Due to other banks	159 330 606	159 330 606	225 714 723	225 714 723
Customer accounts	543 140 280	543 140 280	428 028 589	428 028 589
Financial liabilities at fair value through profit or loss	4 899 711	4 899 711	2 340 289	2 340 289
Debt securities issued	102 172 382	103 884 306	78 098 779	79 896 650

Financial instruments carried at fair value. Cash and cash equivalents, financial assets and liabilities at fair value through profit or loss and financial assets available for sale are carried in the consolidated statement of financial position at their fair value (Notes 5, 6 and 9). Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Group based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

Due from other banks. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. In the opinion of the Group, the fair values of due from other banks as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts (Note 7). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represent the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The Group believes that fair values of loans to customers as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts (Note 8). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Investments held to maturity. The fair value of investments held to maturity is based on the market quotations.

Borrowings. The estimated fair value of borrowings with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Group believes that fair values of borrowings as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts (Notes 15 and 16). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities issued is based on market quotations. The fair value of securities without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity (Note 17).

35. Related Party Transactions

In the normal course of business the Group enters into transactions with its main shareholders, directors and other related parties. For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions, or if the parties are under common control, as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Group's policy, the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

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The outstanding balances at the year end and asset transactions with related parties for 2010 and 2009 are as follows:

	Shareholders		Directors and key management personnel		Associates and other related parties	
	2010	2009	2010	2009	2010	2009
Financial assets at fair value through profit or loss						
Financial assets at fair value through profit or loss as at 1 January	-	262 363	-	-	11 571 868	4 784 408
Financial assets at fair value through profit or loss acquired during the year	-	-	-	-	357 697 619	191 807 327
Financial assets at fair value through profit or loss sold and repaid during the year	-	(262 363)	-	-	(352 405 202)	(185 019 867)
Financial assets at fair value through profit or loss as at 31 December	-	-	-	-	16 864 285	11 571 868
Due from other banks						
Due from other banks as at 1 January (gross)	-	-	-	-	-	500 000
Due from other banks placed during the year	-	-	-	-	3 109 256	2 900 626
Due from other banks repaid during the year	-	-	-	-	(3 109 256)	(3 400 626)
Due from other banks as at 31 December (gross)	-	-	-	-	-	-
Provisions for impairment of due from other banks						
Provision for impairment of due from other banks as at 1 January	-	-	-	-	-	-
Provision for impairment of due from other banks during the year	-	-	-	-	9 905	-
Recovery of provision for impairment of due from other banks during the year	-	-	-	-	(9 905)	-
Provisions for impairment of due from other banks as at 31 December	-	-	-	-	-	-
Due from other banks as at 1 January (less provision for impairment)	-	-	-	-	-	500 000
Due from other banks as at 31 December (less provision for impairment)	-	-	-	-	-	-
Loans to customers						
Loans to customers as at 1 January (gross)	7 252 203	-	391 243	312 246	6 517 921	7 644 086
Loans to customers issued during the year	11 904 427	10 539 491	578 929	797 129	49 046 251	24 417 549
Loans to customers repaid during the year	(7 339 603)	(3 287 288)	(892 485)	(718 132)	(26 602 085)	(25 543 714)
Loans to customers as at 31 December (gross)	11 817 027	7 252 203	77 687	391 243	28 962 087	6 517 921
Provisions for impairment of loans to customers						
Provision for impairment of loans to customers as at 1 January	10 593	-	3 913	3 123	1 923 353	92 584
Provision for impairment of loans to customers during the year	235 473	56 768	1 713	1 482	9 210 808	4 100 345
Recovery of provision for impairment of loans to customers during the year	(24 007)	(46 175)	(4 899)	(692)	(5 354 067)	(2 269 574)
Provision for impairment of loans to customers as at 31 December	222 059	10 593	727	3 913	5 780 094	1 923 355
Loans to customers as at 1 January less provision for impairment	7 241 610	-	387 330	309 123	4 594 566	7 551 502

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	Shareholders		Directors and key management personnel		Associates and other related parties	
	2010	2009	2010	2009	2010	2009
Loans to customers as at 31 December less provision for impairment	11 594 968	7 241 610	76 960	387 330	23 181 993	4 594 566
Interest received on loans to customers and due from other banks	482 367	422 886	31 358	29 560	1 359 290	1 395 158

The outstanding balances at the year end and liability transactions with related parties for 2010 and 2009 are as follows:

	Shareholders		Directors and key management personnel		Associates and other related parties	
	2010	2009	2010	2009	2010	2009
Due to other banks						
Due to other banks as at 1 January	-	-	-	-	154 118	51 101
Due to other banks received during the year	-	-	-	-	27 366 014	24 241 127
Due to other banks repaid during the year	-	-	-	-	(26 714 801)	(24 138 110)
Due to other banks as at 31 December	-	-	-	-	805 331	154 118
Customer accounts						
Customer accounts as at 1 January	62 805 472	91 722 002	975 159	522 599	33 354 094	18 041 503
Replenishments of customer accounts during the year	478 650 707	506 448 031	2 488 576	3 499 186	920 686 998	828 642 283
Write-offs from customer accounts during the year	(440 068 257)	(535 364 561)	(2 558 416)	(3 046 626)	(919 885 153)	(813 329 692)
Customer accounts as at 31 December	101 387 922	62 805 472	905 319	975 159	34 155 939	33 354 094
Interest expense on deposits	4 430 675	10 548 681	76 815	75 691	59 401	202 388
Fee and commission income for the year	12 923	20 826	-	-	653 871	480 286
Guarantees issued by the Group as at the end of the year	960	24 399	-	-	2 112 184	347
Guarantees received by the Group as at the end of the year	3 733 493	-	-	-	41 795 865	3 878 208
Import letters of credit as at the end of the year	-	-	-	-	-	23 598

Operations with the structural divisions and enterprises in the ownership of the Moscow Government account for a substantial share of transactions with shareholders and other related parties.

As it particularly reflected in the note 36 "Subsequent Events", in June 2011 the substantial portfolio of assets was revealed relating to the Bank of Moscow funds financing of the projects which are in the scope of interests of the former Bank of Moscow President A. F. Borodin and other persons. After the resignation of A. F. Borodin the Bank of Moscow faced with the third parties attempts to sell the assets either acquired with the use of the Bank of Moscow loans, or provided as collateral for loans earlier issued by the Bank. The above mentioned assets were not considered as related party transactions in a view of impossibility of reliable estimation of the direct relationship between the specified assets and the former management of the Group.

Remuneration to members of the Management Board for 2010 amounted to RUR 1 571 527 thousand (2009: RUR 503 635 thousand).

36. Subsequent Events

On 11 January 2011 the Group established OJSC Vechernyaya Moskva Editorial Office with the Group's shareholding of 57.35%.

On 31 January 2011 the Group's interest in the share capital of LLC Registrator KRC increased from 58.78% to 100%.

On 1 February 2011 the Group finalized the placement of the 2-year euobonds in Singapore dollars. The Eurobond volume equalled SGP 150 mln at a coupon rate of 4.25% per annum. ING Bank N. V. and UBS Investment Bank acted as an authorised Eurobond arrangers.

On 10 February the Group sold its 32,8% interest in the share capital of Estonian Credit Bank (Eesti Krediidipank).

On 15 February 2011 the Group sold its 76,59% interest in the share capital of SIA Radicals Trests.

On 22 February 2011 the shareholdings of the Bank of Moscow earlier held by the Moscow Government (46.48%) and the 25% + 1 share in OJSC Metropolitan Insurance Group owning 17.3% of the Bank of Moscow shares were transferred into the ownership of OJSC VTB Bank. The shares of the Bank of Moscow were initially contributed by the Moscow Government to the share capital of OJSC Central Fuel Company as an additional share issue payment. Subsequently, the company sold the entire shareholding to OJSC VTB Bank.

On 1 March 2011, the Group sold its 48.99% interest in the share capital of SIALBB ĪPAŠUMI, 99.97% interest in SIA Bako Kredits Alfa and its 99.97% interest in SIA LBB ĪPAŠUMI 2.

On 5 April 2011, the sale of the Bank of Moscow's 99.97% interest in JSC Latvian Businessbank (AS Latvijas Biznesa Banka) was completed. The sale was necessitated by non-existent prospects of further business development in Latvia, the deep crisis in the country's economy and unsatisfactory financial condition of the Latvian bank.

In accordance with the ruling of the Tver Court of the City of Moscow, on 12 April 2011 the Board of Directors of the Bank of Moscow removed from office the Bank of Moscow President A. F. Borodin who headed the Bank since its foundation.

On 21 April 2011 the Group sold its 27,57% interest in the share capital of AS Eesti Krediidipank. Taking into account the Group's management opinion concerning violation of practise rules in respect of AS Eesti Krediidipank carve-out of shares transaction, the Group currently conducting procedures of reversing the above mentioned shares on the face of the Group's statement of financial position.

On 21 April 2011, the Extraordinary General Meeting of Shareholders approved the resignation of A. F. Borodin and elected M.V. Kuzovlev as a new President of the Bank of Moscow.

In 2011, based on the results of the inspections performed by the RF Accounts Chamber and CBR in late 2010 - first half of 2011, the Bank of Moscow received the acts of these supervision authorities describing violations committed by the former management of the Bank of Moscow relating to lending procedures and acceptance of high credit risks. A substantial portfolio of assets was revealed which with a definite level of probability could be related to the funding by Bank of Moscow of the projects which are in the scope of interests of the former Bank of Moscow President A. F. Borodin and other persons. After the resignation of A. F. Borodin the Group faced with the third parties' attempts to sell the assets either acquired with the use of the Group loans, or provided as collateral for loans earlier issued by the Group. The results of the inspections performed by the RF Accounts Chamber, CBR and the new management of the Group, and all other available information at the date of the financial statements preparation were accounted for the accrual of provisions for impairment of Group's loan portfolio. The Group does not exclude a possibility of further accretion of provisions for impairment of loans upon incurrence of new deal's evidences, involving financing of projects which could be related to the Group's former management. As a result of the above mentioned events, as of 31 December 2010 the Bank committed a violation of statutory ratio of a maximum risk, in terms of one borrower or a group of interrelated borrowers (H6), which is set up by CBR.

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To remove instability of the financial position and restore the appropriate business activity of the Bank, in June 2011 the CBR and the Deposit Insurance Agency developed and approved the Plan of participation of the state corporation Deposit Insurance Agency in prevention of bankruptcy of the Joint Stock Commercial Bank - Bank of Moscow (open joint-stock company) providing for the following major steps:

- to increase the share of VTB group in the share capital of the Bank of Moscow through purchase of the Bank of Moscow shares from its shareholders in amounts allowing to make decisions on all issues relating to the competence of the general shareholders' meeting, including issues of the Bank restructuring and liquidation;
- to obtain from the state corporation Deposit Insurance Agency a secured loan for financial rehabilitation of the Bank in the amount which is up to RUR 295 bln for the term of 10 years at the interest rate of 0.51% per annum;
- to increase the share capital of the Bank through additional issue of the Bank's shares in the amount which is up to RUR 100 bln by 1 January 2013.

On 20 July 2011 within the realization Plan VTB Bank, CJSC VTB Debt Centre, VTB Pensions administrator LLC, the Bank of Moscow and the state corporation Deposit Insurance Agency (DIA) have signed a General Agreement, which determines the terms and conditions of the interactions between parties during the above mentioned Plan realization.