DeltaCredit Bank CJSC

Consolidated Financial Statements

31 March 2011
Unaudited

Contents

(in thousands of Russian Rubles)

	Note	31 March 2011	31 December 2010
Assets			
Cash and cash equivalents	5	4,441,891	2,179,506
Mandatory cash balances with the Central Bank of the Russian Federation (CBRF)	22	17,538	9,608
Amounts due from banks	6	1,255,041	3,258,259
Mortgage loans to individuals	7	49,420,911	50,189,488
Investments available-for-sale	8	53,199	53,486
Property, equipment and intangible assets	9	86,996	91,051
Assets acquired by adjudication	7	184,918	178,493
Other assets	10	80,690	107,777
Total assets		**55,541,184**	**56,067,668**
Liabilities			
Amounts due to banks and other financial institutions	11	3,734,753	4,395,618
Customer current accounts		670,336	532,178
Financing from related parties	12	39,002,213	39,600,015
Notes issued	13	1,816,213	2,087,509
Financial liabilities at fair value through profit or loss	14	150,114	179,790
Other liabilities	10	319,339	248,468
Total liabilities		**45,692,968**	**47,043,578**
Shareholder's equity			
Share capital	15	2,430,763	2,430,763
Share premium		580,551	580,551
Investments available-for-sale revaluation reserve		(4,440)	(5,159)
Retained earnings		6,867,821	6,029,812
Cumulative translation reserve		(26,479)	(11,877)
Total equity		**9,848,216**	**9,024,090**
Total liabilities and equity		**55,541,184**	**56,067,668**

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

Serge Ozerov
Chairman of the Board of Management

31 May 2011
Moscow

Elena Kudlik
Chief Financial Officer

31 May 2011
Moscow

The accompanying notes on pages 7 to 52 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

	Note	3 months ended 31 March 2011	3 months ended 31 March 2010
Interest income	16	1,438,478	1,542,257
Interest expense	16	(781,572)	(830,232)
Net interest income		**656,906**	**712,025**
Net gain/(loss) from foreign currency exchange transactions		385	(178)
Net loss from foreign exchange translation		(9,573)	(7,123)
Fee and commission income	17	56,462	68,883
Fee and commission expense	17	(16,957)	(14,562)
Net loss on financial liabilities at fair value through profit or loss	18	(14,763)	(44,664)
Other operating income	19	3,502	790
Net banking income		**675,962**	**715,171**
Personnel expenses		(139,872)	(105,284)
Other operating expenses	19	(72,045)	(46,808)
Depreciation expenses	9	(13,285)	(7,520)
Gross operating income		**450,760**	**555,559**
Cost of risk	6,7	587,333	(50,940)
Operating income before income tax		**1,038,093**	**504,619**
Income tax expense	20	(200,084)	(70,407)
Net profit		**838,009**	**434,212**

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(in thousands of Russian Rubles)

	3 months ended 31 March 2011	3 months ended 31 March 2010
Net profit	838,009	434,212
Other comprehensive income		
Exchange differences on translation of foreign operations	(14,602)	(5,642)
Net gain/(loss) resulting on revaluation of available-for-sale investments during the period, net of deferred income tax effect	719	-
Reclassification adjustments for gains/(losses) included in profit or loss from comprehensive income on disposal of investments available-for-sale	-	(783)
Other comprehensive income after income tax	**(13,883)**	**(6,425)**
Total comprehensive income	**824,126**	**427,787**

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31 May 2011
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(in thousands of Russian Rubles)

	Share capital	Share premium	Investments available-for-sale revaluation reserve	Retained earnings	Cumulative translation reserve	Total
Balance as of 31 December 2009	**2,430,763**	**580,551**	**783**	**4,258,995**	**(13,367)**	**7,257,725**
Total comprehensive income for the year	-	-	(5,942)	1,770,817	1,490	1,766,365
Balance as of 31 December 2010	**2,430,763**	**580,551**	**(5,159)**	**6,029,812**	**(11,877)**	**9,024,090**
Total comprehensive income for the year	-	-	719	838,009	(14,602)	824,126
Balance as of 31 March 2011	**2,430,763**	**580,551**	**(4,440)**	**6,867,821**	**(26,479)**	**9,848,216**

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(in thousands of Russian Rubles)

	Note	3 months ended 31 March 2011	3 months ended 31 March 2010
Cash flows from operating activities			
Interest received		1,455,662	1,453,391
Interest paid		(211,346)	(206,558)
Net losses from dealing in foreign currencies		385	(178)
Realized loss on financial derivatives		(1,231)	-
Fees and commissions received		94,906	93,946
Fees and commissions paid		(2,159)	(5,250)
Other operating income received		2,581	2,909
Operating expenses paid		(223,224)	(120,921)
Income tax paid		(130,459)	(189,990)
Cash flows from operating activities before changes in operating assets and liabilities		**985,115**	**1,027,349**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the Central Bank of the Russian Federation		(7,930)	5,791
Net change in amounts due from banks		1,913,414	(1,525,773)
Net change in mortgage loans to individuals		(135,536)	(160,867)
Net change in investments available-for-sale		-	15,348
Net change in other assets		(1,902)	(9,893)
Net change in customer accounts		137,464	(8,506)
Net change in other liabilities		6,555	12,520
Net cash generated by / (used in) operating activities		**2,897,180**	**(644,031)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(9,187)	(1,856)
Net cash used in investing activities		**(9,187)**	**(1,856)**
Cash flows from financing activities			
Receipts from related parties		-	1,789,303
Payments to banks and other financial institutions		(390,452)	(236,989)
Payments on securitized notes issued		(128,400)	(133,262)
Net cash (used in) / from financing activities		**(518,852)**	**1,419,052**
Effect of exchange rate changes on cash and cash equivalents		**(106,756)**	**(32,494)**
Net increase in cash and cash equivalents		**2,262,385**	**740,671**
Cash and cash equivalents at the beginning of the period		2,179,506	2,439,678
Cash and cash equivalents at the end of the period	5	**4,441,891**	**3,180,349**

Serge Ozerov
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31 May 2011
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(in thousands of Russian Rubles)

1 Principal Activities

These consolidated financial statements include the financial statements of Commercial Bank DeltaCredit, Closed joint stock company (the "Bank"), and its special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group").

DeltaCredit Bank is a commercial bank incorporated as a closed joint-stock company under the laws of the Russian Federation ("RF"). Up to January 2011 the immediate holding company of the Bank was DC Mortgage Finance Netherlands B.V. ("DCMF"), which was wholly-owned by Société Générale S.A. In January 2011 the first stage of the assets consolidation by Societe Generale Group in Russia was completed. As a result, on 17 January 2011 DeltaCredit Bank CJSC was acquired by "Rosbank" OJSC JSCB. "Rosbank" OJSC JSCB is the largest privately owned bank in Russia in terms of branch net, it operates more than 600 outlets, covering over 70 Russia's regions. Societe Generale is the principal shareholder of "Rosbank" OJSC JSCB owning 74.8% of its shares.

The Bank operates under a banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1999. The Bank's original shareholders were JP Morgan Overseas Capital Corporation and Morgan Guarantee International Finance Corporation. The Bank previously operated as ZAO JP Morgan Bank, and on 24 July 2001 changed its name to DeltaCredit Bank.

In September 2002, the Bank obtained a license from the Central Bank of the Russian Federation that allows the Bank to perform all types of banking and lending operations. In February 2005, the Bank became a member of the deposit insurance system provided by the State Corporation "Agency for Deposit Insurance".

The Bank's registered office is located: 125009, Russia, Moscow, 4/7 Vozdvizhenka St., Bld. 2. The Bank currently maintains outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg and Novosibirsk. On 21 January 2011 two additional outlets were opened in Kazan and Perm. The number of the Bank's employees as at 31 March 2011 was 397 (31 December 2010: 395).

The SPE, a limited liability company, incorporated under the laws of Ireland under company registration number 432754 and having its registered office at Ireland, Dublin, 85 Merrion Square, was established for the purpose of purchasing mortgage loan portfolio from the Bank and issuing notes.

DeltaCredit Bank is a specialized lender whose core business is provision of mortgage loans and mortgage loans purchases in the Russian Federation.

Residential mortgage products are distributed to retail customers through a distribution network with an emphasis on cost efficiency. The network consists of the Bank's outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg, Novosibirsk, Kazan, Perm and a regional network of partner banks.

Funding is obtained from both domestic and global financial markets from wholesale credit lines, issuance of debt securities and securitisation of loans.

As of 31 March 2011 and 31 December 2010, the shareholders, and the composition of the Board of Directors and Board of Management were as follows:

	31 March 2011		31 December 2010	
	% Ownership	% Votes	% Ownership	% Votes
"Rosbank" OJSC JSCB	100.0	100.0		
DC Mortgage Finance Netherlands B.V.			100.0	100.0
	100.0	**100.0**	**100.0**	**100.0**

(in thousands of Russian Rubles)

1 Principal Activities (continued)

Board of Directors as of	
31 March 2011	**31 December 2010**
Jean-Louis Mattei	Jean-Louis Mattei
Serge Ozerov	Serge Ozerov
Marc-Emmanuel Vives	Marc-Emmanuel Vives
Christian Schricke	Christian Schricke
Perrine Gilbert	Perrine Gilbert

Board of Management as of	
31 March 2011	**31 December 2010**
Serge Ozerov	Serge Ozerov
Larisa Fainzilberg	Larisa Fainzilberg
Konstantin Y. Artioukh	Konstantin Y. Artioukh
Dinara Yunusova	Dinara Yunusova
Irina Kuzmicheva	Irina Kuzmicheva

2 Operating Environment of the Bank

In the first quarter of the year 2011 the Russian economy showed positive trends. During the first quarter of the year 2011 exchange rate of Russian Ruble for 1 dollar of the United States has decreased from 30.48 to 28.43. Average exchange rate for the first quarter 2011 is 29.27 RUR for USD. The GDP of Russia for the first 3 months 2011 has increased by 4.5% comparing to GDP of the same period of 2010.

According to the statistical analytical data provided by the CBRF, the volume of originated mortgage loans for the first quarter 2011 compared to the same period of 2010 has increased by 2.11 times: RUR 103.2 billion against RUR 48.9 billion. The number of mortgage loans originated during the first quarter 2011 has increased by 1.88 times in comparison with the same period of 2010 and constituted 74 thousand loans. This indicates that the mortgage market is turning back to pre-crisis path of development.

Moody's views the development of mortgage lending business in Russia as generally credit positive for the banks involved. Moody's expects that the volume of newly issued mortgage and housing loans in Russia will increase by about 30% annually in 2011 and 2012. This forecast reflects opportunities stemming from the current low loan stock and assumes only a slight loosening in recently enhanced underwriting standards. Under this base case scenario, which represents a revival of the sector post-crisis, total volumes of new mortgages would reach approximately RUB570 billion ($19 billion) in 2011, up from RUB 437 billion in 2010.

Banks continue developing their mortgage loans programs. According to the statistical analytical data provided by the CBRF, gradual decrease of weighted-average interest rate on mortgage loans was observed during the first quarter of 2011 compared to the year end 2010 by 0.1% in rubles and 0.5% in foreign currency.

During 2011 mortgage lending business in Russia is demonstrating the new phase of development. The main courses of development are integration and unification. Mortgage underwriting standards and requirements for lenders although being liberalized are still maintained at strict level which was unusual for the pre-crisis period. Market integration is becoming obvious. Mortgage lending activity is developing in close alliance with real estate developers, realtors and brokers. Cooperation helps facilitating and speeding up the process of mortgage loans origination, gives additional opportunities for client's attraction for all parties involved. Initial work of brokers and realtors with potential mortgage lenders helps to improve the quality of mortgage loans applications, as the result, the costs of non-qualified clients identification decreases for the banks.

During first quarter of 2011 almost all banks engaged in mortgage lending decreased down payment requirement to minimum of 20%. Some banks offer mortgage loans with down payment of 10%. In 2011 DeltaCredit Bank CJSC has decreased requirement for minimum down payment from 20% to 15%.

3 Basis of Presentation

General

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

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation in retail segment. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in RUR in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements are presented in thousands of Russian Rubles unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The Group's operations are highly integrated and primarily constitute a single industry segment, mortgage lending in the Russian Federation.

Functional currency

The functional currency of the Bank and the presentation currency of the Group used in the preparation of these consolidated financial statements is the Russian Rubles ("RUR").

The functional currency of the SPE is the USD. Please refer to foreign currency translation methods described below.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

4 Significant Accounting Policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its SPE). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

4 Significant Accounting Policies (continued)

Recognition and measurement of financial instruments

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognized when the obligation is discharged, 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash within thirty business days. All short term interbank placements including overnight placements are also classified as cash and cash equivalents. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF represent the amount of obligatory reserves deposited with CBRF in accordance with requirements established by CBRF. The minimum reserve deposits with CBRF are subject to restrictions on its availability, therefore for purposes of determining cash flows, the minimum reserve deposit required by CBRF is not included as a cash equivalent. The Bank is required to maintain the minimum reserve deposit with CBRF at the constant basis.

4 Significant Accounting Policies (continued)

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling them in the near future; (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or (3) are designated as derivatives (except for the case when a derivative is defined as an effective hedging instrument).

A financial asset or liability other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset or liability forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held (except for cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosure").

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to mitigate its risk associated with interest rate.

Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

4 Significant Accounting Policies (continued)

Reclassification of financial assets

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Mortgage loans to individuals

Loans originated by the Group by providing money directly to the borrower, other than those that are originated with the intent of being sold immediately or in the short-term, which are recorded as trading assets, are categorized as originated loans.

Loans to individuals, all rights for which were purchased by the Group from other Russian banks in accordance with assignment agreements, purchased by the Bank, other than those that are purchased with the intent of being sold immediately or in the short-term, are categorized as purchased loans.

Securitized loans represent loans to individuals which were transferred to the SPE under a Mortgage certificates purchase agreement in the course of a securitisation deal.

Originated and purchased loans and advances are recognized when cash is transferred to borrowers. Initially, both categories of loans are recorded at fair value adjusted for transaction costs and gains, and subsequently are carried at amortized cost using the effective interest method less allowance for loan impairment. Amortized cost is based on the fair value of cash consideration given determined by reference to market prices at origination date.

Credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount of an individual loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

Allowance for impairment losses

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the management has exercised all available possibilities to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are credited to other income in the consolidated income statement.

If the amount of the allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to cost of risk in the consolidated income statement.

Restructured loans

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

Investments available-for-sale

Investments available-for-sale represent debt investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in the consolidated statement of comprehensive income, except for

4 Significant Accounting Policies (continued)

Investments available-for-sale

impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in other comprehensive income is recycled through the consolidated income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale.

Non-marketable debt securities are stated at amortized cost and cost less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the consolidated income statement for the period. These financial assets are recognized net of reserve for impairment.

Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost less accumulated depreciation, amortization and allowance for impairment. Changes in the expected useful life are accounted for by changing the depreciation/ amortization period or method, as appropriate, and treated as changes in accounting estimates.

Leasehold improvements include expenditures incurred subsequent to entering a long-term operating lease of banking premises. The Group treats these expenses as leasehold improvements since they are directly attributable costs of bringing the premises to working condition for their intended use. The Bank assumes that it is highly probable that future economic benefits associated with the leasehold improvements will flow to the Bank. Leasehold improvements are stated at cost less accumulated depreciation and allowance for impairment, where required.

Depreciation/amortization is calculated using the straight-line method to write down the cost of property, equipment and intangible assets to their residual values over their estimated useful lives, using the following depreciation/amortization rates:

Office and computer equipment	20%-25% per annum
Leasehold improvements	10% per annum
Motor vehicles	20% per annum
Intangible assets	33.33% per annum

An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income or other operating expenses in the consolidated income statement in the year the asset is derecognized.

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

Impairment of property, equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4 Significant Accounting Policies (continued)

Impairment of property, equipment and intangible assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Assets acquired by adjudication

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and

4 Significant Accounting Policies (continued)

Taxation (continued)

- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Borrowings

Borrowings, which include amounts due to banks and other financial institutions, customer current accounts, bonds and notes issued and financing from related parties are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Borrowings originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar borrowings.

For borrowings from non-related parties, the difference between the fair value and the nominal value at origination is credited or charged to the consolidated income statement as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. For borrowings from related parties, such differences are credited or charged directly to other comprehensive income. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated income statement using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in losses/gains arising from early retirement of debt.

Other credit-related commitments

In the normal course of business, the Group enters into other credit related commitments including guarantees. A specific allowance is recorded against other credit related commitments when losses are considered probable.

Contingencies

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

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Share premium represents the excess of share capital contributions over the nominal value of the shares issued.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer to be calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Accrued interest income and accrued interest expense

Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount, are included in the carrying values of the related balance sheet items.

(in thousands of Russian Rubles)

4 Significant Accounting Policies (continued)

Income and expense recognition

Interest income and expense are recognized in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset 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 or, when appropriate, a shorter period 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 (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loan origination fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commission income are recognized when services are provided.

Realized gains or losses on the sale of a mortgage portfolio (if derecognition criteria are met) are recognized at the time of settlement based on the difference between the sale proceeds and the carrying value of the portfolio.

Foreign currency translation

According to IAS 21 "The Effect of Changes in Foreign Exchange Rates" ("IAS 21") the Bank translated all items to RUR as at 1 January 2008, using the exchange rate at that date, which equaled to 24.5462 RUR for 1 USD. The resulting translated amounts for non-monetary items are treated as their historical cost.

Transactions denominated in a foreign currency are recorded at the exchange rate effective at the transaction date. Exchange differences resulting from the settlements of transactions denominated in foreign currencies are included in the consolidated income statement using the exchange rate effective at that date.

Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the official exchange rate of the Central Bank of the Russian Federation at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated income statement as net gain/losses from foreign exchange translation.

The results and the financial position of the SPE are translated into the presentation currency as follows. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the corresponding reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognized within other comprehensive income as currency translation adjustment.

Rates of exchange

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

	31 March 2011	31 December 2010
RUR/1 US Dollar	28.4290	30.4769
RUR/1 Euro	40.0223	40.3331

4 Significant Accounting Policies (continued)

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purpose entities that issue debt securities to investors. The securitised financial assets may be retained by the Group and are primarily classified as mortgage loans to individuals.

Significant accounting estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans

The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

In 2011 the Group has changed the approach to estimation of allowance for loan impairment losses. In the new methodology provisioning rates were lowered, because the management changed their expectation of the credit risk and respectively the future cash flows. The management changed their expectations because the mortgage market and banking sector in general are demonstrating significant signs of recovery after global liquidity crisis of 2008. Allowance for loans impairment estimated in accordance to new approach is lower by RUR 629,958 thousand, compared to what it would have been if old approach had been applied.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 March 2010 and 31 December 2010 the gross mortgage loans to individuals value totaled RUR 49,730,868 thousand and RUR 51,107,665 thousand, respectively, and allowance for impairment losses amounted to RUR 309,957 thousand and RUR 918,177 thousand, respectively.

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

4 Significant Accounting Policies (continued)

Significant accounting estimates (continued)

Allowance for impairment of loans (continued)

Mortgage loans purchased from other banks, in which the Group has either an unlimited right of recourse or right to recourse only for 12 months from the date of repurchase in the event of borrower default, have been recognized as part of the Group's own loan portfolio as the Group receives predominantly all income relating to these loans and, while not accepting all credit risk, it accepts full prepayment and interest rate risk, which in aggregate are considered to be substantially all the risks related to these loans. Therefore, management views that substantially all risks and rewards of ownership of these loans have been transferred to the Group.

Significant accounting judgments

According to SIC 12, in the context of the SPE, control arose through the predetermination of the activities of the SPE (operating on "autopilot"). The Board of Directors of the SPE considered and resolved to enter into the transaction determined within the frames of the "autopilot" thereby placing contractual obligations on the SPE which it must adhere to or be in breach of its legal obligations. For this reason Management believes that the SPE must be consolidated, despite the fact the Bank does not hold a majority of voting rights in the SPE.

The Group's mortgage portfolio includes the securitized mortgage loan pool. Management views that the majority of risks and rewards of ownership of the securitized loan pool have been retained by the Group. Accordingly the Group has not derecognized the securitized mortgage pool from its consolidated statement of financial position.

Standards and interpretations in issue and not yet adopted

IFRS 9 Financial Instruments

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

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

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

(in thousands of Russian Rubles)

5 Cash and Cash Equivalents

	31 March 2011	31 December 2010
Cash on hand	316,165	340,945
Cash balances with the CBRF (other than mandatory reserve deposits)	165,910	91,092
Correspondent accounts, overnight placements with other banks and interbank loans less than 30 days		
- Russian Federation	2,099,000	749,412
- Other countries	1,860,816	998,057
Total cash and cash equivalents	**4,441,891**	**2,179,506**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 21.

6 Amounts Due from Banks

	31 March 2011	31 December 2010
Interbank loans	1,255,041	3,258,259
Purchased loans	295	295
Provision for purchased loans	(295)	(295)
Total due from banks	**1,255,041**	**3,258,259**

Interbank loans include deposits placed in banks-members of Société Générale Group in the amount of RUR 1,255,041 thousand (2010: RUR 3,258,259 thousand)

Purchased loans represent loans to Russian banks for which all rights were transferred to the Group from DC Mortgage Finance Netherlands B.V. in 2001 – 2002 in accordance with assignment agreements. As at 31 March 2011 and 31 December 2010 the balance is represented by CJSC "International Industrial Bank" only.

During the first quarter of 2011, there were no repayments on the purchased loan portfolio. During 2010, repayments totaling RUR 1,975 thousand were received on the purchased loan portfolio.

Geographical, currency, maturity and interest rate analyses of amounts due from banks are disclosed in Note 21.

Movements in the allowance for purchased loans are as follows:

	31 March 2011	31 December 2010
Provision for purchased loans at 1 January	295	-
Additional provision recognized	-	295
Provision for purchased loans at the end of the period	**295**	**295**

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals

	31 March 2011	31 December 2010
Originated loans	38,186,064	38,982,611
Purchased loans:		
- Under recourse agreement	1,290,894	1,263,410
- With no recourse agreement	7,617,902	7,911,742
Securitized loans	2,193,956	2,505,085
Total loans before accrued income and Allowance	**49,288,816**	**50,662,848**
Accrued interest income	427,816	429,252
Accrued interest income on securitized loans	14,236	15,565
Total loans before allowance	**49,730,868**	**51,107,665**
Less: Allowance for loan impairment	(309,957)	(918,177)
Total mortgage loans to individuals	**49,420,911**	**50,189,488**

Loan origination fees in the total amount of RUR 22,018 (2010: RUR 87,705 thousand), insurance commission income in the total amount of RUR 5,348 thousand (2010: RUR 24,463 thousand) and loan transaction costs in the amount RUR 4,376 thousand (2010: RUR 26,190 thousand) have been deferred and recorded as an adjustments to the effective yield on the loans.

As at 31 March 2011 there were no mortgage loans to individuals pledged as collateral under loans received from other financial institutions. As at 31 December 2010 RUR 399,708 thousand of mortgage loans to individuals were pledged as collateral under loans received from other financial institutions. Refer to Note 22.

During the first 3 months of the year 2011 the Group received non-financial assets by taking possession of collateral it held as security. As at 31 March 2011 such assets constituted RUR 184,918 thousand (31 December 2010: RUR 178,493 thousand) and were accounted as assets acquired by adjudication. The Group does not intend to hold these assets at the balance sheet and performs all necessary procedures to sell the property within the next four months after it was recognized on the balance.

As the Group originates only mortgage loans to individuals so the Group does not have loans in its portfolio which are individually significant in relation to the Group's equity.

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

Analysis on overdue loans to individuals is presented below:

Class of financial asset	Carrying amount as at 31 March 2011	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 90 days overdue	impaired: 0 - 30 days overdue	31 - 90 days overdue	91 - 180 days overdue	181 - 360 days overdue	more than 360 days overdue
Mortgage loans to individuals, excluding securitized portfolio	47,522,676	46,155,264	659,988	-	-	132,788	205,012	369,624
Less: Allowance for loan impairment	(293,312)	-	-	-	-	(13,316)	(51,392)	(228,604)
Securitized portfolio	2,208,192	2,061,435	103,587	-	-	18,768	7,996	16,406
Less: Allowance for loan impairment	(16,645)	-	-	-	-	(1,941)	(2,130)	(12,574)
Total mortgage loans to individuals	**49,420,911**	**48,216,699**	**763,575**	-	-	**136,299**	**159,486**	**144,852**

Class of financial asset	Carrying amount as at 31 December 2010	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 90 days overdue	impaired: 0 - 30 days overdue	31 - 90 days overdue	91 - 180 days overdue	181 - 360 days overdue	more than 360 days overdue
Mortgage loans to individuals, excluding securitized portfolio	48,587,015	47,337,438	77,867	282,537	173,751	142,643	238,785	333,994
Less: Allowance for loan impairment	(901,610)	-	-	(12,437)	(173,751)	(142,643)	(238,785)	(333,994)
Securitized portfolio	2,520,650	2,389,265	90,697	-	-	8,082	17,959	14,647
Less: Allowance for loan impairment	(16,567)	-	-	-	-	(835)	(4,811)	(10,921)
Total mortgage loans to individuals	**50,189,488**	**49,726,703**	**168,564**	**270,100**	-	**7,247**	**13,148**	**3,726**

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

Movements in the allowance for loan impairment are as follows:

	31 March 2011	31 December 2010
Provision for loan impairment at 1 January	**918,177**	**899,864**
Write-offs	(19,729)	(88,421)
Translation difference	(1,158)	141
(Recovery of provision) / additional provision recognized	(587,333)	106,593
Provision for loan impairment at the end of the period	**309,957**	**918,177**

In 2011 the Group has changed the approach to estimation of allowance for loan impairment losses, which resulted in recovery of provisions. Details of the change in estimate are described in Note 4.

The Group has property and guarantees as collateral for its mortgage loans. Property is disclosed based on its fair value at the time of loan origination. Guarantees represent the nominal amounts pledged by the guarantor.

	31 March 2011	31 December 2010
Property	97,264,921	97,187,775
Guarantees	4,144,136	4,165,178
Collateral received	**101,409,057**	**101,352,953**

Geographical, currency, maturity and interest rate analyses of mortgage loans to individuals are disclosed in Note 21.

8 Investments Available-for-sale

	31 March 2011	31 December 2010
Corporate bonds:		
Agency for Housing Mortgage Lending	53,199	53,486
Investments available-for-sale	**53,199**	**53,486**

As at 31 March 2011 investments available-for-sale comprise the AHML corporate bonds in the amount of RUR 53,199 (31 December 2010: RUR 53,486). These bonds were acquired within the frames of the restructuring program launched by Agency for Restructuring of Housing Mortgage Loans (ARHML). Under this program bank-creditors sell their problem mortgage loans to the ARHML in the exchange for the AHML corporate bonds which are included in Lombard list of CBRF. The bonds will mature in September 2028. Bonds interest rate is variable and determined two times a year in March and September. As at 31 March 2011 interest rate comprised 10% (31 December 2010: 11%).

(in thousands of Russian Rubles)

9 Property, Equipment and Intangible Assets

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2010	**40,966**	**5,111**	**1,409**	**43,565**	**91,051**
Book amount at cost					
Opening balance	104,132	41,418	3,659	66,391	215,600
Additions	7,794	-	1,301	136	9,231
Disposals	(888)	-	-	(1,058)	(1,946)
Closing balance	**111,038**	**41,418**	**4,960**	**65,469**	**222,885**
Accumulated depreciation and amortiozation					
Opening balance	63,166	36,307	2,250	22,826	124,549
Depreciation charge	6,194	1,393	283	5,415	13,285
Disposals	(888)	-	-	(1,057)	(1,945)
Closing balance	**68,472**	**37,700**	**2,533**	**27,184**	**135,889**
Net book amount at 31 March 2011	**42,566**	**3,718**	**2,427**	**38,285**	**86,996**

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2009	**37,463**	**6,575**	**525**	**26,036**	**70,599**
Book amount at cost					
Opening balance	86,799	41,140	2,399	54,582	184,920
Additions	19,367	278	1,260	32,122	53,027
Disposals	(2,034)	-	-	(20,313)	(22,347)
Closing balance	**104,132**	**41,418**	**3,659**	**66,391**	**215,600**
Accumulated depreciation and amortiozation					
Opening balance	49,336	34,565	1,874	28,546	114,321
Depreciation charge	15,249	1,742	376	14,593	31,960
Disposals	(1,419)	-	-	(20,313)	(21,732)
Closing balance	**63,166**	**36,307**	**2,250**	**22,826**	**124,549**
Net book amount at 31 December 2010	**40,966**	**5,111**	**1,409**	**43,565**	**91,051**

Intangible assets of the Bank are mainly represented by software and software licenses.

As at 31 March 2011 and 31 December 2010 fully depreciated assets included in property and equipment comprised RUR 81,148 thousand and RUR 79,389 thousand, respectively.

(in thousands of Russian Rubles)

10 Other Assets and Other Liabilities

Other Assets comprise:

	31 March 2011	31 December 2010
Settlements with other debtors	33,337	34,590
Insurance commission receivable	23,888	37,535
Deferred expenses	10,422	22,517
Rent prepayment	10,024	10,024
Profit tax prepayment	3,019	3,111
Total other assets	**80,690**	**107,777**

Other Liabilities comprise:

	31 March 2011	31 December 2010
Deferred tax liability (note 20)	160,453	91,255
Professional service fees payable	48,502	45,322
Salary and bonuses payable	33,537	47,027
Other	27,791	17,728
Income tax and other taxes payable	23,198	22,683
Unused vacation provision	13,593	12,008
Accrued expenses	12,265	12,445
Total other liabilites	**319,339**	**248,468**

Other assets and other liabilities are non-interest bearing and are generally on 30-90 days' terms.

11 Amounts Due to Banks and Other Financial Institutions

	Currency	Maturity date	Nominal interest rate, %	Fixed/ Varaible	31 March 2011	31 December 2010
Overseas Private Investments Corporation ("OPIC")	USD	March 2022	6%	Fixed	2,303,688	2,504,799
Kreditanstalt fuer Wiederaufbau ("KfW')	USD	February 2014	6%	Fixed	779,242	989,292
International Finance Corporation ("IFC")	USD	June 2012- June 2013	6% - 7%	Fixed	512,401	509,314
Commercial Bank "Moscow Mortgage Agency" OJSC	USD/RUR	March 2011	8.5%+6M LIBOR	Varaible	-	200,453
European Bank for Reconstruction and Development ("EBRD")	USD	September 2012- March 2013	5% - 6%	Fixed	139,422	191,760
Total due to banks and other financial institutions					**3,734,753**	**4,395,618**

Geographical, currency, maturity and interest rate analyses of amounts due to banks and other financial institutions are disclosed in Note 21. Also refer to Note 22 for information on assets pledged with respect to these borrowings.

The Group is obliged to comply with financial covenants in relation to certain balances due to banks and other financial institutions disclosed above. These covenants include liquidity ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during 3 months ended 31 March 2011 year and during the year ended 31 December 2010.

(in thousands of Russian Rubles)

12 Financing from Related Parties

For definition of related parties and other transactions with related parties refer to Note 25.

As at 31 March 2011 financing from related parties represents deposits of Société Générale, the ultimate parent company, with a nominal value of RUR 37,558,222 thousand (31 December 2010: RUR 38,754,605 thousand) as well as subordinated loan received from DCMF with a nominal value of USD 5,000 thousand or RUR 142,150 thousand (31 December 2010: USD 5,000 thousand or RUR 152,385 thousand) obtained in order to finance the mortgage lending activities within the Russian Federation. These deposits have contractual maturity of between 3 and 31 years.

As at 31 March 2011 financing from Société Générale includes a loan with nominal value of USD 9,200 thousand (USD 5,000 thousand as subordinated loan) or RUR 261,547 thousand that was originally received from The U.S. Russia Investment Fund. The transfer of the financing took place upon the successful ownership transfer of DCMF to Société Générale. The transfer resulted in no change in the deposit terms.

In July 2007 the Bank received a credit facility from Société Générale in the amount of USD 300,000 thousand or RUR 8,528,700 thousand of nominal value as at 31 March 2011. The credit facility is guaranteed by the Multilateral Investment Guarantee Agency. During the year 2007 the Bank withdrew funding from this credit facility in the amount of USD 110,000 thousand or RUR 2,700,082 thousand and during the year 2008 funding in the amount of USD 190,000 thousand or RUR 5,582,276 thousand. Contractual maturity from the date of funding the amount is 10 years. In addition, during 2009 the Bank received a loan of the nominal amount of RUR 700,000 thousand under multicurrency Framework Agreement (2008: RUR 11,000,000 and USD 215,000 or RUR 6,316,786). Contractual maturity from the date of funding the amount is 5 years (2008: between 3 and 5 years). In March 2010 the Bank has received USD 60,000 thousand or RUR 1,828,614 thousand (nominal amount) under a Framework Agreement with Société Générale with maturity in 5 years.

On 30 May 2008 the Bank received subordinated loan of RUR 1,250,000 thousand with maturity of 8 years.

The reconciliation between the total funds received and the carrying value of financing from related parties is presented below (the market interest rates used for determining fair values at the dates of financing vary from 8% to 11%):

	31 March 2011	31 December 2010
Subordinated loans below market received	245,462	245,462
Financing below market received	103,094	103,094
Less: Cumulative fair value adjustment on borrowings and subordinated loans below market rate from related parties recognized within retained eamings and other reserves at rate as of 1 January 2008	(261,785)	(261,785)
Fair value at the respective dates of funding	**86,771**	**86,771**
Cumulative accrued interest expense	136,826	141,888
Translation effect	13,721	20,952
Financing and subordinated loans below market received (at amortized cost)	**237,318**	**249,611**
Credit lines withdrawn (at amortized cost) long-term	37,468,610	38,088,699
Subordinated loan	1,296,285	1,261,705
Total financing from related parties	**39,002,213**	**39,600,015**

Geographical, currency, maturity and interest rate analyses of financing from related parties are disclosed in Note 21.

(in thousands of Russian Rubles)

13 Notes Issued

In April 2007 the Group securitized a mortgage loan pool in the amount of USD 206 300 thousand or RUR 5 346 904 thousand. The securitisation is structured as a sale of a pool of loans to the SPE. The Group financed the purchase through the issuance of Mortgage Backed Floating Rate Notes maturing in 2032.

Issued notes comprise:

	Nominal Value USD	Nominal interest rate, %	Amortized value as at 31 March 2011	Amortized value as at 31 December 2010
Class A Senior Notes	173,200	1.05%+ 1 month LIBOR	1,345,404	1,545,615
Class B	14,500	1.45%+ 1 month LIBOR	130,595	152,558
Class C	18,600	3.35%+ 1 month LIBOR	340,214	389,336
Total notes issued	**206,300**		**1,816,213**	**2,087,509**

During 2010 the Group has bought out class B notes of the total nominal amount of RUR 97,034 thousand earning one-time income of RUR 22,318 thousand.

14 Financial Liabilities at Fair Value through Profit or Loss

As a result of the securitisation transaction described in Note 13, the SPE issued 1 month LIBOR floating rate notes and purchased a mortgage loan portfolio, the majority of which consisted of fixed rate mortgage loans and the remaining consisted of mortgage loans tied to 12- month LIBOR.

In order to secure the interest rate risk between the interest income and the interest expense, the SPE entered into two balance guaranteed swap transactions with Société Générale CIB on 12 April 2007 in the form of confirmation letter to ISDA Master Agreement.

As a result of entering into the balance guaranteed swaps, management believes that the SPE has effectively secured 100% of any interest rate changes during the life of the swap transactions.

As at 31 March 2011 the fair value of the swap is RUR 150,114 thousand (31 December 2010: RUR 178,450 thousand). The gain from the change in fair value is recognized in net loss on financial instruments at fair value through profit or loss in the amount of RUR 16,829 thousand (31 March 2010: loss in the amount of RUR 2,158 thousand). The initial valuation of the derivative instruments in the amount of USD 665 thousand or RUR 18,905 thousand was deferred.

On 16 March 2009 the Bank has entered in interest SWAP agreement with BNP Paribas. The operation consists of exchanging fixed rate cash flow versus variable rate cash flow basing on loan agreement with the Commercial Bank "Moscow Mortgage Agency" in the amount of USD 6,500 thousand. This SWAP matured on 30 March 2011. As at 31 March 2011 the fair value of the swap is RUR nil thousand (31 December 2010: RUR 1,340 thousand). As at 31 March 2010 no change in fair value is recognized in net loss on financial instruments at fair value through profit or loss. As at 31 March 2010 loss from the change in fair value was recognized in net loss on financial instruments at fair value through profit or loss in the amount of RUR 1,236 thousand.

(in thousands of Russian Rubles)

15 Share Capital

Issued and fully paid share capital of the Group comprises:

	Number of shares	Nominal amount, RUB	Carrying value
		31 March 2011	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**
		31 December 2010	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**

All ordinary shares have a nominal value RUR 1 per share, rank equally and carry one vote. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general shareholders' meetings of the Group.

The Group does not have authorized but not issued capital.

(in thousands of Russian Rubles)

16 Interest Income and Expense

	3 months ended 31 March 2011	3 months ended 31 March 2010
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	1,437,295	1,541,297
Interest income on financial assets at fair value	1,183	960
Total interest income	**1,438,478**	**1,542,257**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on mortgage loans to individuals	1,404,295	1,345,780
Interest on due from other banks	33,000	195,517
Total interest income on financial assets recorded at amortized cost	**1,437,295**	**1,541,297**
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets available for sale	1,183	960
Total interest income on financial assets at fair value	**1,183**	**960**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	781,572	830,232
Total interest expense	**781,572**	**830,232**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on financing from related parties	697,189	676,617
Interest on amounts due to financial institutions	70,600	93,645
Interest on customer current accounts	2,861	3,549
Interest on bonds issued	-	42,437
Interest on notes issued	10,922	13,984
Total interest expense on financial liabilities recorded at amortized cost	**781,572**	**830,232**
Net interest income	**656,906**	**712,025**

(in thousands of Russian Rubles)

17 Fee and Commission Income and Expense

	3 months ended 31 March 2011	3 months ended 31 March 2010
Fee and commission income		
Insurance commission	17,462	8,743
Commission on cash and settlements transactions	14,418	19,563
Fines and penalties	10,536	10,966
Commission on early repayment of mortgage loans	5,640	4,763
Commission on rental of safe deposits boxes	2,943	2,620
Other commission income	1,912	3,578
Commission for clients' applications processing	1,864	701
Correspondent programme entry fee	1,144	2,271
Commission on issued guarantees	543	15,678
Total fee and commission income	**56,462**	**68,883**
Fee and commission expense		
Commission on guarantees received	12,963	12,311
Other commissions	2,882	132
Commission on settlement transactions	1,112	2,119
Total fee and commission expense	**16,957**	**14,562**
Net fee and commission income	**39,505**	**54,321**

18 Net Loss on Financial Liabilities at Fair Value through Profit or Loss

Net loss on financial liabilities at fair value through profit or loss comprises:

	3 months ended 31 March 2011	3 months ended 31 March 2010
Net loss on operations with financial liabilities initially recognized at fair value through profit and loss comprise:		
Fair value adjustment	16,829	(3,394)
Interest expense	(31,592)	(41,270)
Total net loss on operations with financial liabilities designated at fair value through profit or loss	**(14,763)**	**(44,664)**

(in thousands of Russian Rubles)

19 Other Operating Income and Expenses

Other operating income and expenses comprise the following:

	3 months ended 31 March 2011	3 months ended 31 March 2010
Other operating income		
Other	3,502	790
Total other operating income	**3,502**	**790**
Other operating expenses		
Rent expense	19,672	15,379
Professional services	14,780	9,135
Maintenance of buildings and equipment	12,012	3,028
Advertising and representative expenses	8,733	3,764
Taxes other than on income	6,604	3,590
Other	5,319	6,947
Communications and information services	3,852	4,543
Travelling and transportation	1,073	422
Total other operating expenses	**72,045**	**46,808**

20 Income Tax Expense

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Russian Federation for the Bank and in accordance with tax regulations of Ireland for SPE, and these regulations may differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 March, 2011 and 31 December 2010 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

Income tax expense comprises the following:

	3 months ended 31 March 2011	3 months ended 31 March 2010
Current tax charge	131,066	137,609
Deferred tax (recovery)/charge	69,018	(67,202)
Income tax expense for the year	**200,084**	**70,407**

(in thousands of Russian Rubles)

20 Income Tax Expense (continued)

The income tax rate applicable to the majority of the Group's income is 20% (31 December 2010: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

	3 months ended 31 March 2011	3 months ended 31 March 2010
Operating income before income tax	**1,038,093**	**504,619**
Theoretical tax charge at the applicable statutory rate	207,619	100,924
Income of SPE taxed at different rate	(7,474)	(42,055)
Permanent differences	(1,570)	10,176
Non-taxable income from repurchase of SPE's notes and other consolidation adjustments effect	1,509	1,362
Income tax expense	**200,084**	**70,407**

Deferred tax liabilities/assets as of 31 March 2011 and 31 December 2010 and their movements for the respective periods comprise:

Tax effect of deductible temporary difference	31 December 2010	Recognized in the income statement	Recognized directly in equity	31 March 2011
Financial liabilities at fair value through profit or loss	182	(8)	-	174
Other	5,449	7,871	(180)	13,140
Deferred tax asset	**5,631**	**7,863**	**(180)**	**13,314**
Mortgage loans to individuals	(65,445)	(83,093)	-	(148,538)
Property, equipment and intangible assets	(5,819)	1,333	-	(4,486)
Amounts due to banks and other financial institutions	(13,193)	(1,088)	-	(14,281)
Financing from related parties	(4,593)	(59)	-	(4,652)
Deferred tax liability on SPE	(7,836)	6,026	-	(1,810)
Deferred tax liability	**(96,886)**	**(76,881)**	**-**	**(173,767)**
Net deffered tax liability	**(91,255)**	**(69,018)**	**(180)**	**(160,453)**

(in thousands of Russian Rubles)

20 Income Tax Expense (continued)

Tax effect of deductible temporary difference	31 December 2009	Recognized in the income statement	Recognized directly in equity	31 December 2010
Bonds issued	3,528	(3,528)	-	-
Financial liabilities at fair value through profit or loss	549	(367)	-	182
Other	4,950	(815)	1,314	5,449
Deferred tax asset	**9,027**	**(4,710)**	**1,314**	**5,631**
Mortgage loans to individuals	(100,464)	35,019	-	(65,445)
Property, equipment and intangible assets	(2,981)	(2,838)	-	(5,819)
Amounts due to banks and other financial institutions	(16,688)	3,495	-	(13,193)
Financing from related parties	(4,149)	(444)	-	(4,593)
Deferred tax liability on SPV	(42,492)	34,656	-	(7,836)
Deferred tax liability	**(166,774)**	**69,888**	**-**	**(96,886)**
Net deffered tax asset/(liability)	**(157,747)**	**65,178**	**1,314**	**(91,255)**

21 Risk Management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to financial and operational risks.

Financial risks

The primary objectives of the financial risk management function are to establish risk limits for credit, liquidity and market risks, and then ensure that exposure to risks stays within these limits. These limits reflect the business strategy and market environment of the Group as well as the level of risk that Group is willing to accept.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower are approved regularly by the Board of Management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

The Bank's Credit Policy stipulates main activities related to credit risk management and credit risk monitoring. Credit Policy is approved by the Board of Management. Under the Credit Policy decision-making powers regarding loans origination are distributed between the Board of Management and the Credit Committee. The Bank's Credit Committee transfers the full scope of its powers regarding approval of applications for mortgage loans in the frame of approved standard loan programs to individual members of the Credit Committee and to the specialists of Analytical Unit of the Credit Department (underwriters), at the same time limiting these powers by the loan amount.

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Credit risk (continued)

For interbank lending activities, the Bank engages in transactions only with stable and reliable financial institutions. The Bank mostly originates short-term interbank loans, which also allows minimizing the credit risk. The Bank's Risk Committee sets credit limits for the Bank's counterparties - financial institutions. Further these limits are approved by the Société Générale.

31 March 2011	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	4,125,726	-	4,125,726
Amounts due from banks	1,255,041	-	1,255,041
Mortgage loans to individuals	49,420,911	97,264,921	-
Total credit risk exposure	**54,801,678**	**97,264,921**	**5,380,767**

31 December 2010	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	1,838,561	-	1,838,561
Amounts due from banks	3,258,259	-	3,258,259
Mortgage loans to individuals	50,189,488	97,187,775	-
Total credit risk exposure	**55,286,308**	**97,187,775**	**5,096,820**

Past due or individually impaired loans comprise:

	not impaired as of reporting date but past due		Impaired and past due					
31 March 2011	less than 30 days	31 to 90 days	less than 30 days	31 to 90 days	91 to 180 days	181 to 360 days	more than 360 days	Total
Mortgage loans to individuals	512,749	250,826	-	-	151,556	213,008	386,030	1,514,169
Total	**512,749**	**250,826**	-	-	**151,556**	**213,008**	**386,030**	**1,514,169**

	not impaired as of reporting date but past due		Impaired and past due					
31 December 2010	less than 30 days	31 to 90 days	less than 30 days	31 to 90 days	91 to 180 days	181 to 360 days	more than 360 days	Total
Mortgage loans to individuals	130,883	37,681	282,537	173,751	150,725	256,744	348,641	1,380,962
Total	**130,883**	**37,681**	**282,537**	**173,751**	**150,725**	**256,744**	**348,641**	**1,380,962**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Credit risk (continued)

The Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Prepayment risk

The Group is exposed to prepayment risk through providing fixed and variable rate mortgage loans, which give the borrower the right to early repay the loan.

The prepayment effect on interest income and fees and commissions income is set out below. The effect was estimated based on prepayment statistics and takes into account any prepayment penalties.

	Effect on interest income	Effect on fees and commissions income	Net effect on income statement	Effect on equity
	(14,991)	**5,609**	**(9,382)**	**(9,382)**
Mortgage loans to individuals				
USD	(5,839)	2,291	**(3,548)**	**(3,548)**
RUR	(8,729)	3,088	**(5,641)**	**(5,641)**
Securitized loans	(423)	230	**(193)**	**(193)**

Prepayment risk is the risk that the Group will incur a financial loss because its customers repay earlier than expected. The above effect of prepayment risk on income represents projected loss that the Group can incur till the end of the year 2011 if the customers make prepayments. In order to manage prepayment risk, the Group sets prepayment moratorium for certain products, charges prepayment penalties and makes projections on future prepayments based on historical statistics.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition the Group has also committed lines of credit that it can access to meet liquidity needs. Liquidity risk is managed by Asset and Liability Management Committee (ALM Committee) and the Treasury of the Group in accordance with the approved "Liquidity Measurement, Management and Control Policy" and "Assets and Liabilities Management Policy".

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. 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.

The table below shows financial assets and liabilities by their remaining maturities, based on the net present value of future principal and interest cash flows, based on repayment obligations. With regard to mortgage loans to individuals, management believes that the development of the mortgage loan market in Russia in the medium term will result in loans being repaid prior to maturity and the expected early repayment effect has been reflected in the following liquidity disclosures.

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account expected prepayments as at 31 March 2011 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial assets								
Cash and cash equivalents	4,441,891	-	-	-	-	-	-	4,441,891
Amounts due from banks	-	1,104,227	150,814	-	-	-	-	1,255,041
Mortgage loans to individuals	1,002,961	1,498,288	5,550,650	13,084,184	15,761,823	12,523,005	-	49,420,911
Investments available-for-sale	254	507	2,283	6,089	9,133	12,178	22,755	53,199
Total financial assets	**5,445,106**	**2,603,022**	**5,703,747**	**13,090,273**	**15,770,956**	**12,535,183**	**22,755**	**55,171,042**
Financial liabilities								
Amounts due to banks and other financial institutions	-	200,432	691,112	1,305,678	651,629	725,484	160,418	3,734,753
Customer current accounts	479,700	-	190,636	-	-	-	-	670,336
Financing from related parties	235,903	276,663	5,002,104	16,708,444	10,857,382	5,909,447	12,270	39,002,213
Notes issued	35,583	69,469	287,454	596,125	558,678	268,904	-	1,816,213
Financial liabilities at fair value through profit or loss	5,918	11,270	44,369	59,095	24,322	5,140	-	150,114
Total financial liabilities	**757,104**	**557,834**	**6,215,675**	**18,669,342**	**12,092,011**	**6,908,975**	**172,688**	**45,373,629**
Net liquidity gap	**4,688,002**	**2,045,188**	**(511,928)**	**(5,579,069)**	**3,678,945**	**5,626,208**	**(149,933)**	**9,797,413**
Cumulative liquidity gap	**4,688,002**	**6,733,190**	**6,221,262**	**642,193**	**4,321,138**	**9,947,346**	**9,797,413**	

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account prepayments as at 31 December 2010 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial assets								
Cash and cash equivalents	2,179,506	-	-	-	-	-	-	2,179,506
Amounts due from banks	-	2,857,251	401,008	-	-	-	-	3,258,259
Mortgage loans to individuals	957,802	1,599,317	5,584,452	13,236,850	15,925,891	12,885,176	-	50,189,488
Investments available-for-sale	252	503	2,264	6,037	9,055	12,073	23,302	53,486
Total financial assets	**3,137,560**	**4,457,071**	**5,987,724**	**13,242,887**	**15,934,946**	**12,897,249**	**23,302**	**55,680,739**
Financial liabilities								
Amounts due to banks and other financial institutions	-	485,124	668,600	1,438,740	814,961	775,410	212,783	4,395,618
Customer current accounts	532,178	-	-	-	-	-	-	532,178
Financing from related parties	-	78,258	5,500,568	16,704,869	11,266,595	6,036,883	12,842	39,600,015
Notes issued	39,962	77,839	323,012	670,585	630,253	345,858	-	2,087,509
Financial liabilities at fair value through profit or loss	6,709	14,244	57,338	68,645	26,350	6,504	-	179,790
Total financial liabilities	**578,849**	**655,465**	**6,549,518**	**18,882,839**	**12,738,159**	**7,164,655**	**225,625**	**46,795,110**
Net liquidity gap	**2,558,711**	**3,801,606**	**(561,794)**	**(5,639,952)**	**3,196,787**	**5,732,594**	**(202,323)**	**8,885,629**
Cumulative liquidity gap	**2,558,711**	**6,360,317**	**5,798,523**	**158,571**	**3,355,358**	**9,087,952**	**8,885,629**	

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

Undiscounted cash flows on financial liabilities as at 31 March 2011 comprise:

31 March 2011	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial liabilities								
Amounts due to banks and other financial institutions	-	203,599	722,812	1,487,466	872,026	1,212,750	314,886	4,813,539
Customer current accounts	479,700	-	202,861	-	-	-	-	682,561
Financing from related parties	237,037	279,199	5,164,187	19,217,740	14,720,668	9,397,167	144,106	49,160,104
Notes issued	42,405	82,984	346,491	737,892	726,392	417,884	-	2,354,048
Financial liabilities at fair value through profit or loss	8,899	16,947	66,715	88,860	36,572	7,729	-	225,722
Total undiscounted financial liabilities	**768,041**	**582,729**	**6,503,066**	**21,531,958**	**16,355,658**	**11,035,530**	**458,992**	**57,235,974**

Undiscounted cash flows on financial liabilities as of 31 December 2010 comprise:

31 December 2010	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial liabilities								
Amounts due to banks and other financial institutions	-	492,567	701,527	1,634,348	1,074,991	1,295,903	420,898	5,620,234
Customer current accounts	532,178	-	-	-	-	-	-	532,178
Financing from related parties	-	78,855	5,763,858	19,556,213	15,451,168	9,715,700	154,562	50,720,356
Notes issued	47,408	92,544	387,536	826,029	815,179	530,125	-	2,698,821
Financial liabilities at fair value through profit or loss	9,294	19,734	79,436	95,100	36,505	9,011	-	249,080
Total undiscounted financial liabilities	**588,880**	**683,700**	**6,932,357**	**22,111,690**	**17,377,843**	**11,550,739**	**575,460**	**59,820,669**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Market risk

The Group actively manages its exposure to market risks. Market risks arise from open positions in currency products, interest rates, all of which are exposed to general and specific market movements as well as to geographical location. To minimize market risk the Group does not actively engage in transactions with financial instruments exposed to significant market risk. The Group does not hold trading securities portfolio, does not actively engage in transactions with derivatives. The entity does not conduct speculative foreign exchange trading. On a daily basis the Bank monitors its open currency position.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee sets guidelines to minimize the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group does not carry out speculative operations which can lead to currency risk exposure. The Group performs conversion operations in the internal currency market to eliminate open foreign currency positions.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 March 2011. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by currency.

	RUR	USD	Euro	Total
Financial assets				
Cash and cash equivalents	2,517,025	1,918,685	6,181	4,441,891
Amounts due from banks	1,255,041	-	-	1,255,041
Mortgage loans to individuals, net	28,732,683	20,688,228	-	49,420,911
Investments available-for-sale	53,199	-	-	53,199
Total financial assets	**32,557,948**	**22,606,913**	**6,181**	**55,171,042**
Financial liabilities				
Amounts due to banks and other financial institutions	410,750	3,324,003	-	3,734,753
Customer current accounts	556,793	102,607	10,936	670,336
Financing from related parties	22,104,128	16,898,085	-	39,002,213
Notes issued	-	1,816,213	-	1,816,213
Financial liabilities at fair value through profit or loss	-	150,114	-	150,114
Total financial liabilities	**23,071,671**	**22,291,022**	**10,936**	**45,373,629**
Net position	**9,486,277**	**315,891**	**(4,755)**	**9,797,413**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Currency risk (continued)

At 31 December 2010 the Group had the following positions in currency:

	RUR	USD	Euro	Total
Financial assets				
Cash and cash equivalents	1,097,442	1,071,624	10,440	2,179,506
Amounts due from banks	2,343,815	914,444	-	3,258,259
Mortgage loans to individuals, net	27,862,376	22,327,112	-	50,189,488
Investments available-for-sale	53,486	-	-	53,486
Total financial assets	**31,357,119**	**24,313,180**	**10,440**	**55,680,739**
Financial liabilities				
Amounts due to banks and other financial institutions	402,276	3,993,342	-	4,395,618
Customer current accounts	445,776	78,259	8,143	532,178
Financing from related parties	21,625,836	17,974,179	-	39,600,015
Notes issued	-	2,087,509	-	2,087,509
Financial liabilities at fair value through profit or loss	-	179,790	-	179,790
Total financial liabilities	**22,473,888**	**24,313,079**	**8,143**	**46,795,110**
Net position	**8,883,231**	**101**	**2,297**	**8,885,629**

As a result of significant operations in USD the Group's consolidated statement of financial position can be affected significantly by movements in the USD/RUR exchange rates. The Bank seeks to mitigate the effect of its structural currency exposure by borrowing in USD to fund USD assets.

31 March 2011				
Currency	**Exchange rate**	**Change in currency rate %**	**Effect on profit before tax**	**Effect on equity**
USD	28.4290	±10%	±28,717	±28,717
EUR	40.0223	±10%	±(432)	±(432)

31 December 2010				
Currency	**Exchange rate**	**Change in currency rate %**	**Effect on profit before tax**	**Effect on equity**
USD	30.4769	±10%	±9	±9
EUR	40.3331	±10%	±209	±209

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk

Interest rate risk arises from possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk, principally as a result of loans to banks and mortgage loans to individuals, at fixed interest rates, in amounts and for periods that differ from those of term borrowings at fixed interest rates.

The ALM Committee sets guidelines to limit the level of interest rate mismatch that may be undertaken. The objective of the guidelines is to keep well-balanced assets and liabilities in terms of their structure, maturity and rates. The Group analyzes possible gaps in assets and liabilities in terms of rates and maturity, takes steps on minimization and covering of such risks.

The interest rates on the mortgage loans to individuals are either fixed or variable or combined. As at 31 March 2011 4.3% of the Group's mortgage loan portfolio included loans with an interest rate indexed to LIBOR (2010: 4.6%) and 3.4% (2010: 3.2%) with an interest rate indexed to MosPrime, which is reset on an annual basis and quarterly basis, respectively.

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

31 March 2011	Demand less than 1 month	From 1 to 3 months	From 3 month to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Non-interest bearing	Total
Financial assets									
Cash and cash equivalents	3,592,477	-	-	-	-	-	-	849,414	4,441,891
Amounts due from banks	-	1,104,227	150,814	-	-	-	-	-	1,255,041
Mortgage loans to individuals	926,039	1,383,378	6,786,152	14,209,799	14,552,980	11,562,563	-	-	49,420,911
Investments available-for-sale	254	507	2,283	6,089	9,133	12,178	22,755	-	53,199
Total financial assets	**4,518,770**	**2,488,112**	**6,939,249**	**14,215,888**	**14,562,113**	**11,574,741**	**22,755**	**849,414**	**55,171,042**
Financial liabilities									
Amounts due to banks and other financial institutions	-	200,432	691,112	1,305,678	651,629	725,484	160,418	-	3,734,753
Customer current accounts	454	-	190,636	-	-	-	-	479,246	670,336
Financing from related parties	235,903	276,663	5,002,104	16,708,444	10,857,382	5,909,447	12,270	-	39,002,213
Notes issued	35,583	69,469	287,454	596,125	558,678	268,904	-	-	1,816,213
Financial liabilities at fair value through profit or loss	150,114	-	-	-	-	-	-	-	150,114
Total financial liabilities	**422,054**	**546,564**	**6,171,306**	**18,610,247**	**12,067,689**	**6,903,835**	**172,688**	**479,246**	**45,373,629**
Net interest sensitivity gap	**4,096,716**	**1,941,548**	**767,943**	**(4,394,359)**	**2,494,424**	**4,670,906**	**(149,933)**	**370,168**	**9,797,413**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

31 December 2010	Demand less than 1 month	From 1 to 3 months	From 3 month to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Non-interest bearing	Total
Financial assets									
Cash and cash equivalents	1,358,071	-	-	-	-	-	-	821,435	2,179,506
Amounts due from banks	-	2,857,251	401,008	-	-	-	-	-	3,258,259
Mortgage loans to individuals	884,276	1,476,545	6,736,927	14,492,368	14,703,333	11,896,039	-	-	50,189,488
Investments available-for-sale	252	503	2,264	6,037	9,055	12,073	23,302	-	53,486
Total financial assets	**2,242,599**	**4,334,299**	**7,140,199**	**14,498,405**	**14,712,388**	**11,908,112**	**23,302**	**821,435**	**55,680,739**
Financial liabilities									
Amounts due to banks and other financial institutions	-	485,124	668,601	1,438,739	814,961	775,410	212,783	-	4,395,618
Customer current accounts	148,897	-	-	-	-	-	-	383,281	532,178
Financing from related parties	-	78,258	5,500,568	16,704,869	11,266,595	6,036,883	12,842	-	39,600,015
Notes issued	39,962	77,839	323,012	670,585	630,253	345,858	-	-	2,087,509
Financial liabilities at fair value through profit or loss	179,790	-	-	-	-	-	-	-	179,790
Total financial liabilities	**368,649**	**641,221**	**6,492,181**	**18,814,193**	**12,711,809**	**7,158,151**	**225,625**	**383,281**	**46,795,110**
Net interest sensitivity gap	**1,873,950**	**3,693,078**	**648,018**	**(4,315,788)**	**2,000,579**	**4,749,961**	**(202,323)**	**438,154**	**8,885,629**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax, as at the respective balance sheet date.

	Increase/(decrease) in basis points	Effect on profit before tax	Effect on equity
31 March 2011			
RUR	+15	2,601	2,601
USD	+10	308	308
RUR	-15	(2,601)	(2,601)
USD	-10	(308)	(308)
31 December 2010			
RUR	+15	2,473	2,473
USD	+10	(12)	(12)
RUR	-15	(2,473)	(2,473)
USD	-10	12	12

The table below summarizes the weighted average interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective interest rates.

	31 March 2011		31 December 2010	
	USD	RUR	USD	RUR
Financial assets				
Cash and cash equivalents	0.2%	3.4%	0.1%	2.8%
Amounts due from banks	-	4.2%	0.3%	4.8%
Mortgage loans to individuals	10.0%	12.6%	10.1%	12.6%
Available for sale securities	-	10.6%	-	11.5%
Financial liabilities				
Customer current accounts	1.1%	6.4%	6.5%	7.8%
Amounts due to banks and other financial institutions	5.9%	8.2%	6.0%	8.2%
Financing from related parties	5.0%	9.3%	5.0%	9.3%
Notes issued	1.8%	-	1.8%	-

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

Included in the table below are the Group's loans to individuals and financing received categorized by fixed and variable interest rates excluding effect of interest rate swaps (see Note 14).

31 March 2011

	Fixed rate			Variable rate				
	RUR	**USD**	**Weight (%)**	**CBR refinancing rate (RUR)**	**MOSPRIME (RUR)**	**LIBOR (USD)**	**Weight (%)**	**Total**
Financial assets								
Cash and cash equivalents	2,058,691	1,533,786	100%	-	-	-	0%	3,592,477
Amounts due from banks	1,255,041	-	100%	-	-	-	0%	1,255,041
Mortgage loans to individuals, excluding securitized portfolio, gross	27,198,045	16,559,521	92%	-	1,689,997	2,075,113	8%	47,522,676
Securitized portfolio, gross	-	2,143,232	97%	-	-	64,960	3%	2,208,192
Allowance for loan impairment	(146,271)	(138,745)	92%	-	(9,089)	(15,852)	8%	(309,957)
Investments available-for-sale	-	-	0%	53,199	-	-	100%	53,199
Financial liabilities								
Amounts due to banks and other credit institutions	410,750	3,324,003	100%	-	-	-	0%	3,734,753
Customer current accounts	190,768	323	100%	-	-	-	0%	191,091
Financing from related parties	22,104,128	16,898,085	100%	-	-	-	0%	39,002,213
Notes issued	-	-	-	-	-	1,816,213	100%	1,816,213
Net interest sensitivity gap	**7,659,860**	**(124,617)**		**53,199**	**1,680,908**	**308,008**		**9,577,358**

31 December 2010

	Fixed rate			Variable rate				
	RUR	**USD**	**Weight (%)**	**CBR refinancing rate (RUR)**	**MOSPRIME (RUR)**	**LIBOR (USD)**	**Weight (%)**	**Total**
Financial assets								
Cash and cash equivalents	730,247	627,824	100%	-	-	-	0%	1,358,071
Amounts due from banks	2,343,815	914,444	100%	-	-	-	0%	3,258,259
Mortgage loans to individuals, excluding securitized portfolio, gross	26,667,098	18,051,743	92%	-	1,628,747	2,239,427	8%	48,587,015
Securitized portfolio, gross	-	2,448,795	97%	-	-	71,855	3%	2,520,650
Allowance for loan impairment	(408,518)	(432,570)	92%	-	(24,951)	(52,138)	8%	(918,177)
Investments available-for-sale	-	-	0%	53,486	-	-	100%	53,486
Financial liabilities								
Amounts due to banks and other credit institutions	402,276	3,792,890	95%	-	-	200,452	5%	4,395,618
Customer current accounts	148,867	30	100%	-	-	-	0%	148,897
Financing from related parties	21,625,836	17,974,179	100%	-	-	-	0%	39,600,015
Notes issued	-	-	0%	-	-	2,087,509	100%	2,087,509
Net interest sensitivity gap	**7,155,663**	**(156,863)**		**53,486**	**1,603,796**	**(28,817)**		**8,627,265**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Geographical risk

The Group is registered in Moscow and operates mainly in the Russian Federation.
The geographical concentration of the Group's assets and liabilities as at 31 March 2011 is set out below:

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	2,581,075	1,860,816	4,441,891
Amounts due from banks	1,255,041		1,255,041
Mortgage loans to individuals	49,420,911	-	49,420,911
Investments available-for-sale	53,199	-	53,199
Total financial assets	**53,310,226**	**1,860,816**	**55,171,042**
Financial liabilities			
Amounts due to banks and other financial institutions	-	3,734,753	3,734,753
Customer current accounts	670,336	-	670,336
Financing from related parties	-	39,002,213	39,002,213
Notes issued	-	1,816,213	1,816,213
Financial liabilities at fair value through profit or loss	-	150,114	150,114
Total financial liabilities	**670,336**	**44,703,293**	**45,373,629**
Net position	**52,639,890**	**(42,842,477)**	**9,797,413**

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

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	1,181,449	998,057	2,179,506
Amounts due from banks	2,343,815	914,444	3,258,259
Mortgage loans to individuals	50,189,488	-	50,189,488
Investments available-for-sale	53,486	-	53,486
Total financial assets	**53,768,238**	**1,912,501**	**55,680,739**
Financial liabilities			
Amounts due to banks and other financial institutions	200,453	4,195,165	4,395,618
Customer current accounts	532,178	-	532,178
Financing from related parties	-	39,600,015	39,600,015
Notes issued	-	2,087,509	2,087,509
Financial liabilities at fair value through profit or loss	1,340	178,450	179,790
Total financial liabilities	**733,971**	**46,061,139**	**46,795,110**
Net position	**53,034,267**	**(44,148,638)**	**8,885,629**

21 Risk Management (continued)

Operational risks

The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational risks.

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit and Risk department.

Compliance risk

Compliance Risk is defined as the risk of damage to the Group's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards. In addition to reputational damage, failure to effectively manage compliance risk can expose financial institutions to fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses. A failure (or perceived failure) can adversely impact customers, staff and shareholders of the Group.

The management understands that good compliance risk management involves understanding and delivering on the expectations of customers and stakeholders, thereby improving the quality of key relationships based on honesty, integrity and fairness.

The Bank has effective compliance control system realized through the functions performed by the Risk Management department in accordance with the internal documentation. Compliance responsibilities are also carried out by all staff in different units as per their expertise.

The main issues of the compliance control function in the Bank are realized through:

- identification (on a pro-active basis), documentation and assessment of the compliance risks associated with the Bank's business activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships;
- dealing with and leading and co-ordination of investigations into issues of conflict of interest (of the Bank, staff, etc), cases of alleged corruption, money laundering, terrorist financing, and complaints received with regard to bank-financed operations;
- assessment of the appropriateness and consistency of the Bank's regulatory framework (statutory documents, policies, strategies, guidelines, rules, regulations and procedures in force) related to compliance issues, promptly following up any identified deficiencies in the policies and procedures and, where necessary, formulating proposals for amendments.

Analysis of the compliance risk control system is carried out based on the results of the Permanent Supervision Process successfully implemented in the Bank. The main principle of the Permanent Supervision Process is self-assessment of the existing processes performed by all Bank's departments concerned for the detection of the compliance risk events and improvement of the control processes.

22 Contingencies and Commitments

Russian operating environment

Although in recent years there has been a general improvement in economic conditions in Russia, Russia continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia.

22 Contingencies and Commitments (continued)

Russian operating environment (continued)

The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Russia's banking sector confidently resisted global financial pressures and has observed significant growth during the recovery phase after recession. Many necessary restructurings have been performed and lending is increasing again now. The government and Central Bank have worked out a document called The Strategy of development of Russia's banking system. The main idea is to promote establishment of equal opportunities for state-owned and private banks be they big system-forming organisations or small regional banks. By 2015 the volume of Russian banking assets is expected to reach 90 percent of the GDP. As at January 2011 Russia's banking assets were estimated at 74.5 percent of the GDP.

The global financial turmoil that has negatively affected Russia's financial and capital markets in 2008 and 2009 has receded and Russia's economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or disrupt Russia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

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

Legal proceedings

From time to time and 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.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The SPE is a qualifying Company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporation tax under Case III of Schedule D at a rate of 25 per cent but are computed in accordance with the provisions applicable to Case I of Schedule D.

Contingencies and commitments

As at 31 March 2011 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(in thousands of Russian Rubles)

22 Contingencies and Commitments (continued)

Contingencies and commitments (continued)

As at 31 March 2011 and 31 December 2010 the Group's commitments and contingencies comprised the following:

	31 March 2011	31 December 2010
Contingent liabilities		
Guarantees issued	67,855	-
Operating lease commitments		
Not later than 1 year	58,185	45,986
Later than 1 year but not later than 5 years	168,416	123,994
Total operating lease commitments	**226,601**	**169,980**
Commitments and contingencies	**294,456**	**169,980**

The guarantee was issued to the Ministry of Finance of the Krasnoyarsk Region in favor of OJSC Joint-Stock Commercial Bank Rosbank (Rosbank). Ministry of Finance of the Krasnoyarsk Region issues bonds and Rosbank serves as originator in this transaction. The guarantee ensures that Rosbank will transfer funds obtained from bonds placement to the bonds issuer. The outstanding amount of guarantee issued as at 31 March 2011 was RUR 67,855 thousands. The guarantee matures on 09 February 2012.

Assets pledged and restricted

As at 31 March 2011 no mortgage loans to individuals were pledged as collateral against loans received from other financial institutions (31 December 2010: RUR 399,708 thousand).

Mandatory cash balances with the CBRF in the amount of RUR 17,538 thousand (31 December 2010: RUR 9,608 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

23 Segment reporting

Group's operations primarily constitute a single industry segment as the Group sells standard mortgage products within the Russian Federation. As such no disclosure of revenue, costs, assets and liabilities has been made in the financial statements as required by IFRS 8 "Operating segments" as the Group considers itself to be a single operating segment.

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market operations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Financial instruments carried at fair value

Cash and cash equivalents

Cash and cash equivalents are carried on the consolidated statement of financial position at their fair value.

24 Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value (continued)

Amounts due from banks

The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. As at 31 March 2011 the estimated fair value of amounts due from Banks approximates their carrying value of RUR 1,255,041 thousand (31 December 2010: RUR 3,258,259 thousand).

Mortgage loans to individuals

Mortgage loans to individuals are net of allowance for impairment. The estimated fair value of mortgage loans to individuals represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at estimated market rates which are adjusted from current rates by eliminating fluctuations that aroused due to financial crisis in Russia at the end of 2008 to determine fair value. As at 31 March 2011 the estimated fair value of mortgage loans to individuals approximates their carrying value of RUR 49,420,911 thousand (31 December 2010: RUR 50,189,488 thousand).

Investments available-for-sale

Available-for-sale securities are recorded at fair value based on quoted market price.

Amounts due to banks and other financial institutions

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As at 31 March 2011 the estimated fair value of due to banks and other financial institutions approximates their carrying value of RUR 3,734,753 thousand (31 December 2010: RUR 4,395,618 thousand).

Financing from related parties

For financing received with maturity within one year, the carrying amount approximates fair value due to the relatively short-term maturity of these loans. For long-term financing from related parties which is at below market rates, fair value adjustments have been recognized within retained earnings and other reserves. As at 31 March 2011 the estimated fair value of financing from related parties approximates their carrying value of RUR 39,002,213 thousand (31 December 2009: RUR 39,600,015 thousand).

Customer current accounts

As at 31 March 2011 fair value of customer current accounts approximates their carrying value of RUR 670,336 thousand (31 December 2010: RUR 532,178 thousand).

Notes issued

The fair value of the notes approximates their carrying value because they are issued at variable market interest rate.

Financial instruments at fair value through profit or loss

As at 31 March 2011 the fair value of the swaps is RUR 150,114 thousand (31 December 2010: 179,790 thousand).

(in thousands of Russian Rubles)

24 Fair Value of Financial Instruments (continued)

Set out below is comparison by category of carrying amount and fair value of all the Group's financial instruments:

	31 March 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and cash equivalents	4,441,891	4,441,891	2,179,506	2,179,506
Amounts due from banks	1,255,041	1,255,041	3,258,259	3,258,259
Mortgage loans to individuals	49,420,911	49,420,911	50,189,488	50,189,488
Investments available-for-sale	53,199	53,199	53,486	53,486
Financial Liabilities				
Amounts due to banks and other financial institutions	3,734,753	3,734,753	4,395,618	4,395,618
Customer current accounts	670,336	670,336	532,178	532,178
Financing from related parties	39,002,213	39,002,213	39,600,015	39,600,015
Financial liabilities at fair value through profit or loss	150,114	150,114	179,790	179,790
Notes issued	1,816,213	1,816,213	2,087,509	2,087,509

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

31 March 2011	Quoted prices in active market (Level 1)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial Assets			
Investment securities – available-for-sale	53,199	-	53,199
Total Financial Assets	**53,199**	-	**53,199**
Financial Liabilities			
Derivative financial instruments	-	150,114	150,114
Total Financial Liabilities	-	**150,114**	**150,114**

(in thousands of Russian Rubles)

24 Fair Value of Financial Instruments (continued)

31 December 2010	Quoted prices in active market (Level 1)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial Assets			
Investment securities – available-for-sale	53,486	-	53,486
Total Financial Assets	**53,486**	-	**53,486**
Financial Liabilities			
Derivative financial instruments	1,340	178,450	179,790
Total Financial Liabilities	**1,340**	**178,450**	**179,790**

Derivative financial instruments under Level 3 represent SWAPs which the SPE has entered to, disclosed in Note 14. The valuation technique is based on the assumptions of the projected mortgage pool repayments and the share of floating rate loans in the total mortgage pool. These assumptions are relatively stable and are not expected to change so that to affect the SWAPs fair value significantly.

Changes in the SWAPs fair value during the period are as follows:

	31 March 2011	31 December 2010
Fair value at 1 January	**178,450**	**202,740**
Total gains for the period recognised in profit or loss	(16,829)	(25,757)
Translation difference	(11,507)	1,467
Fair value at the end of the period	**150,114**	**178,450**

Total (gains)/losses for the period are presented in the consolidated income statement. Translation difference is comprised of RUR 483 thousand translation loss (31 December 2010: RUR 93 thousand translation gain) presented in the consolidated statement of comprehensive income and RUR 11,990 thousand exchange difference gain (31 December 2010: RUR 1,560 thousand exchange difference loss) presented in the consolidated income statement.

25 Related Party Transactions

For the purposes of these financial statements, parties are considered to be as defined by IAS 24 "Related Party Disclosures":

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Russian Rubles)

25 Related Party Transactions (continued)

Banking transactions are entered into in the normal course of business with the shareholder of the Bank, Société Générale, its affiliates, directors and senior management. The outstanding balances at year end and income and expense items as well as other transactions for the year with related parties are as follows:

(a) Transactions with directors and senior management

Total remuneration included in staff costs is as follows:

	31 March 2011	31 December 2010
Management Board and Senior Management	13,237	57,007
Social security costs	2,946	3,945
Total management remuneration	**16,183**	**60,952**

(b) Transactions with Société Générale Group entities

	31 March 2011	31 December 2010
Cash and cash equivalents	2,021,493	6,521
Amounts due from banks	1,255,042	3,258,259
Financing from related parties	39,002,213	39,600,015
Other liabilities	44,591	41,296
Financial liabilities at fair value through profit or loss	150,114	178,450
Net loss on financial liabilities at fair value through profit or loss	(14,872)	(127,139)
Interest expense	(697,189)	(2,815,544)
Professional services	(3,600)	(15,687)
Other operating income	771	397
Commissions on guarantees issued	543	26,507
Commissions on guarantees	(12,963)	(51,310)
Guarantees issued	67,855	-

In 2011 the guarantee was issued to the Ministry of Finance of the Krasnoyarsk Region in favor of OJSC Joint-Stock Commercial Bank Rosbank (Rosbank). The details of the transaction are disclosed in Note 22.

The Group has entered into two interest rate swap agreements with Société Générale CIB on 12 April 2007 to hedge the interest rate risk associated with the floating rate notes, as described in Note 14.

26 Capital Adequacy

The Group actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBRF in supervising the Group.

As of 31 Mach 2011, the Group complied in full with all its externally imposed capital requirements.

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

The Group's overall capital risk management policy remains unchanged from 2008.

CBR capital adequacy ratio

The CBR requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 March 2011 and 31 December 2010, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

(in thousands of Russian Rubles)

26 Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988 with amendments

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, of 44.39% and 40.64% as of 31 March 2011 and 31 December 2010, respectively, exceeded the minimum ratio of 8% recommended by the Basel Accord.

	31 March 2011	31 December 2010
Tier 1 capital	9,852,655	9,029,249
Tier 2 capital	1,739,696	1,732,797
Total capital	**11,592,351**	**10,762,046**
Risk weighted assets	26,112,939	26,480,142

27 Share based payments

On 2 November 2010 Societe Generale ("SG") announced granting of 16 shares and 24 shares to each employee of the SG Group, including those of DeltaCredit Bank, in the years ending 31 December 2015 and 2016, respectively. The share price at the initiation of the program was EUR 42.10. This share based payment program will be accounted as a cash settled share based program over the vesting periods. The cost of the program will be reimbursed by the SG at the end of the vesting periods.