

MDM Bank
Interim Consolidated Condensed
Financial Statements for the Nine-Month Period
Ended 30 September 2010

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Independent Auditors' Report on Review of the Interim Consolidated Condensed Financial Information

To the Shareholders and Board of Directors
MDM Bank, Open Joint Stock Company

Introduction

We have reviewed the accompanying interim consolidated condensed statement of financial position of MDM Bank, Open Joint Stock Company, and its subsidiaries (the Group) as at 30 September 2010, and the related interim consolidated condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2010 and the related interim consolidated condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2010, and a summary of selected explanatory notes (the interim consolidated condensed financial information). Management is responsible for the preparation and presentation of this interim consolidated condensed financial information in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim consolidated condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated condensed financial information of the Group as at 30 September 2010 and for the three- and nine-month periods ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
9 December 2010

MDM Bank**Interim Consolidated Condensed Statement of Financial Position as at 30 September 2010**

(expressed in millions of Russian Roubles – refer to Note 3)

	Note	30 September 2010 Unaudited	31 December 2009
Assets			
Cash and cash equivalents	5	47 638	64 743
Mandatory cash balances with central banks		2 827	2 916
Due from other banks		25 856	42 265
Derivative financial instruments		1 399	2 816
Available-for-sale financial assets			
- owned by the Group		21 609	18 126
- pledged under sale and repurchase agreements		-	936
Investment securities held to maturity		-	3 657
Loans and advances to customers	6	250 720	236 709
Investment property		5 167	-
Property, equipment and intangible assets		14 521	15 590
Assets held for sale		4 226	8 347
Current income tax prepayment		802	374
Deferred tax asset		1 257	1 485
Other assets		7 457	4 859
Total assets		383 479	402 823
Liabilities			
Due to other banks		44 798	69 813
Derivative financial instruments		1 627	1 238
Customer accounts	7	224 347	194 622
Debt securities in issue	8	36 896	61 137
Subordinated debt		10 748	12 373
Other liabilities		2 360	2 064
Total liabilities		320 776	341 247
Equity			
Share capital	10	4 207	4 207
Share premium		31 852	31 852
Treasury shares		-	(14)
Revaluation of premises		3 143	3 143
Revaluation of available-for-sale financial assets		(40)	398
Cumulative translation reserve		335	423
Hedge reserve		(210)	(309)
Retained earnings		23 360	21 785
Equity attributable to equity holders of the Bank		62 647	61 485
Non-controlling interest		56	91
Total equity		62 703	61 576
Total liabilities and equity		383 479	402 823

Approved for issue by the Management Board and signed on its behalf on 9 December 2010.



 Sergey Timofeev
 Chief Executive Officer

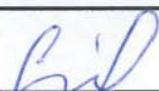


 Konstantin Rogov
 Chief Financial Officer


MDM Bank**Interim Consolidated Condensed Statement of Comprehensive Income
for the Nine-Month Period Ended 30 September 2010**

(expressed in millions of Russian Roubles – refer to Note 3)

	Note	Nine-Month Period Ended 30 September 2010 Unaudited	Nine-Month Period Ended 30 September 2009 Unaudited
Interest income		32 180	31 314
Interest expense		(17 928)	(16 217)
Net interest income		14 252	15 097
Loan impairment losses	6	(5 488)	(16 675)
Net interest income/(expense) after loan impairment losses		8 764	(1 578)
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	11	1 702	1 980
Fee and commission income		3 065	2 678
Fee and commission expense		(695)	(740)
Impairment losses other than on loans and provisions	12	(490)	(1 809)
Gain from revaluation of investment property		498	-
Other income/(expenses)		406	(296)
Operating income		13 250	235
Operating expenses		(11 098)	(7 454)
Profit/(loss) before taxation and other comprehensive income		2 152	(7 219)
Income tax (expense)/benefit		(612)	1 077
Profit/(loss) after tax and before other comprehensive income		1 540	(6 142)
Other comprehensive income			
Available-for-sale financial assets:			
Gains from changes in fair value during the period		768	1 401
Reclassification adjustments for items included in profit or loss		(1 316)	1 823
Currency translation differences		(88)	178
Hedge reserve		124	(130)
Income tax related to components of other comprehensive income		85	(619)
Other comprehensive (expense)/income, net of tax		(427)	2 653
Total comprehensive income/(expense)		1 113	(3 489)
Profit/(loss) attributable to:			
Equity holders of the Bank		1 575	(6 140)
Non-controlling interest		(35)	(2)
Profit/(loss) after tax and before other comprehensive income		1 540	(6 142)
Basic and diluted earnings/(loss) per share (in Roubles)		0.43	(2.14)
Total comprehensive income/(expense) attributable to:			
Equity holders of the Bank		1 148	(3 487)
Non-controlling interest		(35)	(2)
Total comprehensive income/(expense)		1 113	(3 489)



Sergey Timofeev
Chief Executive Officer

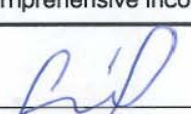


Konstantin Rogov
Chief Financial Officer

MDM Bank**Interim Consolidated Condensed Statement of Comprehensive Income
for the Three-Month Period Ended 30 September 2010**

(expressed in millions of Russian Roubles – refer to Note 3)

	Note	Three-Month Period Ended 30 September 2010 Unaudited	Three-Month Period Ended 30 September 2009 Unaudited
Interest income		9 893	14 302
Interest expense		(5 979)	(7 375)
Net interest income		3 914	6 927
Loan impairment losses		(1 184)	(5 127)
Net interest income after loan impairment losses		2 730	1 800
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	11	359	434
Fee and commission income		1 147	1 021
Fee and commission expense		(225)	(346)
(Impairment)/reversal of impairment losses other than on loans and provisions	12	(40)	314
Gain from revaluation of investment property		248	-
Other income/(expense)		186	(336)
Operating income		4 405	2 887
Operating expenses		(3 917)	(3 258)
Profit/(loss) before taxation and other comprehensive income		488	(371)
Income tax expense		(12)	(157)
Profit/(loss) after tax and before other comprehensive income		476	(528)
Other comprehensive income			
Available-for-sale financial assets:			
Gains from changes in fair value during the period		154	1 337
Reclassification adjustments for items included in profit or loss		(335)	423
Currency translation differences		192	32
Hedge reserve		83	(130)
Income tax related to components of other comprehensive income		20	(326)
Other comprehensive income, net of tax		114	1 336
Total comprehensive income		590	808
Profit/(loss) attributable to:			
Equity holders of the Bank		460	(528)
Non-controlling interest		16	-
Profit/(loss) after tax and before other comprehensive income		476	(528)
Basic and diluted earnings/(loss) per share (in Roubles)		0.13	(0.18)
Total comprehensive income attributable to:			
Equity holders of the Bank		574	808
Non-controlling interest		16	-
Total comprehensive income		590	808



Sergey Timofeev
Chief Executive Officer



Konstantin Rogov
Chief Financial Officer

The notes set out on pages 6 to 30 form an integral part of these interim consolidated condensed financial statements.

MDM Bank
Interim Consolidated Condensed Statement of Cash Flows
for the Nine-Month Period Ended 30 September 2010
(expressed in millions of Russian Roubles – refer to Note 3)

Note	Nine-Month Period Ended 30 September 2010 Unaudited	Nine-Month Period Ended 30 September 2009 Unaudited
Net cash used in operating activities	(364)	(17 575)
Net cash from investing activities	3 287	6 402
Net cash used in financing activities	(19 996)	(17 336)
Effect of exchange rate changes on cash and cash equivalents	(32)	75
Net decrease in cash and cash equivalents	(17 105)	(28 434)
Cash and cash equivalents at the beginning of the period	64 743	77 271
Cash and cash equivalents at the end of the period	47 638	48 837



Sergey Timofeev
Chief Executive Officer




Konstantin Rogov
Chief Financial Officer

MDM Bank
Interim Consolidated Condensed Statement of Changes in Equity for the Nine-Month Period Ended 30 September 2010

(expressed in millions of Russian Roubles – refer to Note 3)

	Equity attributable to equity holders of the Bank										
	Share capital	Share premium	Treasury shares	Revaluation of premises	Revaluation of available-for-sale financial assets	Cumulative translation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total
Balance as at 1 January 2009	1 794	14 198	-	3 143	(1 566)	326	-	23 179	41 074	-	41 074
Loss after tax and before other comprehensive income (Unaudited)	-	-	-	-	-	-	-	(6 140)	(6 140)	(2)	(6 142)
Other comprehensive income											
Currency translation differences (Unaudited)	-	-	-	-	-	178	-	-	178	-	178
Revaluation of available-for-sale financial assets (Unaudited)	-	-	-	-	2 579	-	-	-	2 579	-	2 579
Hedge reserve (Unaudited)	-	-	-	-	-	-	(104)	-	(104)	-	(104)
Total other comprehensive income/(expense) (Unaudited)	-	-	-	-	2 579	178	(104)	-	2 653	-	2 653
Total comprehensive income/(expense) (Unaudited)	-	-	-	-	2 579	178	(104)	(6 140)	(3 487)	(2)	(3 489)
Acquisition of assets (Unaudited)	-	-	-	-	-	-	-	-	-	149	149
Business combination (Unaudited)	2 413	17 654	-	-	-	-	-	-	20 067	-	20 067
Treasury shares (Unaudited)	-	-	(14)	-	-	-	-	-	(14)	-	(14)
Balance as at 30 September 2009 (Unaudited)	4 207	31 852	(14)	3 143	1 013	504	(104)	17 039	57 640	147	57 787
Balance as at 1 January 2010	4 207	31 852	(14)	3 143	398	423	(309)	21 785	61 485	91	61 576
Profit/(loss) after tax and before other comprehensive income (Unaudited)	-	-	-	-	-	-	-	1 575	1 575	(35)	1 540
Other comprehensive income											
Currency translation differences (Unaudited)	-	-	-	-	-	(88)	-	-	(88)	-	(88)
Revaluation of available-for-sale financial assets (Unaudited)	-	-	-	-	(438)	-	-	-	(438)	-	(438)
Hedge reserve (Unaudited)	-	-	-	-	-	-	99	-	99	-	99
Total other comprehensive (expense)/income (Unaudited)	-	-	-	-	(438)	(88)	99	-	(427)	-	(427)
Total comprehensive (expense)/income (Unaudited)	-	-	-	-	(438)	(88)	99	1 575	1 148	(35)	1 113
Treasury shares (Unaudited)	-	-	14	-	-	-	-	-	14	-	14
Balance as at 30 September 2010 (Unaudited)	4 207	31 852	-	3 143	(40)	335	(210)	23 360	62 647	56	62 703



Sergey Timofeev
Chief Executive Officer



Konstantin Rogov
Chief Financial Officer

MDM Bank

Notes to the Interim Consolidated Condensed Financial Statements for the Nine-Month Period Ended 30 September 2010 (Unaudited)

(expressed in millions of Russian Roubles – refer to Note 3)

1 Organisation of the Group and its Principal Activities

These interim consolidated condensed financial statements include the financial statements of MDM Bank, Open Joint Stock Company, (the Bank or MDM Bank) and its subsidiaries. MDM Bank and its subsidiaries are hereinafter collectively referred to as the Group.

MDM Bank is the new brand of MDM-Bank (Open Joint Stock Company) (former MDM Bank) and URSA Bank, Open Joint Stock Company, (URSA Bank) after their merger in 2009. The merger took the legal form of the accession of former MDM Bank by URSA Bank and was accounted for as a reverse acquisition in accordance with IFRS 3 *Business Combinations*. Former MDM Bank was identified as the acquirer in the business combination and these interim consolidated condensed financial statements are prepared as a continuation of the consolidated financial statements of former MDM Bank.

MDM Bank, the parent company and the lead operating entity of the Group, carries out banking activities in the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBR). MDM Bank is a member of the state deposit insurance system. The bank also has broker and dealer licenses issued by the Federal Financial Markets Service.

The Group also operates a subsidiary bank in Latvia (LTB), securities trading and asset management companies and leasing companies.

The Group operates in six major business areas: Corporate and investment banking, Retail banking, Small and medium enterprises (SME) banking, Private banking and asset management, Asset Liability Management (ALM) and Treasury. Retail and SME banking are managed through the Network which is split in three territorial banks: European, Ural and Siberian. Corporate and investment banking, Private banking and asset management, ALM and Treasury are managed through the Head Office.

The activities of the Group are conducted principally in the Russian Federation, although the Group also conducts operations on international markets.

The registered address of MDM Bank is 18, Lenina street, Novosibirsk, Russian Federation.

As at 30 September 2010 the Group has 34 branches (31 December 2009: 38). All branches are located in the Russian Federation. The Group also operates a number of sub-branches in the Russian Federation and cash exchange offices and a network of retail micro offices in Moscow. As at 30 September 2010, the total number of points of sale in MDM Bank's network was 322 (31 December 2009: 312).

As at 30 September 2010 the Bank's parent company is MDM Holding SE, a European company based in Cyprus, with a 68.1% direct interest. The shareholder structure of the Bank is presented in the table below:

Shareholder	Beneficial interest, % of voting shares
Mr. Sergey Popov	52.2
Mr. Igor Kim	10.8
Depository Clearing Company (Notional shareholder)	7.5
Olivant Limited	6.2
Mr. Martin Andersson	5.8
European Bank for Reconstruction and Development	4.7
International Financial Corporation	3.3
ING Bank (Eurasia) (Notional shareholder)	2.8
The National Depository Center (Notional shareholder)	2.2
DEG	1.7
Mr. Andrey Bekarev	1.4
Other minority shareholders	1.4
	100.0

Mr. S. Popov, Mr. I. Kim and Mr. M. Andersson hold their stakes in the Bank through MDM Holding SE and Mr. I. Kim has a direct interest of 0.7%.

Olivant Limited has an option to purchase a further 3.3% of the shares in MDM Bank.

1 Organisation of the Group and its Principal Activities (Continued)

For the purposes of these interim consolidated condensed financial statements, key management personnel of the Group, collectively, is referred to as “management”.

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets.

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

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

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

The Group operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

3 Basis of Preparation

(a) Statement of compliance

These interim consolidated condensed financial statements are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). They do not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2009, as these interim consolidated condensed financial statements provide an update of previously reported financial information.

(b) Basis of measurement

These interim consolidated condensed financial statements are prepared on the historical cost basis except that financial instruments held for trading, derivative financial instruments, available-for-sale financial instruments and investment property are stated at fair value, certain classes of property and equipment are stated at revalued amounts and assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

3 Basis of Preparation (Continued)

(c) Presentation currency

These interim consolidated condensed financial statements are presented in Russian Roubles (RUB). Amounts in Russian Roubles are rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these interim consolidated condensed financial statements the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2009.

4 Significant Accounting Policies

The accounting policies applied in these interim consolidated condensed financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2009, except for changes resulting from the amendments to International Financial Reporting Standards (IFRS) and segment reporting disclosures as described below.

(i) Changes resulting from the amendments to IFRS

As at 1 January 2010, the Group adopted the revised version of International Accounting Standard IAS 27 *Consolidated and Separate Financial Statements*. As a result the Group attributes total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. At the date when control of a subsidiary is lost, any investment retained in the former subsidiary is measured at its fair value, with gain or loss recognized in profit or loss.

(ii) Changes in accounting policies for operating segments

Following changes in the internal organizational structure and accounting policies used in the management reporting framework, from 1 January 2010 the Group reports separately Network (which combines de-centralized Retail and SME banking of European, Ural and Siberian territorial banks) and centralized Private Banking and Asset Management, ALM, Treasury and Corporate and Investment Banking business segments. Comparative information is restated accordingly.

MDM Bank**Notes to the Interim Consolidated Condensed Financial Statements
for the Nine-Month Period Ended 30 September 2010 (Unaudited)**

(expressed in millions of Russian Roubles – refer to Note 3)

4 Significant Accounting Policies (Continued)*(iii) Comparative information*

Certain comparative information is reclassified to conform to changes in presentation in the current period.

The following items were presented separately in the interim consolidated condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2009:

	Nine-month Period Ended 30 September 2009	Three-month Period Ended 30 September 2009
Gains arising from trading securities, net	604	327
Gains arising from available-for-sale financial assets, net	892	283
(Losses)/gains arising from trading in precious metals, net	(296)	48
Gains/(losses) from foreign exchange, net	472	(166)
Losses from interest-based derivative financial instruments, net	(539)	(245)
Gains from early redemption of debt	847	187
	1 980	434

These amounts are included in gains less losses from trading, available-for-sale financial assets and foreign exchange, net, in these interim consolidated condensed financial statements.

Provision for credit related commitments of RUB 86 million and RUB 45 million were included within other income in the interim consolidated condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2009, respectively. These amounts are included in impairment losses other than on loans and provisions in these interim consolidated condensed financial statements.

The following items were presented separately in the interim consolidated condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2009:

	Nine-month Period Ended 30 September 2009	Three-month Period Ended 30 September 2009
(Impairment)/release of impairment of available-for-sale financial assets	(1 847)	162
Release of impairment of investment securities held to maturity	287	297
Impairment of assets held for sale	(270)	(8)
Other assets impairment losses	(128)	(51)
Release of other provisions	194	-
	(1 764)	400

These amounts are included in impairment losses other than on loans and provisions in these interim consolidated condensed financial statements.

Management believes that current presentation better reflects the nature of the Group's operations.

5 Cash and Cash Equivalents

	30 September 2010	31 December 2009
Cash on hand	9 751	18 509
Correspondent accounts with central banks	9 847	13 475
Correspondent accounts and overnight deposits with other banks	24 374	31 981
Settlement accounts with trading systems	993	778
Overnight reverse repurchase agreements	2 673	-
Total cash and cash equivalents	47 638	64 743

MDM Bank**Notes to the Interim Consolidated Condensed Financial Statements
for the Nine-Month Period Ended 30 September 2010 (Unaudited)**

(expressed in millions of Russian Roubles – refer to Note 3)

6 Loans and Advances to Customers

	30 September 2010	31 December 2009
Loans to corporate customers	184 109	153 917
Loans to individuals	71 940	91 416
Investment banking loans	18 767	13 433
Small business loans	10 016	12 827
Lease financing	5 646	9 237
Total gross loans and advances to customers	290 478	280 830
Less: loan impairment	(39 758)	(44 121)
Total loans and advances to customers	250 720	236 709

Movements in loan impairment allowance by classes of loans to customers for the nine-month period ended 30 September 2010 are as follows:

	Loans to corporate customers	Loans to individuals	Investment banking loans	Small business loans	Lease financing	Total
Loan impairment allowance as at 1 January 2010	24 421	14 963	492	2 473	1 772	44 121
Loan impairment losses/(reversal of impairment losses)	2 393	2 812	(134)	500	(83)	5 488
Loans written-off as uncollectible	(553)	(7 142)	-	(184)	(215)	(8 094)
Loans sold	(1 485)	(279)	-	-	-	(1 764)
Loans and terminated lease contracts settled through foreclosure of collateral	-	-	-	-	(53)	(53)
Effect of foreign currency translation	49	8	-	1	2	60
Loan impairment allowance as at 30 September 2010	24 825	10 362	358	2 790	1 423	39 758

Movements in loan impairment allowance by classes of loans to customers for the nine-month period ended 30 September 2009 are as follows:

	Loans to corporate customers	Loans to individuals	Investment banking loans	Small business loans	Lease financing	Total
Loan impairment allowance as at 1 January 2009	7 293	2 859	238	1 320	493	12 203
Loan impairment losses	12 724	3 543	105	82	221	16 675
Business combination	5 292	15 247	-	709	1 660	22 908
Interest accruals written off as uncollectible	-	(2 268)	-	-	-	(2 268)
Loans written off as uncollectible	(494)	(2)	-	(2)	-	(498)
Loans sold	-	(2 898)	-	(35)	-	(2 933)
Loans and terminated lease contracts settled through foreclosure of collateral	-	-	-	-	(504)	(504)
Effect of foreign currency translation	(69)	(4)	-	-	(3)	(76)
Loan impairment allowance as at 30 September 2009	24 746	16 477	343	2 074	1 867	45 507

MDM Bank**Notes to the Interim Consolidated Condensed Financial Statements
for the Nine-Month Period Ended 30 September 2010 (Unaudited)**

(expressed in millions of Russian Roubles – refer to Note 3)

6 Loans and Advances to Customers (Continued)

The Group reviewed its loan portfolio as at 30 September 2010 and recognised loan impairment as follows:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans to corporate customers				
Loans without individual impairment indicators				
Standard loans not past due	90 835	(2 105)	88 730	2.3
Watch list loans not past due	23 210	(601)	22 609	2.6
<i>Total loans without individual impairment indicators</i>	<i>114 045</i>	<i>(2 706)</i>	<i>111 339</i>	<i>2.4</i>
Loans with individual impairment indicators				
Watch list loans not past due	37 602	(6 443)	31 159	17.1
Overdue loans collectively assessed for impairment	2 063	(57)	2 006	2.8
Overdue loans individually assessed for impairment	24 488	(9 708)	14 780	39.6
Non-recoverable loans	5 911	(5 911)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>70 064</i>	<i>(22 119)</i>	<i>47 945</i>	<i>31.6</i>
Total loans to corporate customers	184 109	(24 825)	159 284	13.5
Loans to individuals				
Loans collectively assessed for impairment				
Consumer loans	35 761	(7 041)	28 720	19.7
Mortgage loans	25 920	(2 052)	23 868	7.9
Car loans	10 259	(1 269)	8 990	12.4
Total loans to individuals	71 940	(10 362)	61 578	14.4
Investment banking loans				
Loans without individual impairment indicators				
Reverse sale and repurchase agreements	3 562	-	3 562	-
Other standard loans	13 069	(87)	12 982	0.7
<i>Total loans without individual impairment indicators</i>	<i>16 631</i>	<i>(87)</i>	<i>16 544</i>	<i>0.5</i>
Loans with individual impairment indicators				
Watch list loans not past due	2 023	(158)	1 865	7.8
Non-recoverable loans	113	(113)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>2 136</i>	<i>(271)</i>	<i>1 865</i>	<i>12.7</i>
Total investment banking loans	18 767	(358)	18 409	1.9
Small business loans				
Loans without individual impairment indicators				
Standard loans to legal entities not past due	5 104	(132)	4 972	2.6
Watch list loans to legal entities not past due	1 011	(64)	947	6.3
<i>Total loans without individual impairment indicators</i>	<i>6 115</i>	<i>(196)</i>	<i>5 919</i>	<i>3.2</i>
Loans with individual impairment indicators				
Watch list loans not past due	578	(66)	512	11.4
Overdue loans collectively assessed for impairment	411	(29)	382	7.1
Overdue loans individually assessed for impairment	1 865	(1 452)	413	77.9
Non-recoverable loans	1 047	(1 047)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>3 901</i>	<i>(2 594)</i>	<i>1 307</i>	<i>66.5</i>
Total small business loans	10 016	(2 790)	7 226	27.9
Lease financing				
Loans without individual impairment indicators				
Standard loans not past due	3 253	(66)	3 187	2.0
Watch list loans not past due	108	(3)	105	2.8
<i>Total loans without individual impairment indicators</i>	<i>3 361</i>	<i>(69)</i>	<i>3 292</i>	<i>2.1</i>
Loans with individual impairment indicators				
Watch list loans not past due	386	(87)	299	22.5
Overdue loans collectively assessed for impairment	41	(1)	40	2.4
Overdue loans individually assessed for impairment	1 070	(478)	592	44.7
Non-recoverable loans	788	(788)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>2 285</i>	<i>(1 354)</i>	<i>931</i>	<i>59.3</i>
Total lease financing	5 646	(1 423)	4 223	25.2
Total loans and advances to customers	290 478	(39 758)	250 720	13.7

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6 Loans and Advances to Customers (Continued)

The Group reviewed its loan portfolio as at 31 December 2009 and recognised loan impairment as follows:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans to corporate customers				
Loans without individual impairment indicators				
Standard loans not past due	54 492	(1 282)	53 210	2.4
Watch list loans not past due	29 896	(770)	29 126	2.6
<i>Total loans without individual impairment indicators</i>	<i>84 388</i>	<i>(2 052)</i>	<i>82 336</i>	<i>2.4</i>
Loans with individual impairment indicators				
Watch list loans not past due	37 385	(6 540)	30 845	17.5
Overdue loans collectively assessed for impairment	2 513	(75)	2 438	3.0
Overdue loans individually assessed for impairment	20 914	(7 037)	13 877	33.6
Non-recoverable loans	8 717	(8 717)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>69 529</i>	<i>(22 369)</i>	<i>47 160</i>	<i>32.2</i>
Total loans to corporate customers	153 917	(24 421)	129 496	15.9
Loans to individuals				
Loans to individuals collectively assessed for impairment				
Consumer loans	43 274	(9 390)	33 884	21.7
Mortgage loans	29 874	(2 897)	26 977	9.7
Car loans	18 268	(2 676)	15 592	14.6
Total loans to individuals	91 416	(14 963)	76 453	16.4
Investment banking loans				
Loans without individual impairment indicators				
Reverse sale and repurchase agreements	2 482	(47)	2 435	1.9
Other standard loans	8 354	(232)	8 122	2.8
<i>Total loans without individual impairment indicators</i>	<i>10 836</i>	<i>(279)</i>	<i>10 557</i>	<i>2.6</i>
Loans with individual impairment indicators				
Watch list loans not past due	2 478	(94)	2 384	3.8
Non-recoverable loans	119	(119)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>2 597</i>	<i>(213)</i>	<i>2 384</i>	<i>8.2</i>
Total investment banking loans	13 433	(492)	12 941	3.7
Small business loans				
Loans without individual impairment indicators				
Standard loans not past due	8 361	(232)	8 129	2.8
Watch list loans not past due	593	(17)	576	2.9
<i>Total loans without individual impairment indicators</i>	<i>8 954</i>	<i>(249)</i>	<i>8 705</i>	<i>2.8</i>
Loans with individual impairment indicators				
Watch list loans not past due	70	(21)	49	30.0
Overdue loans collectively assessed for impairment	862	(172)	690	20.0
Overdue loans individually assessed for impairment	2 183	(1 273)	910	58.3
Non-recoverable loans	758	(758)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>3 873</i>	<i>(2 224)</i>	<i>1 649</i>	<i>57.4</i>
Total small business loans	12 827	(2 473)	10 354	19.3
Lease financing				
Loans without individual impairment indicators				
Standard loans not past due	2 698	(74)	2 624	2.7
Watch list loans not past due	3 760	(106)	3 654	2.8
<i>Total loans without individual impairment indicators</i>	<i>6 458</i>	<i>(180)</i>	<i>6 278</i>	<i>2.8</i>
Loans with individual impairment indicators				
Watch list loans not past due	1 092	(557)	535	51.0
Overdue loans collectively assessed for impairment	89	(2)	87	2.2
Overdue loans individually assessed for impairment	771	(206)	565	26.7
Non-recoverable loans	827	(827)	-	100.0
<i>Total loans with individual impairment indicators</i>	<i>2 779</i>	<i>(1 592)</i>	<i>1 187</i>	<i>57.3</i>
Total lease financing	9 237	(1 772)	7 465	19.2
Total loans and advances to customers	280 830	(44 121)	236 709	15.7

MDM Bank

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6 Loans and Advances to Customers (Continued)

The following table shows the ageing analysis of loans to individuals as at 30 September 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Consumer loans				
- Not past due	23 126	(297)	22 829	1.3
- Overdue less than 30 days	1 301	(171)	1 130	13.1
- Overdue 30-90 days	646	(262)	384	40.6
- Overdue 91-180 days	845	(481)	364	56.9
- Overdue 181-360 days	1 752	(1 015)	737	57.9
- Overdue more than 360 days	8 091	(4 815)	3 276	59.5
Total consumer loans	35 761	(7 041)	28 720	19.7
Mortgage loans				
- Not past due	20 630	(71)	20 559	0.3
- Overdue less than 30 days	1 113	(60)	1 053	5.4
- Overdue 30-90 days	474	(102)	372	21.5
- Overdue 91-180 days	593	(203)	390	34.2
- Overdue 181-360 days	958	(433)	525	45.2
- Overdue more than 360 days	2 152	(1 183)	969	55.0
Total mortgage loans	25 920	(2 052)	23 868	7.9
Car loans				
- Not past due	7 287	(34)	7 253	0.5
- Overdue less than 30 days	477	(28)	449	5.9
- Overdue 30-90 days	211	(45)	166	21.3
- Overdue 91-180 days	194	(76)	118	39.2
- Overdue 181-360 days	509	(245)	264	48.1
- Overdue more than 360 days	1 581	(841)	740	53.2
Total car loans	10 259	(1 269)	8 990	12.4
Total loans to individuals	71 940	(10 362)	61 578	14.4

The following table shows the ageing analysis of loans to individuals as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Consumer loans				
- Not past due	28 214	(316)	27 898	1.1
- Overdue less than 30 days	1 408	(226)	1 182	16.1
- Overdue 30-90 days	1 051	(445)	606	42.3
- Overdue 91-180 days	1 382	(766)	616	55.4
- Overdue 181-360 days	4 451	(2 861)	1 590	64.3
- Overdue more than 360 days	6 768	(4 776)	1 992	70.6
Total consumer loans	43 274	(9 390)	33 884	21.7
Mortgage loans				
- Not past due	24 048	(95)	23 953	0.4
- Overdue less than 30 days	952	(62)	890	6.5
- Overdue 30-90 days	799	(215)	584	26.9
- Overdue 91-180 days	834	(344)	490	41.2
- Overdue 181-360 days	1 498	(833)	665	55.6
- Overdue more than 360 days	1 743	(1 348)	395	77.3
Total mortgage loans	29 874	(2 897)	26 977	9.7
Car loans				
- Not past due	12 674	(59)	12 615	0.5
- Overdue less than 30 days	595	(40)	555	6.7
- Overdue 30-90 days	601	(139)	462	23.1
- Overdue 91-180 days	557	(198)	359	35.5
- Overdue 181-360 days	1 222	(517)	705	42.3
- Overdue more than 360 days	2 619	(1 723)	896	65.8
Total car loans	18 268	(2 676)	15 592	14.6
Total loans to individuals	91 416	(14 963)	76 453	16.4

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6 Loans and Advances to Customers (Continued)

The table below shows the ageing analysis of loans to corporate customers with individual impairment indicators as at 30 September 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	38 304	(7 145)	31 159	18.7
Overdue loans				
- Overdue less than 30 days	1 399	(375)	1 024	26.8
- Overdue 30-90 days	5 603	(1 287)	4 316	23.0
- Overdue 91-180 days	2 893	(1 478)	1 415	51.1
- Overdue 181-360 days	4 680	(2 465)	2 215	52.7
- Overdue more than 360 days	17 185	(9 369)	7 816	54.5
Total overdue loans	31 760	(14 974)	16 786	47.1
Total loans to corporate customers with individual impairment indicators	70 064	(22 119)	47 945	31.6

The table below shows the ageing analysis of loans to corporate customers with individual impairment indicators as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	40 328	(9 483)	30 845	23.5
Overdue loans				
- Overdue less than 30 days	304	(29)	275	9.5
- Overdue 30-90 days	5 577	(936)	4 641	16.8
- Overdue 91-180 days	6 429	(1 746)	4 683	27.2
- Overdue 181-360 days	7 741	(4 020)	3 721	51.9
- Overdue more than 360 days	9 150	(6 155)	2 995	67.3
Total overdue loans	29 201	(12 886)	16 315	44.1
Total loans to corporate customers with individual impairment indicators	69 529	(22 369)	47 160	32.2

The table below shows the ageing analysis of investment banking loans with individual impairment indicators as at 30 September 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	2 023	(158)	1 865	7.8
Overdue loans				
- Overdue more than 360 days	113	(113)	-	100.0
Total overdue loans	113	(113)	-	100.0
Total investment banking loans with individual impairment indicators	2 136	(271)	1 865	12.7

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6 Loans and Advances to Customers (Continued)

The table below shows the ageing analysis of investment banking loans with individual impairment indicators as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	2 478	(94)	2 384	3.8
Overdue loans				
- Overdue 181 -360 days	21	(21)	-	100.0
- Overdue more than 360 days	98	(98)	-	100.0
Total overdue loans	119	(119)	-	100.0
Total investment banking loans with individual impairment indicators	2 597	(213)	2 384	8.2

The table below shows the ageing analysis of small business loans with individual impairment indicators as at 30 September 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	590	(78)	512	13.2
Overdue loans				
- Overdue less than 30 days	73	(12)	61	16.4
- Overdue 30-90 days	195	(67)	128	34.4
- Overdue 91-180 days	174	(71)	103	40.8
- Overdue 181-360 days	437	(326)	111	74.6
- Overdue more than 360 days	2 432	(2 040)	392	83.9
Total overdue loans	3 311	(2 516)	795	76.0
Total small business loans with individual impairment indicators	3 901	(2 594)	1 307	66.5

The table below shows the ageing analysis of small business loans with individual impairment indicators as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans (%)
Loans not past due	70	(21)	49	30.0
Overdue loans				
- Overdue less than 30 days	167	(17)	150	10.2
- Overdue 30-90 days	467	(124)	343	26.6
- Overdue 91-180 days	568	(289)	279	50.9
- Overdue 181-360 days	1 404	(854)	550	60.8
- Overdue more than 360 days	1 197	(919)	278	76.8
Total overdue loans	3 803	(2 203)	1 600	57.9
Total small business loans with individual impairment indicators	3 873	(2 224)	1 649	57.4

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6 Loans and Advances to Customers (Continued)

The table below shows the ageing analysis of lease financing with individual impairment indicators as at 30 September 2010:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Loans not past due	871	(572)	299	65.7
Overdue lease financing				
- Overdue less than 30 days	10	(2)	8	20.0
- Overdue 30-90 days	22	(6)	16	27.3
- Overdue 91-180 days	538	(193)	345	35.9
- Overdue 181-360 days	354	(151)	203	42.7
- Overdue more than 360 days	490	(430)	60	87.8
Total overdue lease financing	1 414	(782)	632	55.3
Total lease financing with individual impairment indicators	2 285	(1 354)	931	59.3

The table below shows the ageing analysis of lease financing with individual impairment indicators as at 31 December 2009:

	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Loans not past due	1 483	(948)	535	63.9
Overdue lease financing				
- Overdue less than 30 days	13	(1)	12	7.7
- Overdue 30-90 days	44	(6)	38	13.6
- Overdue 91-180 days	664	(177)	487	26.7
- Overdue 181-360 days	216	(110)	106	50.9
- Overdue more than 360 days	359	(350)	9	97.5
Total overdue lease financing contracts	1 296	(644)	652	49.7
Total lease financing with individual impairment indicators	2 779	(1 592)	1 187	57.3

As at 30 September 2010 included in loans not past due are renegotiated loans to corporate customers that would otherwise be past due or impaired of RUB 26 153 million or 12.0% of the gross loan portfolio excluding loans to individuals (31 December 2009: RUB 29 697 million or 15.7% of the gross loan portfolio excluding loans to individuals) and renegotiated loans to individuals that would otherwise be past due or impaired of RUB 4 269 million or 5.9% of the gross loans to individuals (31 December 2009: RUB 3 078 million or 3.4% of the gross loans to individuals). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. The Group's policy is to renegotiate loans only if there is objective evidence that the borrower will be able to serve its debt at renegotiated terms, and to obtain additional collateral as a pre-requisite for renegotiation.

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7 Customer Accounts

	30 September 2010	31 December 2009
State organisations		
- Current/settlement accounts	1 883	11 086
- Term deposits	24 226	9 319
Other legal entities		
- Current/settlement accounts	35 389	22 464
- Term deposits	45 966	59 642
- Sale and repurchase agreement	10	480
Individuals		
- Current/demand accounts	9 637	9 482
- Term deposits	107 236	82 149
Total customer accounts	224 347	194 622

8 Debt Securities in Issue

	30 September 2010	31 December 2009
Domestic bonds	18 908	18 778
Unsecured loan participation notes	9 277	27 625
Promissory notes	8 711	14 734
Total debt securities in issue	36 896	61 137

During the nine-month period ended 30 September 2010 certain unsecured loan participation notes were fully repaid for consideration in excess of their notional amounts. As a result, a loss of RUB 37 million is recorded in the interim consolidated condensed statement of comprehensive income for the nine-month period ended 30 September 2010 (nine-month period ended 30 September 2009: a gain of RUB 847 million) (Note 11).

During the nine-month period ended 30 September 2010 the Group repurchased the majority of its Russian bonds denominated in RUB of the 8th issue at par in accordance with the terms of the issue. These bonds were then sold by the Group on the secondary markets.

9 Significant Exposures and Concentrations

As at 30 September 2010, the Group has balances due from one bank that are greater than 10% of equity at that date (31 December 2009: one bank). The total aggregate amount of these balances is RUB 12 511 million, or 48% of due from other banks balances (31 December 2009: RUB 6 749 million, or 16% of due from other banks balances).

As at 30 September 2010, credit exposure to ten largest borrowers (or groups of borrowers), totals RUB 58 624 million, or 20% of the gross loan portfolio of the Group (31 December 2009: RUB 33 289 million, or 12% of the gross loan portfolio).

As at 30 September 2010, included in due to other banks are balances due to one counterparty that are greater than 10% of equity at that date (31 December 2009: two counterparties). The total aggregate amount of these balances as at 30 September 2010 is RUB 10 745 million, or 24% of due to other banks (31 December 2009: RUB 23 882 million, or 34% of due to other banks balances).

As at 30 September 2010, aggregate balances of ten largest customers (or groups of customers) totals RUB 46 320 million, or 21% of customer accounts balances (31 December 2009: RUB 38 376 million, or 20% of customer accounts balances).

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9 Significant Exposures and Concentrations (Continued)

As at 30 September 2010, the Group has two customers with aggregated balances on customer accounts greater than 10% of equity at that date (31 December 2009: two customers). The total aggregate amount of these balances is RUB 23 629 million, or 11% of customer accounts balances (31 December 2009: RUB 14 878 million, or 8% of customer accounts balances).

10 Share Capital

The share capital as at 30 September 2010 and 31 December 2009 comprises the following:

	Number of shares	Nominal value	Inflation adjustment	Total share capital
Ordinary shares	3 580 986 527	3 581	274	3 855
Preference shares:				
- fixed-dividend preference shares	150 000	-	8	8
- preference shares of the third type	284 163 460	284	-	284
- preference shares of the fourth type	1 415 280	1	-	1
- preference shares of the fifth type	1 210	-	-	-
- preference shares of the sixth type	21 450	-	-	-
- preference shares of the seventh type	2 530 800	3	-	3
- preference shares of the eighth type	55 710 289	56	-	56
Total share capital	3 924 979 016	3 925	282	4 207

All shares have a par value of RUB 1 per share.

No dividends on ordinary or preference shares were declared during the nine-month periods ended 30 September 2010 and 2009.

11 Gains less Losses from Trading, Available-for-Sale Financial Assets and Foreign Exchange, net

The following table provides the details of gains less losses from trading, available-for-sale financial assets and foreign exchange for the nine-month period ended 30 September:

	Nine-Month Period Ended 30 September 2010	Nine-Month Period Ended 30 September 2009
Gains arising from trading securities, net	134	604
Gains less losses arising from available-for-sale financial assets	1 316	892
Gains/(losses) arising from trading in precious metals, net	39	(296)
Gains from foreign exchange, net	1 281	472
Losses from interest-based derivative financial instruments, net	(1 031)	(539)
(Losses)/gains from early redemption of debt	(37)	847
Total gains from trading, available-for-sale financial assets and foreign exchange, net	1 702	1 980

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**11 Gains less Losses from Trading, Available-for-Sale Financial Assets and Foreign Exchange,
net (Continued)**

The following table provides the details of gains from trading, available-for-sale financial assets and foreign exchange for the three-month period ended 30 September:

	Three-Month Period Ended 30 September 2010	Three-Month Period Ended 30 September 2009
(Losses)/gains arising from trading securities, net	(48)	327
Gains less losses arising from available-for-sale financial assets	335	283
(Losses)/gains arising from trading in precious metals, net	(82)	48
Gains/(losses) from foreign exchange, net	200	(166)
Losses from interest-based derivative financial instruments, net	(49)	(245)
Gains from early redemption of debt	3	187
Total gains from trading, available-for-sale financial assets and foreign exchange, net	359	434

12 Impairment Losses Other than on Loans and Provisions

Impairment losses other than on loans and provisions for the nine-month period ended 30 September are presented below:

	Nine-Month Period Ended 30 September 2010	Nine-Month Period Ended 30 September 2009
Impairment of available-for-sale financial assets	(362)	(1 847)
Release of impairment of investment securities held to maturity	-	287
Release of impairment/(impairment) of assets held for sale	22	(270)
Other assets impairment losses	(86)	(128)
Release of other provisions	-	194
Provision on credit related commitments	(64)	(45)
Total impairment losses other than on loans and provisions	(490)	(1 809)

Impairment losses other than on loans for the three-month period ended 30 September are presented below:

	Three-Month Period Ended 30 September 2010	Three-Month Period Ended 30 September 2009
Release of impairment of available-for-sale financial assets	34	162
Release of impairment of investment securities held to maturity	-	297
Impairment of assets held for sale	(22)	(8)
Other assets impairment losses	(56)	(51)
Other provisions	-	-
Reversal of provision/(provision) on credit related commitments	4	(86)
Total impairment losses other than on loans and provisions	(40)	314

13 Analysis by Segment

Changes in the internal organizational structure and accounting policies used in the management reporting framework resulted in changes in segment reporting. From 1 January 2010 the Group separately reports the following segments:

- Network – comprises the results of the de-centralized business operations within European, Urals and Siberian territories of the Russian Federation. It includes a full range of deposit taking and lending services to corporate clients, individuals and small and medium enterprises and individual entrepreneurs as well as other banking services such as leasing, factoring, settlements, cash management, cash collection, trade finance, forfeit financing, corporate finance and export credit agency financing, money transfer and foreign exchange services, range of banking card products provided to individual customers, settlements, cash management and cash collection for small and medium sized enterprises.
- Corporate and investment banking – represents centrally managed business unit for lending to strategic industry sectors and major clients.
- Treasury – includes debt and equity capital markets, money markets, trading and brokerage in securities, foreign exchange and precious metals, repo transactions, banknote trading, and trading in derivatives.
- Private banking and asset management – includes active advisory, discretionary portfolio management, and financial planning services to high wealth individuals, and administration and management of the asset management products, including mutual funds.
- ALM – includes operations initiated by the Head of Treasury (upon further approval of the Chief Financial Officer and Head of Risk Department), who manages liquidity position and funding and performs centralized risk management activities through wholesale borrowings, including issue of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements.

The Group evaluates performance of its operating segments on the basis of profit and loss before tax and other comprehensive income not including non-recurring gains and losses, such as results on disposal of property and equipment or results from business combinations. The accounting policies used for preparation of the segment information are the same as are used in preparation of these interim consolidated condensed financial statements.

The Group has in place a procedure for allocating depreciation and amortisation expense between operating segments to determine segment profit or loss. However, the Group does not allocate net book value of certain property and equipment between operating segments to determine segment assets. Such property and equipment are included in the “Unallocated” category in the reconciliation of the total of segment assets to the total assets.

All assets and liabilities of operating segments are subject to mandatory placement/funding through the asset liability management system (the ALM system), which results in internal funding charges related to such placement/funding. Such charges are calculated using internal rates, which are based on current market borrowing rates.

The Group also has a central administrative function that manages its premises and certain corporate costs. Cost sharing agreements are used to allocate central costs to operating segments on a reasonable basis.

The majority of operations, credit related commitments, capital expenditure, and revenues relate to residents of the Russian Federation (including subsidiaries or associates of these customers registered outside the Russian Federation). Revenues from external customers domiciled in foreign countries represent mainly interest income on placement with international banks.

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13 Analysis by Segment (Continued)

Segment breakdown of assets and liabilities is set out below:

	30 September 2010	31 December 2009
Assets		
Network	120 722	172 488
Corporate and investment banking	141 464	89 855
Treasury	92 668	123 103
Private banking and asset management	-	105
ALM	8 526	5 986
Unallocated assets	20 099	11 286
Total assets	383 479	402 823
Liabilities		
Network	124 341	106 519
Corporate and investment banking	73 408	75 151
Treasury	27 829	23 963
Private banking and asset management	22 594	22 877
ALM	71 334	109 282
Unallocated liabilities	1 270	3 455
Total liabilities	320 776	341 247

MDM Bank**Notes to the Interim Consolidated Condensed Financial Statements for the Nine-Month Period Ended 30 September 2010 (Unaudited)**

(expressed in millions of Russian Roubles – refer to Note 3)

13 Analysis by Segment (Continued)

Segment information for the reportable segments for the nine-month period ended 30 September 2010 is set out below:

	Network	Corporate and investment banking	Treasury	Private banking and asset management	ALM	Unallocated	Consolidated Group
Net interest income/(expense)	7 339	4 166	6 736	228	(4 217)	-	14 252
Internal funding charge ¹	(691)	(1 227)	(3 341)	715	3 670	874	-
Net fee and commission income	1 594	642	108	26	-	-	2 370
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	-	-	610	-	1 092	-	1 702
Other income, net	495	93	-	-	-	316	904
Total operating income before impairment losses and provisions	8 737	3 674	4 113	969	545	1 190	19 228
Operating expenses	(7 246)	(508)	(331)	(53)	-	(2 960)	(11 098)
(Impairment losses and provisions)/reversal of impairment losses and provisions	(3 863)	(1 775)	(362)	-	-	22	(5 978)
(Loss)/profit before taxation and other comprehensive income	(2 372)	1 391	3 420	916	545	(1 748)	2 152
Income tax expense	-	-	-	-	-	(612)	(612)
Profit after tax and before other comprehensive income							1 540
Losses on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	(548)	-	-	-	(548)
Currency translation differences	-	-	-	-	-	(88)	(88)
Hedge reserve	-	-	124	-	-	-	124
Income tax related to components of other comprehensive income	-	-	-	-	-	85	85
Total segment result	(2 372)	1 391	2 996	916	545	(2 363)	1 113

¹ Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of excessive capital to treasury.

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(expressed in millions of Russian Roubles – refer to Note 3)

13 Analysis by Segment (Continued)

Segment information for the reportable segments for the three-month period ended 30 September 2010 is set out below:

	Network	Corporate and investment banking	Treasury	Private banking and asset management	ALM	Unallocated	Consolidated Group
Net interest income/(expense)	1 918	1 262	2 211	78	(1 555)	-	3 914
Internal funding charge ¹	(189)	(409)	(1 062)	214	1 185	261	-
Net fee and commission income	453	348	108	13	-	-	922
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	-	-	116	-	243	-	359
Other income/(expense), net	356	(238)	-	-	-	316	434
Total operating income before impairment losses and provisions	2 538	963	1 373	305	(127)	577	5 629
Operating expenses	(2 639)	(172)	(110)	(18)	10	(988)	(3 917)
(Impairment losses and provisions)/reversal of impairment losses and provisions	(1 514)	157	108	-	-	25	(1 224)
(Loss)/profit before taxation and other comprehensive income	(1 615)	948	1 371	287	(117)	(386)	488
Income tax expense						(12)	(12)
Profit after tax and before other comprehensive income							476
Losses on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	(181)	-	-	-	(181)
Currency translation differences	-	-	-	-	-	192	192
Hedge reserve	-	-	83	-	-	-	83
Income tax related to components of other comprehensive income	-	-	-	-	-	20	20
Total segment result	(1 615)	948	1 273	287	(117)	(186)	590

¹ Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of excessive capital to treasury.

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(expressed in millions of Russian Roubles – refer to Note 3)

13 Analysis by Segment (Continued)

Segment information for the reportable segments for the nine-month period ended 30 September 2009 is set out below:

	Network	Corporate and investment banking	Treasury	Private banking and asset management	ALM	Unallocated	Consolidated Group
Net interest income/(expense)	12 733	7 186	1 414	(1 404)	(4 827)	(5)	15 097
Internal funding charge ¹	(6 778)	(910)	(1 022)	1 546	4 366	2 798	-
Net fee and commission income/(expense)	1 184	477	375	13	(106)	(5)	1 938
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	464	-	1 943	3	-	(430)	1 980
Other (expense)/income, net	(394)	45	27	-	-	26	(296)
Total operating income/(expense) before impairment losses and provisions	7 209	6 798	2 737	158	(567)	2 384	18 719
Operating expenses	(5 233)	(367)	(449)	(109)	(15)	(1 281)	(7 454)
(Impairment losses and provisions)/reversal of impairment losses and provisions	(5 921)	(11 040)	(1 665)	-	-	142	(18 484)
(Loss)/profit before taxation and other comprehensive income	(3 945)	(4 609)	623	49	(582)	1 245	(7 219)
Income tax benefit						1 077	1 077
Loss after tax and before other comprehensive income							(6 142)
Gains on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	3 224	-	-	-	3 224
Currency translation differences	-	-	-	-	-	178	178
Hedge reserve	-	-	(130)	-	-	-	(130)
Income tax related to components of other comprehensive income	-	-	-	-	-	(619)	(619)
Total segment result	(3 945)	(4 609)	3 717	49	(582)	1 881	(3 489)

¹ Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of excessive capital to treasury.

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(expressed in millions of Russian Roubles – refer to Note 3)

13 Analysis by Segment (Continued)

Segment information for the reportable segments for the three-month period ended 30 September 2009 is set out below:

	Network	Corporate and investment banking	Treasury	Private banking and asset management	ALM	Unallocated	Consolidated Group
Net interest income/(expense)	5 975	3 566	(643)	(532)	(1 436)	(3)	6 927
Internal funding charge ¹	(2 641)	(437)	(97)	627	1 296	1 252	-
Net fee and commission income/(expense)	415	279	80	5	(101)	(3)	675
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	137	-	204	3	8	82	434
Other (expense)/income, net	(397)	45	9	-	-	7	(336)
Total operating income/(expense) before impairment losses and provisions	3 489	3 453	(447)	103	(233)	1 335	7 700
Operating expenses	(2 427)	(162)	(150)	(22)	-	(497)	(3 258)
(Impairment losses and provisions)/reversal of impairment losses and provisions	(1 880)	(3 460)	591	-	-	(64)	(4 813)
(Loss)/profit before taxation and other comprehensive income	(818)	(169)	(6)	81	(233)	774	(371)
Income tax expense						(157)	(157)
Loss after tax and before other comprehensive income							(528)
Gains on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	1 760	-	-	-	1 760
Currency translation differences	-	-	-	-	-	32	32
Hedge reserve	-	-	(130)	-	-	-	(130)
Income tax related to components of other comprehensive income	-	-	-	-	-	(326)	(326)
Total segment result	(818)	(169)	1 624	81	(233)	323	808

¹ Refer to description of internal funding charges above. The amount included in "Unallocated" category represents notional income on placement of excessive capital to treasury.

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14 Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The CBR sets and monitors regulatory capital requirements for MDM Bank, the lead operating entity of the Group. The Central Bank of Latvia sets and monitors capital requirements for LTB.

Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets (statutory capital adequacy ratio) above the prescribed minimum level. As at 30 September 2010, this minimum level is 10% (31 December 2009: 10%).

MDM Bank was in compliance with the statutory capital adequacy ratio during the nine-month period ended 30 September 2010 and during the year ended 31 December 2009. As at 30 September 2010, the statutory capital of MDM Bank on a standalone basis is RUB 46 470 million (31 December 2009: RUB 60 051 million) (unaudited). The statutory capital adequacy ratio of MDM Bank as at 30 September 2010 is 13.5% (31 December 2009: 17.3%) (unaudited).

The Group and the Bank also are subject to minimum capital requirements established by covenants under liabilities incurred by the Bank or the Group, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 30 September 2010 and 31 December 2009, such minimum externally imposed capital requirement for the total capital ratio is 12%.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basel Accord, as at 30 September 2010 and 31 December 2009:

	30 September 2010	31 December 2009
Tier 1 capital		
Share capital	4 207	4 207
Share premium	31 852	31 852
Cumulative translation reserves	335	423
Retained earnings	23 360	21 785
Minority interest	56	91
less goodwill	(162)	(162)
less treasury shares	-	(14)
Total tier 1 capital	59 648	58 182
Tier 2 capital		
Asset revaluation reserve	3 103	3 541
Hedge reserve	(210)	(309)
Subordinated debt (unamortised portion)	2 289	4 078
Total tier 2 capital	5 182	7 310
Total capital	64 830	65 492
Risk-weighted assets		
Banking book	318 121	298 435
Trading book	1 675	9 582
Total risk weighted assets	319 796	308 017
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	20.3	21.3
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	18.7	18.9

14 Capital Management (Continued)

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for credit related commitments, with some adjustments to reflect the more contingent nature of potential losses.

The Group and the Bank comply with all externally imposed capital requirements as at 30 September 2010 and 31 December 2009.

Management believes that a 10% tier I capital ratio and a 12% total capital ratio, calculated in accordance with the requirements of the Basel Accord, are the appropriate minimum capitalization levels for the Group and MDM Bank.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. Although maximization of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Group's longer term strategic objectives. The policies in respect of capital management and allocation are regularly reviewed by the Board of Directors through approval and review of annual budgets, including those for various business segments.

15 Contingent Liabilities

(a) Legal proceedings

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 position or the results of future operations.

(b) Tax legislation

The Group operates in a number of tax jurisdictions. In the normal course of business, management must interpret and apply existing legislation to transactions with third parties and its own activities.

Current Russian tax legislation is principally based on the form in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The interpretation of Russian tax legislation by the tax authorities and court practice, which are constantly changing, in the future may focus less on the form and more on the substance of a transaction. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Tax years remain open to normal audit by the Russian tax authorities for three years; during such time any change in interpretation or practice, even if there is no change in Russian tax legislation, could be applied retroactively. The interpretation and practice in other jurisdictions in which the Group operates are also changing, sometimes with retroactive effect.

In management's opinion, the Group is in substantial compliance with the tax and other laws governing its operations in Russia and in other tax jurisdictions. However, a risk remains that the relevant authorities could take different positions with regard to interpretative issues or that court practice could develop adversely to positions taken by the Group and the effect on the financial position, should the authorities succeed in asserting their positions, could be significant.

In August 2008, former MDM Bank received the final results of the tax audit for 2005-2006 from the Federal Tax Service of the Ministry of Finance. In accordance with the resolution, the tax authorities assessed additional taxes against former MDM Bank of approximately RUB 194 million and fines and penalties at a maximum of RUB 63 million.

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(expressed in millions of Russian Roubles – refer to Note 3)

15 Contingent Liabilities (Continued)**(b) Tax legislation (continued)**

Former MDM Bank filed a complaint in arbitration to overrule the tax inspectors' claim. The first hearing on the issue took place on 20 February 2009 in St. Petersburg Arbitration Court and the complaint of the former MDM Bank was upheld by the Court, while the inspectors' claim was overruled. Federal Tax Service appealed the Arbitration Court decision and on 4 June 2009 the Court of Appeal let the decision stand. Federal Tax Service protested the Court of Appeal's decision and appealed to the Federal Arbitration Court, which forwarded the case for a new trial to the St. Petersburg Federal Arbitration Court. The last hearing took place on 12 October 2010 and MDM Bank was upheld by the Court again. Accordingly, the Group did not record provisions in respect of this issue in these interim consolidated condensed financial statements.

16 Related Party Transactions

For the purposes of these interim consolidated condensed financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or has joint control over the entity as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties comprise immediate and more senior parent companies and shareholders and ultimate beneficiaries of the Group, directors and key management personnel, and companies controlled by key management and beneficiaries. As at 30 September 2010, these primarily consisted of companies controlled by key management, Joint Stock Company Siberian Coal Energy Company (SUEK) (coal and energy) and its holding companies, and other fellow subsidiaries.

Banking transactions are entered into in the normal course of business with the related parties. These include settlements, loans, deposit taking, trade finance, securities and foreign currency transactions.

The following table shows exposure of the Group to related parties as at 30 September 2010 and 31 December 2009:

	30 September 2010		31 December 2009	
	Amount	% of Total assets	Amount	% of Total assets
Total credit exposure for assets recognised in the interim consolidated condensed statement of financial position (net of impairment)	104	0.0	610	0.2
Total credit exposure (net of impairment)	111	0.0	642	0.2

The total remuneration of the members of the Board of Directors of MDM Bank, including discretionary compensation, amounts to RUB 44 million for the nine-month period ended 30 September 2010 (nine-month period ended 30 September 2009: RUB 27 million).

The total remuneration of key management personnel, including discretionary compensation, amounts to RUB 256 million for the nine-month period ended 30 September 2010 (nine-month period ended 30 September 2009: RUB 114 million).

Key management personnel comprise members of the Management Board of MDM Bank and heads of core business units. As at 30 September 2010, key management personnel comprised 22 persons (31 December 2009: 22 persons). The average number of key management personnel during the nine-month period ended 30 September 2010 comprised 25 persons (nine-month period ended 30 September 2009: 14 persons).

The Group does not provide post-employment, share-based or other long-term benefits to the directors and key management personnel.

MDM Bank**Notes to the Interim Consolidated Condensed Financial Statements
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(expressed in millions of Russian Roubles – refer to Note 3)

16 Related Party Transactions (Continued)

The outstanding balances as at 30 September 2010 with related parties are as follows:

	Beneficiaries	Directors and key management	Immediate and indirect shareholders of the Bank	Companies controlled by key management and beneficiaries	Total
Assets					
Loans and advances to customers (gross)	-	101	-	3	104
Total assets		101		3	104
Liabilities					
Due to other banks	-	-	3 031	-	3 031
Customer accounts					
- Current accounts	8	8	5	290	311
- Term deposits	971	168	-	56	1 195
Subordinated debt	-	-	621	-	621
Total liabilities	979	176	3 657	346	5 158
Credit related commitments	5	2	-	-	7

The results of transactions with related parties for the nine-month period ended 30 September 2010 are as follows:

	Beneficiaries	Directors and key management	Immediate and indirect shareholders of the Bank	Companies controlled by key management and beneficiaries	Total
Interest income on amounts due from other banks	-	-	-	3	3
Interest income on loans and advances to customers	-	11	-	11	22
Loan impairment	-	-	-	8	8
Interest expense on due to other banks	-	-	(84)	(1)	(85)
Interest expense on customer accounts	(127)	(17)	-	(6)	(150)
Interest expense on subordinated debt	-	-	(30)	-	(30)
Results from trading in foreign currencies	-	-	-	10	10
Gain from trading in securities issued by related parties, net	-	-	-	2	2
Operating expenses	-	(300)	-	(80)	(380)
Fee and commission income	-	-	-	19	19
Fee and commission expense	-	-	-	(9)	(9)

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(expressed in millions of Russian Roubles – refer to Note 3)

16 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2009 with related parties are as follows:

	Beneficiaries	Directors and key management	Immediate and indirect shareholders of the Bank	Companies controlled by key management and beneficiaries	Total
Assets					
Due from other banks	-	-	-	25	25
Loans and advances to customers (gross)	13	153	-	427	593
Loan impairment	-	-	-	(8)	(8)
Total assets	13	153	-	444	610
Liabilities					
Due to other banks	-	-	11 828	479	12 307
Customer accounts					
- Current accounts	10	10	8	983	1 011
- Term deposits	1 637	207	-	273	2 117
Subordinated debt	-	-	607	15	622
Total liabilities	1 647	217	12 443	1 750	16 057
Credit related commitments	1	23	-	8	32

The results of transactions with related parties for the nine-month period ended 30 September 2009 are as follows:

	Beneficiaries	Directors and key management	Immediate and indirect shareholders of the Bank	Companies controlled by key management and beneficiaries	Total
Interest income on amounts due from other banks	-	-	-	9	9
Interest income on loans and advances to customers	1	10	-	47	58
Loan impairment	-	(4)	-	5	1
Interest income received from securities issued by related parties	-	-	-	2	2
Interest expense on due to other banks	-	-	(288)	(11)	(299)
Interest expense on customer accounts	(185)	(18)	-	(17)	(220)
Interest expense on subordinated debt	-	-	(39)	(1)	(40)
Results from trading in foreign currencies	-	-	-	40	40
Operating expenses	-	(141)	-	(401)	(542)
Fee and commission income, net	-	-	-	159	159