Absolut Bank Group

Consolidated Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

Contents

Independent Auditors' Report

Notes to Consolidated Financial Statements

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the Shareholders and Board of Directors of Absolut Bank –

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 1 and 32 to the consolidated financial statements which describe the significance of Group's financing provided by its parent.

Ernst & Young LLC

1 March 2011

Consolidated statement of financial position

As of 31 December 2010

(Millions of Russian Rubles)

	Notes	31 December 2010	31 December 2009
Assets			
Cash and cash equivalents	7	14 883	10 518
Mandatory cash balances with the Central Bank of the Russian Federation		1 773	638
Trading securities	8	1 625	1
Due from other banks	9	10 656	17 498
Derivative financial assets	10	109	73
Loans to customers	11	70 656	90 900
Investment securities available for sale	12	3 951	4 679
Property and equipment	13	3 814	4 093
Other assets	14	1 979	1 624
Total assets		**109 446**	**130 024**
Liabilities			
Due to other banks	15	48 777	55 097
Derivative financial liabilities	10	129	170
Customer accounts	16	37 936	47 738
Debt securities issued	17	1 621	6 236
Subordinated debt	18	7 006	6 944
Other liabilities	19	946	552
Total liabilities		**96 415**	**116 737**
Equity			
Share capital	20	2 455	2 455
Share premium	20	13 340	13 340
Accumulated deficit		(2 729)	(2 535)
Revaluation surplus/(deficit) of investment securities available for sale		(35)	27
Total equity		**13 031**	**13 287**
Total equity and liabilities		**109 446**	**130 024**

Approved for issue and signed on behalf of the Management Board on 1 March 2011

Nikolay Sidorov
Chairman of the Board, CEO

Абсолют Банк

Andrey Larkin
Deputy Chairman of the Board, CFO

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(Millions of Russian Rubles)

	Notes	*2010*	*2009*
Interest income	22	11 937	17 635
Interest expense	22	(7 121)	(10 101)
Net interest income		**4 816**	**7 534**
Allowance for loan impairment	9, 11	(872)	(8 591)
Net interest income (loss) after allowance for loan impairment		**3 944**	**(1 057)**
Fee and commission income	23	746	570
Fee and commission expense	23	(129)	(145)
Net gains from operations with securities	24	25	132
Net gains from operations with derivatives	25	94	377
Net gains from trading in foreign currencies		109	419
Net foreign exchange translation differences		(84)	(294)
Other income	26	92	92
Non-interest income		**853**	**1 151**
Personnel expenses	27	(2 994)	(2 713)
Administrative and other operating expenses	27	(1 972)	(1 941)
Reversal of provision/(Provision) for losses from credit related commitments	19, 21	20	(30)
Non-interest expense		**(4 946)**	**(4 684)**
Loss before income tax expense		**(149)**	**(4 590)**
Income tax expense	28	(45)	(389)
Loss for the year		**(194)**	**(4 979)**
Other comprehensive income			
Unrealised (losses)/gains on investment securities available for sale		(24)	47
Realised losses on investment securities available for sale reclassified to profit or loss		(38)	–
Income tax relating to components of other comprehensive income	28	–	(9)
Other comprehensive income for the year, net of tax		**(62)**	**38**
Total comprehensive income for the year		**(256)**	**(4 941)**

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2010

(Millions of Russian Rubles)

	Share capital	*Share premium*	*(Accumulated deficit)/ Retained earnings*	*Revaluation surplus/ (deficit) of investment securities available for sale*	*Total shareholders' equity*
31 December 2008	**2 455**	**12 683**	**2 444**	**(11)**	**17 571**
Total comprehensive income for the year	–	–	(4 979)	38	(4 941)
Additional paid in capital (Note 20)	–	657	–	–	657
31 December 2009	**2 455**	**13 340**	**(2 535)**	**27**	**13 287**
Total comprehensive income for the year	–	–	(194)	(62)	(256)
31 December 2010	**2 455**	**13 340**	**(2 729)**	**(35)**	**13 031**

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2010

(Millions of Russian Rubles)

	Notes	2010	2009
Cash flows from operating activities			
Interest received		12 597	16 844
Interest paid		(7 483)	(10 033)
Fees and commissions received		749	577
Fees and commissions paid		(129)	(145)
(Losses incurred)/Income received on operations with securities		(13)	131
Income received on operations with derivatives		17	241
Income received from operations in foreign currencies		210	764
Other operating income received		92	92
Personnel expenses paid		(2 717)	(2 995)
Other operating expenses paid		(1 456)	(1 418)
Income tax refunded/(paid)		162	(193)
Cash flows from operating activities before changes in operating assets and liabilities		**2 029**	**3 865**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(1 135)	(469)
Trading securities		(1 616)	137
Due from other banks		6 782	(9 079)
Loans to customers		18 869	40 708
Other assets		(446)	(254)
Net increase/(decrease) in operating liabilities			
Due to other banks		(6 519)	(45 601)
Customer accounts		(9 499)	12 593
Promissory notes issued		(1 667)	1 754
Other liabilities		128	(32)
Net cash from operating activities		**6 926**	**3 622**
Cash flows from investing activities			
Purchase of investment securities available for sale		(3 728)	(4 411)
Proceeds from sale and redemption of investment securities available for sale		4 351	–
Purchase of property and equipment		(121)	(290)
Acquisition of software		(229)	(148)
Proceeds from sale of property and equipment		2	–
Net cash from/(used in) investing activities		**275**	**(4 849)**
Cash flows from financing activities			
Redemption of Eurobonds		(2 781)	(6 808)
Additional paid in capital		–	657
Net cash used in financing activities		**(2 781)**	**(6 151)**
Effect of exchange rates changes on cash and cash equivalents		(55)	37
Net increase/(decrease) in cash and cash equivalents		**4 365**	**(7 341)**
Cash and cash equivalents, beginning	7	**10 518**	**17 859**
Cash and cash equivalents, ending	7	**14 883**	**10 518**

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

(Millions of Russian Rubles)

1. Principal activities

The accompanying consolidated financial statements comprise the accounts of Absolut Bank (the “Bank”) and its subsidiaries (together the “Group”). The Bank is the parent company in the Group. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003.

The Bank has 20 (31 December 2009: 20) branches within the Russian Federation.

In November 2010 the Board of Directors of the Bank approved the legal closing of 7 branches during 2011.

The Bank’s registered address is: Tsvetnoy boulevard 18, Moscow, 127051, Russian Federation.

As of 31 December, the following shareholders owned 5% or more of the outstanding shares.

Shareholder	***2010 %***	***2009 %***
KBC Bank NV	95	95
International Finance Corporation (IFC)	5	5
Total	**100**	**100**

KBC Bank NV as a member of KBC Group (hereinafter - "KBC") which owns 95% shares of the Bank.

KBC has developed the strategic plan which was the basis for a restructuring plan as requested by the European Commission. This plan considers subsidiaries in some countries, including Russia, as “non-core”, which means that the Bank is subject to divestment. According to the plan the divestment is not planned in the near future. As of 31 December 2010 KBC provided the Bank with the financial support by placing its funds on the Bank's deposit accounts (Refer to Note 15) and providing subordinated loans (Refer to Note 18). The financial support from KBC is critical for continuity of the Bank's operations.

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

2010 / 2009

Subsidiary	***Ownership, %***	***Country of operation***	***Type of operation***
LLC “Absolut Leasing”	100	Russian Federation	Finance lease
Absolut Capital Trust Limited	100	Cyprus	Capital borrowings
LLC “Absolut Capital”	100	Russian Federation	Financial services
LLC Leasing company “Absolut”	100	Russian Federation	Finance lease

Special purpose entities

The Bank consolidates special purpose entities it controls. In assessing and determining if the Bank controls such special purpose entities, judgement is made about the Bank’s exposure to the risks, rewards and its ability to make operational decisions.

Included in the consolidated financial statements of the Group as at 31 December 2010 is one SPE (31 December 2009: one) located in Luxemburg and established for the purpose of raising finance in international capital markets (Refer to Note 4).

(Millions of Russian Rubles)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian Rubles ("RUB"), unless otherwise indicated.

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year. The principal effects of these changes are as follows:

IAS 27 Consolidated and Separate Financial Statements (revised in January 2008)
The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standard are applied prospectively.

Improvements to IFRSs
In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Subsidiaries (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Initial recognition of financial instruments

Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. Gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Date of recognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group delivers a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements beyond overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change, except for rare circumstances (Refer to Note 8).

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as net gains from operations with securities in the period in which they arise.

Financial assets held to maturity

A financial asset is classified as being held to maturity if the Group intends and is able to hold the investment to maturity. Only investments with a fixed maturity and fixed or determinable payments will be classified as held to maturity.

The held to maturity category is a typical category for bonds and other interest-bearing securities that fulfil the general requirements to be classified as held to maturity.

At the time of purchase, bonds and other interest-bearing securities are recorded at acquisition cost, including transaction costs and less subscription fees. The acquisition cost of securities purchased within the context of a public or private issue is equal to the issue price less any issue, placing and acquisition fees.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets held to maturity (continued)

Subsequently, bonds and other interest-bearing securities are measured at amortized cost. The difference between the acquisition value and the redemption value is regarded as interest and is recorded on an accruals basis in the statement of comprehensive income over the remaining term to maturity. This incorporation into the result occurs on the basis of actuarial yield, the starting-point being the effective rate of return on acquisition. Calculation of the actuarial return is based on the acquisition price, the redemption price, accrued interest and the coupons to final maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Securities classified as loans and receivables are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the consolidated statement of comprehensive income on an accruals basis over the remaining term to maturity. It is recognised in the consolidated statement of comprehensive income, based on the effective rate of interest. Individual impairment losses for securities classified as loans and receivables are recognized – according to the same method as is used for amounts receivable as described below in this note – if there is evidence of impairment at reporting date.

Derivative financial instruments

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

Available for sale financial assets

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

Impairment of financial assets

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems or any other reasonable factors preventing the borrower from effecting a regular payment;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains (overdue interest/principal payments on loans to other banks, unreasonable loan renegotiation requests on the part of the borrower);
- the borrower considers bankruptcy or a financial reorganisation or the Group has information on existence of the facts which may result in the borrower's bankruptcy (effective court rulings, considerable losses, negative cash inflows, force majeure events);
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower (changes in effective legislation that may result in shrinking of the borrower's market or increase tax burden, imposition of discriminating measures in respect of the borrower, or regulatory restriction on margin level);
- the value of collateral significantly decreases as a result of deteriorating market conditions or the borrower has partially/completely lost the collateral uncovered by insurance or insurance company refuses to pay.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision in the following cases:

- after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The procedures include those prescribed by the law, arising out of normal course of business or agreements concluded;
- the recovery of the indebtedness is not economically feasible due to its insignificance.

Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable (Refer to Note 8).

Promissory notes

Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required.

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

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	% per year
Premises	2-3%
Equipment and vehicles	3-33%
Leasehold improvements	over the term of the underlying lease

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

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Intangible assets (continued)

Capitalised costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful live.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts

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

Debt securities in issue

Debt securities in issue include promissory notes, loan participation or other notes, and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of comprehensive income.

Subordinated debt

Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance - Group as lessor

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of comprehensive income.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Leases (continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

ii. Operating - Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

iii. Operating - Group as lessor

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

Derecognition of financial assets and liabilities

Financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

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

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

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Fees received are amortised to income on a straight line basis over the life of the guarantee. Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions, supplemented by the judgment of Management.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Russia also has various operating taxes, that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

Retirement and other employee benefit obligations

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

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. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium in equity. Contributions paid by the shareholders as the additional paid in capital are recognized as share premium in equity.

Fiduciary assets

Assets held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. For the purpose of disclosure fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Group’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

Recognition of income and expenses

Interest income and expense are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for considering loan applications, opening and servicing loan account, valuation and processing transaction documents. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As of 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.4769 (31 December 2009: USD 1 = RUB 30.2442).

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 24 Related party disclosures (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments
In November 2009 the IASB issued the first phase of IFRS 9 *Financial instruments*. This Standard will eventually replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2010. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group's consolidated financial statements.

(Millions of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 “Improvements to IFRS” will have impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 *Business combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may me required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on financial statements of the Group.
- IFRS 7 *Financial instruments*: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 *Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Group.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

4. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Consolidation of Special Purpose Entities

Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. As of 31 December 2010 and 2009 the Group consolidated one special purpose entity established in Luxembourg for the purpose of raising finance in international capital markets: Absolut Finance S.A.

(Millions of Russian Rubles)

4. Significant accounting judgements and estimates (continued)

Segment reporting

The Group does not allocate its premises, equipment and software balances as well as capital expenditure between the operating segments. The Group provides services for the retail and corporate customers within the same premises and the Group believes that currently there is no reasonable basis for allocation of premises, equipment, software as well as capital expenditure.

5. Changes in presentation

Certain reclassifications have been made to the financial statements as at 31 December 2009 and for the year then ended to conform to the presentation as at 31 December 2010 and for the year then ended as current year presentation leads to a more appropriate presentation of the underlying transactions in the statement of comprehensive income.

Nature of reclassification	*Amount*	*Line as per the previous report*	*Line as per current report*
Consolidated statement of comprehensive income			
Interest accrued on impaired loans	533	Allowance for loan impairment	Interest income

6. Segment information

For management purposes, the Group is organised into three operating segments based on products and services as follows:

- Corporate – comprises corporate lending including sales and repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers.
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.
- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of promissory notes and retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals, individual entrepreneurs and small and medium size entities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements.

The Group allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Group allocates in its internal management accounting system major part of the Group's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses that were not allocated have been presented as "unallocated" in the table below.

"Interest income from other segments" and "Interest expense relating to transactions with other segments" are defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues ("Interest income from other segments") attributable to the assets of the segment as well as on the direct and allocated expenses ("Interest expense relating to transactions with other segments") attributable to the liabilities of the segment.

The Group allocates administrative and other operating expenses between segments using the following principles of allocation: the major part of administrative and other operating expenses represents direct expenses attributable to cost centres which activities correspond to segment activities. The remaining part is allocated between the segments in the same proportion as the direct operating expenses are allocated.

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2010:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Revenues comprise				
External interest income	5 437	5 694	806	11 937
Interest income from other segments	1 667	551	3 817	6 035
Dealing and other operating income	160	172	50	382
Fee and commission income	490	237	19	746
Total revenues	**7 754**	**6 654**	**4 692**	**19 100**
Expenses comprise				
External interest expense	(2 322)	(830)	(3 969)	(7 121)
Interest expense from other segments	(3 102)	(2 471)	(462)	(6 035)
Allowance for loan impairment	(67)	(805)	–	(872)
Personnel expenses	(1 648)	(1 167)	(179)	(2 994)
Administrative and other operating expenses	(1 052)	(595)	(68)	(1 715)
Dealing and other operating loss	(17)	(1)	(24)	(42)
Fee and commission expense	(56)	(13)	(60)	(129)
Total expenses	**(8 264)**	**(5 882)**	**(4 762)**	**(18 908)**
Segment results	**(510)**	**772**	**(70)**	**192**
Unallocated expenses				(341)
Loss before tax				**(149)**
Income tax expense				(45)
Loss for the year				**(194)**
Assets and liabilities				
Segment assets	42 745	28 985	18 790	90 520
Unallocated assets				18 926
Total assets				**109 446**
Segment liabilities	(26 315)	(11 080)	(58 165)	(95 560)
Unallocated liabilities				(855)
Total liabilities				**(96 415)**
Other segment information				
Depreciation and amortisation	(315)	(175)	(16)	(506)
Other provisions	(16)	36	–	20

The following table presents dealing and other operating income / (loss) information regarding the Group's operating segments for the year ended 31 December 2010:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Dealing and other operating income comprise				
Net gains from operations with derivatives	–	–	115	115
Net gains from trading in foreign currencies	87	105	(82)	110
Recovery of provision for losses on credit related commitments	–	37	–	37
Net gains from operations with securities	–	11	17	28
Other income	73	19	–	92
Total dealing and other operating income	**160**	**172**	**50**	**382**
Dealing and other operating loss comprise				
Net losses from operations with derivatives	–	–	(21)	(21)
Provision for losses on credit related commitments	(17)	–	–	(17)
Net losses from operations with securities	–	–	(3)	(3)
Net losses from trading in foreign currencies	–	(1)	–	(1)
Total dealing and other operating loss	**(17)**	**(1)**	**(24)**	**(42)**
Unallocated expenses comprise				
Net foreign exchange translation differences				(84)
Administrative and other operating expenses				(257)
Total unallocated expenses				**(341)**

(Millions of Russian Rubles)

6. Segment information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2009:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Revenues comprise				
External interest income	6 799	9 641	1 195	17 635
Interest income from other segments	2 812	1 224	8 512	12 548
Dealing and other operating income	222	260	691	1 173
Fee and commission income	269	250	51	570
Total revenues	**10 102**	**11 375**	**10 449**	**31 926**
Expenses comprise				
Interest expense from other segments	(5 048)	(6 321)	(1 179)	(12 548)
External interest expense	(2 682)	(820)	(6 599)	(10 101)
Allowance for loan impairment	(1 262)	(7 351)	22	(8 591)
Personnel expenses	(1 568)	(1 016)	(129)	(2 713)
Administrative and other operating expenses	(1 169)	(480)	(97)	(1 746)
Dealing and other operating loss	–	(38)	(147)	(185)
Fee and commission expense	(42)	(17)	(86)	(145)
Total expenses	**(11 771)**	**(16 043)**	**(8 215)**	**(36 029)**
Segment results	**(1 669)**	**(4 668)**	**2 234**	**(4 103)**
Unallocated expenses				(489)
Unallocated revenues				2
Loss before tax				**(4 590)**
Income tax expense				(389)
Loss for the year				**(4 979)**
Assets and liabilities				
Segment assets	45 796	45 741	23 408	114 945
Deferred tax asset	–	–	–	–
Unallocated assets				15 079
Total assets				**130 024**
Segment liabilities	(32 480)	(17 196)	(66 625)	(116 301)
Unallocated liabilities				(436)
Total liabilities				**(116 737)**
Other segment information				
Depreciation and amortisation	(341)	(162)	(16)	(519)
Other provisions	6	(36)	–	(30)

The following table presents dealing and other operating income / (loss) information regarding the Group's operating segments for the year ended 31 December 2009:

	Retail Banking	*Corporate Banking*	*Financial Markets*	*Total*
Dealing and other operating income comprise				
Net gains from operations with derivatives	–	–	524	524
Net gains from trading in foreign currencies	165	156	100	421
Net gains from operations with securities	–	66	66	132
Other income	51	38	1	90
Recovery of provision for losses on credit related commitments	6	–	–	6
Total dealing and other operating income	**222**	**260**	**691**	**1 173**
Dealing and other operating loss comprise				
Net losses from operations with derivatives	–	–	(147)	(147)
Provision for losses on credit related commitments	–	(36)	–	(36)
Net losses from trading in foreign currencies	–	(2)	–	(2)
Total dealing and other operating loss	**–**	**(38)**	**(147)**	**(185)**
Unallocated expenses comprise				
Net foreign exchange translation differences				(294)
Administrative and other operating expenses				(195)
Total unallocated expenses				**(489)**
Unallocated revenues comprise				
Other income				2

(Millions of Russian Rubles)

6. Segment information (continued)

Geographical information

The Group operates only in the Russian Federation. Balances with Russian counterparties actually outstanding from off-shore companies of the counterparties are allocated to the Russian Federation segment. The capital expenditure of the Group relates to the operations of the Group in the Russian Federation.

The Russian Federation segment has certain balances with counterparties in other countries. A breakdown of assets and liabilities of the Group with non-Russian counterparties is presented in Note 29.

7. Cash and cash equivalents

	31 December 2010	*31 December 2009*
Current accounts with the CBRF	9 588	5 886
Cash on hand	2 770	2 591
Settlement accounts with trading systems	1 494	1 399
Current accounts with other banks	751	469
Overnight placements with other banks	280	173
Cash and cash equivalents	**14 883**	**10 518**

8. Trading securities

	31 December 2010	*31 December 2009*
Corporate bonds	1 212	–
Promissory notes	413	–
Corporate shares	–	1
Trading securities	**1 625**	**1**

As of 31 December 2010 corporate bonds were represented by Russian Rouble denominated securities issued by top Russian companies and banks.

As of 31 December 2010 promissory notes represent Russian Rouble denominated securities issued by top Russian banks with a discount to face value. These securities are traded over-the-counter.

Following the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets out of held for trading category as they were no longer held for the purpose of selling or repurchasing them in the near term. The reclassification was made with effect from 30 September 2008 at fair value at that date. The impact of reclassification is as follows:

	Trading securities were reclassified to	
	Loans and receivables	*Available for sale financial assets*
Carrying amount as at 31 December 2010	440	159
Fair value as at 31 December 2010	467	159
Fair value (loss)/gain that would have been recognized on the reclassified assets for the year ended 31 December 2010 if the reclassification had not been made	(10)	6
Gain, income recognized after reclassification in profit or loss for the year ended 31 December 2010:		
- Interest income	85	11
- Recovery of provision for loan impairment	89	–
- Net gains from operations with debt securities classified as loans	11	–
Carrying amount as at 31 December 2009	1 071	153
Fair value as at 31 December 2009	1 086	153
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2009 if the reclassification had not been made	1	16
Gain/(loss), income/(expense) recognized after reclassification in profit or loss for the year ended 31 December 2009:		
- Interest income	488	10
- Allowance for loan impairment	(56)	–
- Net gains from operations with debt securities classified as loans	67	–

(Millions of Russian Rubles)

8. Trading securities (continued)

Financial assets were reclassified from financial assets held for trading to loans and receivables and available for sale financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Maturity analysis of trading securities is disclosed in Note 31.

9. Due from other banks

As of 31 December 2010 and 2009 due from other banks comprised time deposits with other bank in the amount of RUB 10 656 million and RUB 17 498 million respectively. As of 31 December 2010 time deposits with other banks included balances with the Parent with the total aggregate amount of RUB 8 987 million or 84% of the total amount due from other banks (31 December 2009: RUB 16 168 million or 92%). These loans mature from January till March 2011 and have effective interest rates from 0.4% till 3.6% per annum (31 December 2009: mature from January till March 2010 and have effective interest rates from 0.2% till 6.79% per annum).

The movements in allowance for impairment of due from other banks were as follows:

1 January 2009	**22**
(Reversal)/Charge	(22)
31 December 2009	–
31 December 2010	–

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due from other banks is disclosed in Note 30. Maturity analysis of due from other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

10. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2010			*31 December 2009*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Swaps – foreign counterparty	831	–	(69)	907	–	(78)
Foreign exchange contracts						
Swaps – foreign counterparty	7 556	73	(24)	4 092	16	(16)
Swaps – domestic counterparty	7 401	29	(17)	1 812	1	(45)
Forwards – foreign counterparty	–	–	–	111	1	–
Forwards – domestic counterparty	1 938	7	(19)	299	55	(31)
Total derivative assets/liabilities		**109**	**(129)**		**73**	**(170)**

Foreign and domestic counterparty in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2010 and 2009, the Group has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

(Millions of Russian Rubles)

10. Derivative financial instruments (continued)

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

During 2007 in order to hedge interest rate gap between fixed interest rate loans and advances to customers and floating interest rate interbank liabilities the Group entered into several interest rate swaps with a foreign bank. The derivatives mature from 2011 to 2014.

11. Loans to customers

Loans to customers by class comprise:

	31 December 2010	*31 December 2009*
Loans to legal entities:		
Corporate loans	33 968	50 324
SME loans	2 367	2 376
Trade finance	2 157	2 411
Finance lease receivables	953	1 728
Corporate bonds	608	1 329
Loans to local authorities:		
Municipal bonds	–	128
Loans to individuals:		
Mortgage loans	32 129	32 907
Car loans	7 303	9 383
SME loans	1 569	1 570
Credit cards	650	1 107
Gross loans to customers	**81 704**	**103 263**
Less – Allowance for impairment	(11 048)	(12 363)
Loans to customers	**70 656**	**90 900**

As of 31 December 2010 corporate bonds in the amount RUB 608 million represent debt securities reclassified out from trading securities portfolio (31 December 2009: corporate and municipal bonds in the amount RUB 1 329 million and RUB 128 million respectively). Refer to Note 8.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	At 1 January 2010	*Charge for the year/ (recovery)*	*Interest accrued on impaired loans*	*Allowance for disposed loans*	*Amounts written off*	*At 31 December 2010*
Loans to legal entities:						
Corporate loans	8 857	82	(992)	(878)	–	7 069
Trade finance	648	849	(31)	–	–	1 466
SME loans	515	(10)	–	(2)	(3)	500
Corporate bonds	376	(79)	(8)	(121)	–	168
Finance lease receivables	165	(38)	(12)	–	(15)	100
Loans to local authorities:						
Municipal bonds	10	(10)	–	–	–	–
Loans to individuals:						
Mortgage loans	771	11	–	–	(5)	777
Car loans	536	42	–	–	(10)	568
Credit cards	278	9	–	(95)	(1)	191
SME loans	207	16	–	–	(14)	209
Total	**12 363**	**872**	**(1 043)**	**(1 096)**	**(48)**	**11 048**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

	At 1 January 2009	*Charge for the year/ (recovery)*	*Interest accrued on impaired loans*	*Amounts written off*	*At 31 December 2009*
Loans to legal entities:					
Corporate loans	2 674	6 684	(501)	–	8 857
Trade finance	172	476	–	–	648
SME loans	264	251	–	–	515
Corporate bonds	288	108	(20)	–	376
Finance lease receivables	78	93	(6)	–	165
Loans to local authorities:					
Municipal bonds	20	(10)	–	–	10
Loans to individuals:					
Mortgage loans	353	424	(6)	–	771
Car loans	272	264	–	–	536
Credit cards	55	224	–	(1)	278
SME loans	109	99	–	(1)	207
Total	**4 285**	**8 613**	**(533)**	**(2)**	**12 363**

The table below distinguishes between loans and advances to customers assessed for impairment individually and on portfolio basis:

	31 December 2010	*31 December 2009*
Loans assessed for impairment on portfolio basis	61 530	74 413
Individually determined to be impaired	19 448	22 797
Past due but not impaired	726	6 053
Gross loans to customers	**81 704**	**103 263**
Less – Allowance for impairment of loans assessed for impairment on portfolio basis (including past due but not impaired)	(1 035)	(2 661)
Less – Allowance for impairment of loans individually determined to be impaired	(10 013)	(9 702)
Loans to customers	**70 656**	**90 900**

Concentration of loans to customers

As of 31 December 2010 the Group had a concentration of loans represented by RUB 11 176 million due from the ten largest third party borrowers (14% of gross loan portfolio) (2009 – RUB 14 391 million or 14%). An allowance of RUB 3 253 million (2009 – RUB 1 845 million) was recognised against these loans.

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

	31 December 2010	*31 December 2009*
Individuals	41 651	44 967
Trade	15 184	19 351
Real estate	11 391	17 798
Manufacturing	8 392	10 814
Services	2 254	3 695
Construction	1 259	2 939
Finance	465	1 808
Agriculture	67	141
Municipals	–	128
Other	1 041	1 622
Gross loans to customers	**81 704**	**103 263**

(Millions of Russian Rubles)

11. Loans to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2010 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	556	676	1 232
Unearned future finance income on finance lease	(74)	(205)	(279)
	482	**471**	**953**
Less – Allowance for impairment	(88)	(12)	(100)
Net investments in finance lease	**394**	**459**	**853**

The analysis of finance lease receivables at 31 December 2009 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investments in finance lease	1 020	1 336	2 356
Unearned future finance income on finance lease	(272)	(356)	(628)
	748	**980**	**1 728**
Less – Allowance for impairment	(99)	(66)	(165)
Net investments in finance lease	**649**	**914**	**1 563**

Net investments in finance lease generally comprise lease contracts on various types of equipment and vehicles.

The geographical concentration, analysis by credit quality, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of loans to customers is disclosed in Note 30. Maturity analysis of loans to customers is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

12. Investment securities available for sale

	31 December 2010	*31 December 2009*
Federal loan bonds (OFZ)	1 773	2 380
Corporate bonds	1 375	2 043
Bonds of the CBRF	548	3
Municipal bonds	255	253
Investment securities available for sale	**3 951**	**4 679**

As of 31 December 2010 federal loan bonds (OFZ) in the amount RUB 159 million (2009 – RUB 153 million) represent securities reclassified out from trading securities portfolio in 2008 (Refer to Note 8).

As of 31 December 2010 and 2009 corporate bonds were represented by Russian Rouble denominated securities issued by top Russian companies and banks.

(Millions of Russian Rubles)

13. Property and equipment

The movements in property and equipment for the year ended 31 December 2010 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Assets under construction*	*Total*
Cost					
31 December 2009	**3 396**	**95**	**1 207**	**190**	**4 888**
Additions	5	–	108	8	121
Transfers	160	–	38	(198)	–
Disposals	–	(5)	(12)	–	(17)
31 December 2010	**3 561**	**90**	**1 341**	**–**	**4 992**
Accumulated depreciation					
31 December 2009	**214**	**57**	**524**	**–**	**795**
Depreciation charge	89	13	292	–	394
Disposals	–	(2)	(9)	–	(11)
31 December 2010	**303**	**68**	**807**	**–**	**1 178**
Net book value:					
31 December 2009	**3 182**	**38**	**683**	**190**	**4 093**
31 December 2010	**3 258**	**22**	**534**	**–**	**3 814**

The movements in property and equipment for the year ended 31 December 2009 were as follows:

	Premises	*Leasehold improvement*	*Computers and office equipment*	*Assets under construction*	*Total*
Cost					
31 December 2008	**3 378**	**111**	**982**	**164**	**4 635**
Additions	–	–	3	287	290
Transfers	18	10	233	(261)	–
Disposals	–	(26)	(11)	–	(37)
31 December 2009	**3 396**	**95**	**1 207**	**190**	**4 888**
Accumulated depreciation					
31 December 2008	**126**	**45**	**272**	**–**	**443**
Depreciation charge	88	24	261	–	373
Disposals	–	(12)	(9)	–	(21)
31 December 2009	**214**	**57**	**524**	**–**	**795**
Net book value:					
31 December 2008	**3 252**	**66**	**710**	**164**	**4 192**
31 December 2009	**3 182**	**38**	**683**	**190**	**4 093**

Assets under construction consist of investments in acquisition of premises, construction works, leasehold improvements and refurbishment of premises in Moscow and regions of the Russian Federation, where the branch network is being presented. Upon completion, assets are transferred to premises and equipment.

As of 31 December 2010 premises and equipment contain fully depreciated assets in the amount of RUB 195 million (31 December 2009: RUB 48 million).

(Millions of Russian Rubles)

14. Other assets

	31 December 2010	31 December 2009
Foreclosed assets	765	110
Software	433	316
Corporate bonds held to maturity	276	–
Prepayments	184	185
Current income tax asset	68	275
Property to transfer to leasing	43	61
Settlements	40	22
Precious coins	33	83
VAT on leasing operations	23	92
Restricted cash	12	12
Prepayments to suppliers for equipment to be leased	3	6
Accrued income	1	2
Due from employees	1	2
Non-current assets held for sale	–	379
Other	97	79
Other assets	**1 979**	**1 624**

The movements in software for the year ended 31 December 2010 were as follows:

	Software
Cost	
31 December 2009	**436**
Additions	229
Disposals	(81)
31 December 2010	**584**
Accumulated depreciation	
31 December 2009	**120**
Depreciation charge	112
Disposals	(81)
31 December 2010	**151**
Net book value:	
31 December 2009	**316**
31 December 2010	**433**

The movements in software for the year ended 31 December 2009 were as follows:

	Software
Cost	
31 December 2008	**397**
Additions	148
Disposals	(109)
31 December 2009	**436**
Accumulated depreciation	
31 December 2008	**80**
Depreciation charge	146
Disposals	(106)
31 December 2009	**120**
Net book value:	
31 December 2008	**317**
31 December 2009	**316**

(Millions of Russian Rubles)

15. Due to other banks

	31 December 2010	*31 December 2009*
Time deposits and loans	47 582	52 669
Trade finance	748	1 500
Special purpose finance	385	831
Brokerage accounts	54	23
Current accounts and overnight placements of other banks	8	74
Due to other banks	**48 777**	**55 097**

As of 31 December 2010 and 2009 due to banks were to a considerable extent (95% and 93% respectively) funded by Group's parent (Refer to Note 32).

Trade finance represents funds received from foreign financial institutions either directly by the Group or by the beneficiaries under documentary operations if there is a lending arrangement between the Group and the financing bank, under which the Group is liable for the funds' repayment. Funds mature from 2011 to 2015 and have effective interest rates from 2.4% to 12.12% per annum (31 December 2009: from 2.50% to 12.12% per annum).

As of 31 December 2010 special purpose finance represents loans from 2 foreign banks (31 December 2009: 3), granted to the Group under credit line facility agreement for the special purposes, such as expansion of the consumer financing portfolio, mortgage lending programs and programs of development of small business in the private sector in the Russian Federation. Loans mature from 2012 to 2014 and have effective interest rates from 8.80% to 9.96% per annum (31 December 2009: from 3.64% to 9.98% per annum).

The Group is obliged to comply with financial covenants in relation to special purpose finance disclosed above. These covenants include capital adequacy ratios and various other financial performance ratios.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of due to other banks is disclosed in Note 30. Maturity analysis of due to other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

16. Customer accounts

	31 December 2010	*31 December 2009*
State and public organisations		
Current accounts	442	79
Term deposits	–	70
Legal entities		
Current accounts	13 859	8 540
Term deposits	3 287	6 806
Individuals		
Term deposits	16 750	29 521
Current accounts	3 598	2 722
Customer accounts	**37 936**	**47 738**

As of 31 December 2010 customer accounts in the amount of RUB 343 million (31 December 2009: RUB 213 million) represent the balances on brokerage accounts of legal entities and individuals.

As of 31 December 2010 customer accounts of RUB 7 510 million or 20 % (of total customer accounts) were due to the ten largest third party customers (31 December 2009: RUB 7 795 million or 16 %).

(Millions of Russian Rubles)

16. Customer accounts (continued)

An analysis of customer accounts by economic sector follows:

	31 December 2010	*31 December 2009*
Individuals	20 348	32 243
Trade	4 889	4 395
Insurance	4 676	5 012
Construction / real estate	2 288	1 644
Services	1 321	128
Manufacturing	990	634
Financial services	784	514
Transport	601	562
Telecom	78	46
Oil and gas	52	108
Agriculture	28	135
Other	1 881	2 317
Customer accounts	**37 936**	**47 738**

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of customer accounts is disclosed in Note 30. Maturity analysis of customer accounts is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

Included in time deposits are deposits of individuals in the amount of RUB 20 348 million (2009 – RUB 32 243 million). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

17. Debt securities issued

	31 December 2010	*31 December 2009*
Promissory notes	1 621	3 220
Eurobonds (Loan participation notes)	–	3 016
Debt securities issued	**1 621**	**6 236**

Promissory notes are represented by debt securities issued by the Group with a discount to face value in Russian Rubles and foreign currencies.

In March 2007 the Group placed 9.13% loan participation notes due in March 2010 for a total nominal amount of USD 175 million. As of 31 December 2009 the carrying value of these notes was RUB 3 016 million. The effective interest rate was 9.9% per annum. In March 2010 the Group fully redeemed these notes.

The geographical concentration, currency and interest rate risks analysis are disclosed in Note 29. Information about fair value of debt securities issued is disclosed in Note 30. Maturity analysis of debt securities issued is disclosed in Note 31. The information on related party balances is disclosed in Note 32.

18. Subordinated debt

	31 December 2010	*31 December 2009*
USD 100 million subordinated loan	3 168	3 140
USD 55 million subordinated loan	1 700	1 683
USD 50 million subordinated loan	1 521	1 510
USD 20 million subordinated loan	617	611
Subordinated debt	**7 006**	**6 944**

In August 2006 the Group entered into a subordinated loan agreement with a foreign financial institution for the amount of USD 20 million. The loan is repayable in 6 semi-annual installments starting from 15 February 2012 and has a floating interest rate of six-months LIBOR + 3.95% per annum (31 December 2009: six-months LIBOR + 3.95%). The effective interest rate at 31 December 2010 was 4.92% per annum (31 December 2009: 5.19% per annum).

(Millions of Russian Rubles)

18. Subordinated debt (continued)

In June, September and November 2007 the Group attracted three subordinated loans in the amount of USD 100 million, USD 55 million, USD 50 million for the period of 10 years from the Group's Parent. For the first five years the rates are fixed at 8.03, 6.34 and 5.81% per annum respectively, subsequently floating interest rate of six-month LIBOR + 3.75%, six-month LIBOR + 2.75%, six-month LIBOR + 2.75% per annum respectively are set. The effective interest rates at 31 December 2010 were 8.33%, 6.56%, 5.97% per annum respectively (31 December 2009: 8.34, 6.49 and 5.97% per annum respectively).

Interest rate analysis of subordinated debt is disclosed in Note 29. Information about fair value of subordinated debt is disclosed in Note 30. The information on related party balances is disclosed in Note 32.

19. Other liabilities

	31 December 2010	*31 December 2009*
Accrued bonuses and unused vacations including social security	463	186
Accounts payable	159	29
Finance lease payments received in advance	107	97
Provisions for guarantees and commitments	99	119
Taxes payable other than income	63	57
Other accrued expenses	29	41
Deferred income	23	21
Provision for legal claims	2	2
Spot deals	1	–
Other liabilities	**946**	**552**

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*
31 December 2008	–	89
Charge (reversal)	2	30
31 December 2009	**2**	**119**
Charge (reversal)	4	(20)
Utilization	(4)	–
31 December 2010	**2**	**99**

20. Equity

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

	Number of shares (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*
31 December 2008, 2009, 2010	**184**	**1 845**	**610**	**2 455**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

Share premium represents the excess of contributions received over the nominal value of shares issued.

On 30 June 2009 KBC Bank N.V. granted EUR 15 million to the Group as additional paid in capital without issue of new shares.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. The Bank had no undistributed and unreserved earnings as at 31 December 2010 and 2009.

(Millions of Russian Rubles)

21. Commitments and contingencies

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

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

Legal

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.

As of 31 December 2010, the Group was engaged in number of litigation proceedings. Provision of RUB 2 million has been made as it is likely that such an amount of loss will occur (Refer to Note 19).

Taxation

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

In accordance with tax legislation input VAT on leasing operations is subject to recovery either through offset against output VAT or cash refund (Refer to Note 14). The excess input VAT is to be offset automatically against output VAT within three months from the end of the tax period when the excess input VAT was declared, i.e. when the respective VAT declaration was submitted. Upon the expiration of the three month period the remainder of input VAT which was not offset by the tax authorities is to be refunded to the taxpayer in cash upon its written claim or the taxpayer is eligible to apply the alternative method of VAT recovery (offset against other taxes).

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

Capital expenditure commitments

As of 31 December 2010 the Group had contractual capital expenditure commitments in respect of premises and equipment totaling RUB 1 million (31 December 2009: RUB 6 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

(Millions of Russian Rubles)

21. Commitments and contingencies (continued)

Operating lease commitments

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

	31 December 2010	*31 December 2009*
Not later than 1 year	100	103
Later than 1 year and not later than 5 years	171	242
Later than 5 years	101	95
Total operating lease commitments	**372**	**440**

Credit related commitments

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

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

Credit related commitments

Outstanding credit related commitments are as follows:

	31 December 2010	*31 December 2009*
Undrawn credit lines	10 320	9 904
Guarantees issued	2 629	2 046
Import letters of credit	682	615
	13 631	**12 565**
Less – Provisions	(99)	(119)
Total credit related commitments	**13 532**	**12 446**

Fiduciary assets

The Group provides depositary services to its customers. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group.

Trust activities of the Group

The assets under management are not reported on the Group's consolidated statement of financial position as they are not assets of the Group. They represent assets transferred to the Group for the management under individual asset management agreements or under collective investment programmes. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

	31 December 2010	*31 December 2009*
Corporate bonds	320	8
Corporate shares	152	18
Cash at brokers	40	3
Futures, long position	3	–
Total assets under management	**515**	**29**

Insurance

The Group has currently obtained insurance coverage related to liabilities arising from errors or omissions of EUR 120 million.

(Millions of Russian Rubles)

22. Interest income and expense

	2010	*2009*
Interest income		
Loans to customers	11 144	16 444
Due from other banks	419	994
Investment securities available for sale	256	187
Investment securities held to maturity	16	–
Current accounts with other banks	2	2
	11 837	**17 627**
Debt trading securities	100	8
Interest income	**11 937**	**17 635**
Interest expense		
Term placements of other banks	3 314	5 516
Term deposits of individuals	2 299	2 677
Term deposits of legal entities	673	700
Subordinated debt	481	487
Debt securities issued	353	720
Current accounts of other banks	1	1
Interest expense	**7 121**	**10 101**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised RUB 1 043 million (2009 – RUB 533 million).

23. Fee and commission income and expense

	2010	*2009*
Settlement transactions	234	103
Cash transactions	169	97
Commission on plastic cards settlements	143	137
Guarantees issued	66	66
Acting as currency control agent	62	45
Letters of credit	36	51
Brokerage	11	14
Commission on cash collection	10	15
Asset management	5	1
Transactions with securities	2	14
Other	8	27
Fee and commission income	**746**	**570**
Plastic card	50	44
Settlement transactions	30	24
Cash transaction	17	29
Letters of credit	10	14
Guarantees	7	4
Transactions with securities	6	17
Currency conversion operations	2	3
Other	7	10
Fee and commission expense	**129**	**145**

(Millions of Russian Rubles)

24. Net gains from operations with securities

	2010	2009
Investment securities available for sale:		
- Corporate bonds	21	6
- Government bonds	4	19
- State and municipal bonds	–	1
Debt securities classified as loans	11	67
Debt securities issued	(3)	38
Trading securities:		
- Promissory notes	6	1
- Corporate bonds	(14)	–
Net gains from operations with securities	**25**	**132**

25. Net gains from operations with derivatives

	2010	2009
Net gains/(losses) from operations with swaps and forwards on foreign currency	124	388
Net losses from operations with interest rate options	–	(6)
Net losses from operations with interest rate swaps	(30)	(5)
Net gains from operations with derivatives	**94**	**377**

26. Other income

	2010	2009
Rental income	42	33
Income from operations with precious coins	28	11
Penalties received	3	11
Net income from operations with foreclosed assets	–	19
Other	19	18
Other income	**92**	**92**

27. Personnel and other operating expenses

	2010	2009
Fixed wages and salaries, bonuses and unused vacations	2 577	2 350
Social security costs	348	311
Severance payments	38	28
Variable staff remuneration	28	11
Employee benefits and allowances	3	13
Personnel expenses	**2 994**	**2 713**
Depreciation of premises and equipment	394	373
Taxes other than on income	237	221
Other expenses related to premises and equipment	228	268
Advertising and marketing services	169	142
IT expenses	136	115
Rent	134	173
Professional services	124	101
Amortisation of software	112	146
Communication expenses	96	93
Contribution to state deposit insurance system	95	102
Security services	59	54
Personnel related expenses	39	35
Administrative expenses	32	26
Business trip expenses	21	19
Net loss from operations with foreclosed assets	18	–
Mailing and postal services	16	25
Charity	1	2
Provision for legal claims	–	2
Other	61	44
Other operating expenses	**1 972**	**1 941**

(Millions of Russian Rubles)

28. Taxation

The corporate income tax expense comprises:

	2010	2009
Current tax charge	45	36
Deferred tax charge – origination and reversal of temporary differences	–	362
Less: deferred tax recognised directly in other comprehensive income	–	(9)
Income tax expense	**45**	**389**

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

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2010	2009
Profit/(loss) before tax	**(149)**	**(4 590)**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**(30)**	**(918)**
Change in unrecognised deferred tax assets	32	1 277
Income on state securities taxed at different rates	(7)	(8)
Non-deductible expenditures	22	30
Underpaid current tax for prior periods	12	8
Other non-temporary differences	16	–
Income tax expense	**45**	**389**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2008	*In the profit or loss*	*In other compre-hensive income*	*31 December 2009*	*In the profit or loss*	*In other compre-hensive income*	*31 December 2010*
Tax effect of deductible temporary differences:							
Unutilised tax losses (begin to expire in 2018)	17	1 616	–	1 633	182	–	1 815
Deferred income/accrued expenses	121	(24)	–	97	243	–	340
Effective interest rate accrual	114	(69)	–	45	125	–	170
Derivatives	42	(25)	–	17	(15)	–	2
Allowance for loan impairment	136	(136)	–	–	–	–	–
Securities	5	–	(3)	2	(2)	–	–
Deferred tax asset	**435**			**1 794**			**2 327**
Tax effect of taxable temporary differences:							
Allowance for loan impairment	–	(418)	–	(418)	(500)	–	(918)
Property and equipment	(105)	12	–	(93)	(3)	–	(96)
Securities	–	–	(6)	(6)	(6)	8	(4)
Deferred tax liability	**(105)**			**(517)**			**(1 018)**
Unrecognised deferred tax asset	**–**			**(1 277)**			**(1 309)**
Deferred tax asset, net	**330**			**–**			**–**

As of 31 December 2010 the Group has available RUB 1 815 million of tax losses carried forwards which begin to expire in 2018, if not utilized (31 December 2009: RUB 1 633 million).

(Millions of Russian Rubles)

29. Risk management

Introduction

Risk is inherent in the Group's activity 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 soundness and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk (both trading and non-trading) and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process and so-called 'risk scans'.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committees

The Risk Committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions. The Risk Committees of the Group include:

- Assets and Liabilities committee (combined ALCO / Trading risk committee);
- Credit risk committee;
- Credit committees;
- Operational risk committee.

Risk Management

The Value and Risk Management Department (VRM) is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Compliance

Compliance function in the Group is particularly dedicated to comprehensive control in the meaning of identification, assessment and analysis of the risks linked to the following domains:

- Anti-money laundering and counter - terrorism financing;
- Investor protection, i.e. market abuse (insider trading and market manipulation), transactions with financial instruments including personal transactions and incompatibility of mandates, conflicts of interests, interests of borrowers;
- Data protection, including personal data, banking secrecy, duty of confidentiality etc.;
- Ethics and anti-fraud fighting.

Credit Product Factory

Credit Product Factory is an independent (from business) unit, managing counterparty risk (legal entities and individuals) on a transactional level. At the same time this unit is responsible for:

- Management of the lending processes of the Bank end-to-end;
- Development of transactional counterparty risk assessment models;
- IFRS provisioning methodology, calculation and reporting.

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

Asset and Liability Management Department

Asset and Liability Management Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Audit Committee

The Audit Committee assists the Board of Directors. It does this by supervising, on behalf of the Board, the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit Committee also oversees the company's processes to comply with laws and regulations.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk Measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For the purposes of managing market risk (both trading and non-trading) the Group's statement of financial position was virtually split into two parts: the Banking Book and the Trading Book.

Trading book - includes the Group's proprietary positions in financial instruments which are intentionally held for short-term resale and/or which are taken on by the Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices.

Banking book - includes everything, except for the assets and liabilities of the Trading book, both financial assets and liabilities and financial commitments and contingencies,

The split of the books reflects not only the split of the items in statement of financial position, but also the risks and the limits for them. Within the Banking book all the market risks are minimised.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. On a monthly basis this information is presented to the Management Board and the Risk Committees. Audit Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on on all relevant risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies rates.

The Group actively uses collateral to reduce its credit risks (see below for more details).

(Millions of Russian Rubles)

29. Risk management (continued)

Risk management structure (continued)

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. The concentration limits (on the level of credit risk by product and/or industry sector) are responsibility of Credit Risk Committee. Such risks are monitored on a quarterly basis.

Individual credit limits (per borrower, or groups of borrowers) are set in the Group by the Credit committees (collegial bodies) in accordance with the approved powers.

In 2010 the Group had the following committees whose competence included setting individual credit risk limits:

- Main Credit Committee (regular meetings are held at least twice a week, areas of competence cover review and approval of any credit limits , approve limits for transactions with banking counterparties)
- Operative Credit Committee (regular meetings are held at least once a week, major areas of competence cover review and approval of credit limits from 1.25 million EUR to 7.5 million EUR (depending on internal rating of the Client);
- SME Credit Committee (major areas of competence cover review and approval of credit limits up to 1 million EUR for SME clients);
- Credit Committee of Retail business (areas of competence cover review and approval of credit limits from 0,05 to 0,1 million EUR (plastic cards), from 1 to 5 million EUR (Mortgage loans), from 0,2 to 0,5 million EUR (Car loans) for transactions with Retail clients);
- Small Credit Committee of Retail business (areas of competence cover review and approval of credit limits up to 0,05 million EUR (plastic cards), up to 1 million EUR (Mortgage loans), up to 0,2 million EUR (Car loans) for transactions with Retail clients);

All the committees operate at the Head office of the Group except for sub-sections of the Small Credit Committee which are organised at branches and take decisions on granting retail loans and loans to SMEs.

A decision on credit risk limit is taken on the basis of analysing financial and non-financial information (both financial and management reporting information is used for the analysis) on the borrower's business. During the analysis special attention is paid to financial indicators of the business, including the analysis of assets and liabilities, equity, revenues and profit – both in static and in dynamic. When analysing financial position of individuals, the Group pays special attention to confirmation of the borrower's claimed income and availability of assets owned by the borrower, which could serve as the evidence of the solid financial position. The main goal of the analysis is to determine opportunities and sources for repayment of loans. All information on material risks relating to the customers whose credit status is deteriorating is timely analysed by the management.

Credit risk monitoring includes control of all the terms and conditions identified when the limit was set, in particular, intended purpose, account turnovers, credit portfolio, financial position and performance, etc. Corporate borrowers are monitored on quarterly basis whereas individuals are reviewed annually.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The Group accepts the following assets for pledge as collateral: residential and non-residential properties, land, construction in progress assets, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or the Group's revenue generating or asset holding companies are accepted as additional collateral for loans. The Group usually uses a combination of different types of collateral and applies certain discounts to the value of collateral pledged. Mortgage pledge under a real risk of its loss or damage is insured by one of the insurance companies accredited by the Group.

Lending is performed in accordance with the provisions and principles of the Lending policy of the Group. Lending process implies a set of thoroughly regulated procedures, which establish the order of work with a borrower.

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

As the Group is a member of KBC Group it implements on a revolving basis methodological principles and procedures focused on credit risk measurement, controlling and its reduction.

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

	Notes	*Maximum exposure 31 December 2010*	*Maximum exposure 31 December 2009*
Cash and cash equivalents (excluding cash on hand)	7	12 113	7 927
Mandatory cash balances with the Central Bank of the Russian Federation		1 773	638
Trading securities	8	1 625	1
Due from other banks	9	10 656	17 498
Derivative financial assets	10	109	73
Loans to customers	11	70 656	90 900
Investment securities available for sale	12	3 951	4 679
Other assets	14	361	117
Financial commitments and contingencies	21	13 532	12 446
Total maximum credit risk exposure		**114 776**	**134 279**

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

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial assets

The Group analyses the credit quality of debt investment securities available for sale, debt trading securities and due from other banks on the basis of international ratings of the issuers. As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Group gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA - the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA - differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A - more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

BBB - exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB - less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

Analysis by credit quality of debt investment securities available for sale, debt trading securities and due from other banks outstanding at 31 December 2010 and 2009 is as follows:

	31 December 2010			*31 December 2009*	
	Debt trading securities	***Debt investment securities available for sale***	***Due from other banks***	***Debt investment securities available for sale***	***Due from other banks***
AA+ to AA-	–	–	–	–	449
A+ to A-	–	–	9 057	–	16 177
BBB+ to BBB-	967	3 951	1 295	4 392	798
BB+ to BB-	586	–	304	287	74
B+ to B-	72	–	–	–	–
Total	**1 625**	**3 951**	**10 656**	**4 679**	**17 498**

Starting from 1 January 2009 the credit quality of corporate loans and trade finance is managed by the Group based on credit ratings set in accordance with internal PD model. PD model was applied by the Group in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

Probability of Default (PD) - is the probability of insolvency of the counterparty for a specified period. In the practice of the Group the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD-rating) - is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale. The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*
1	Up to 0.1
2	from 0.1 to 0.2
3	from 0.2 to 0.4
4	from 0.4 to 0.8
5	from 0.8 to 1.6
6	from 1.6 to 3.2
7	from 3.2 to 6.4
8	from 6.4 to 12.8
9	from 12.8 to 100
10	100
11	100
12	100

The PD-ratings 10, 11 and 12 are not calculated using the PD-model, and are assigned on the individual basis.

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2010.

	Neither past due nor impaired loans									Loans past due but not impaired	Individually Impaired loans (10 - 12)	Total
	2	3	4	5	6	7	8	9	Not rated			
Corporate loans	1 214	6	2 635	3 095	6 949	2 707	503	2 165	68	1	14 625	33 968
Trade finance	–	–	2	82	125	257	4	–	–	–	1 687	2 157
Total	**1 214**	**6**	**2 637**	**3 177**	**7 074**	**2 964**	**507**	**2 165**	**68**	**1**	**16 312**	**36 125**

The table below shows the summarized credit quality of corporate loans and trade finance based on PD ratings as of 31 December 2009.

	Neither past due nor impaired loans									Loans past due but not impaired	Individually Impaired loans (10 - 12)	Total
	2	3	4	5	6	7	8	9	Not rated			
Corporate loans	125	–	2 072	3 414	5 957	8 838	3 285	4 223	96	5 054	17 260	50 324
Trade finance	–	–	–	50	14	48	23	575	–	–	1 701	2 411
Total	**125**	–	**2 072**	**3 464**	**5 971**	**8 886**	**3 308**	**4 798**	**96**	**5 054**	**18 961**	**52 735**

The credit quality of other part of the loan portfolio as of 31 December 2010 and 2009 was managed by the Group by assigning one out of three quality categories. This classification is effected based on CBRF guidelines and the Group's internal methodologies. Risk assessment and financial assets classification is effected based on two principal parameters: evaluation of the financial position and debt servicing quality. The counterparty's financial position is determined by analyzing its creditworthiness and financial stability, assessing the turnover on the accounts, reviewing its credit history, as well as other objective and subjective factors. Debt servicing is assessed by identifying the fact of debt servicing as such, existence of overdue payments, use of funds of the specified purpose and sources of repayment.

The table below shows the credit quality by class (from 1 – 3 in the descending order of quality) of loans to customers. Loans to customers of high grade are those having a minimal level of credit risk or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	Neither past due nor impaired loans					
31 December 2010	**1 High grade**	**2 Standard grade**	**3 Sub-standard grade**	**Loans past due but not impaired**	**Individually Impaired loans**	**Total**
Mortgage loans	915	28 470	1 313	504	927	32 129
Car loans	73	6 429	105	94	602	7 303
SME loans	2 255	534	367	30	750	3 936
Finance lease receivables	–	425	–	20	508	953
Credit cards	8	350	21	77	194	650
Corporate bonds	203	146	104	–	155	608
Total	**3 454**	**36 354**	**1 910**	**725**	**3 136**	**45 579**

(Millions of Russian Rubles)

29. Risk management (continued)

Credit risk (continued)

31 December 2009	Neither past due nor impaired loans: 1 High grade	2 Standard grade	3 Sub-standard grade	Loans past due but not impaired	Individually Impaired loans	Total
Mortgage loans	886	28 651	1 865	553	952	32 907
Car loans	44	8 327	131	190	691	9 383
SME loans	2 103	513	501	73	756	3 946
Finance lease receivables	–	1 014	–	22	692	1 728
Corporate bonds	145	49	700	–	435	1 329
Credit cards	10	595	31	161	310	1 107
Municipal bonds	–	–	128	–	–	128
Total	**3 188**	**39 149**	**3 356**	**999**	**3 836**	**50 528**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans to customers

	Less than 30 days	31 to 90 days	91 to 180 days	181 to 365 days	Total 2010
Mortgage loans	493	6	5	–	504
Car loans	89	3	1	1	94
Credit cards	77	–	–	–	77
SME loans	30	–	–	–	30
Finance lease receivables	9	–	11	–	20
Corporate loans	1	–	–	–	1
Total	**699**	**9**	**17**	**1**	**726**

	Less than 30 days	31 to 90 days	91 to 180 days	181 to 365 days	Total 2009
Corporate loans	2 452	667	1 592	343	5 054
Mortgage loans	553	–	–	–	553
Car loans	189	1	–	–	190
Credit cards	161	–	–	–	161
SME loans	73	–	–	–	73
Finance lease receivables	15	7	–	–	22
Total	**3 443**	**675**	**1 592**	**343**	**6 053**

Collateral and other credit enhancements

The required level of collateral cover is set by the Group's specialists for the groups of related borrowers with specified description of collateral types and taking into account lending limits set for these groups of related borrowers. The value of collateral is determined by application of a discount to market price of collateral. For inventory pledged, for which sales prices are readily available (cars, metals, raw materials, etc.), the evaluation basis is pricelist (adequacy review of prices is performed in accordance with internal procedures). The discount applied to these prices is from 20 to 30%. Prices on goods considerably dependent upon specific qualities of a particular product (footwear, household appliances, foods, etc.) are evaluated on the basis of carrying amounts, warehouse accounting prices, etc. with more substantial discounts (50% and more). For real estate, collateral is assessed on the basis of market value as reported by the professional valuer with a discount individually determined depending on the type of the asset, except for typical corporate business products. The amount of the required collateral cover is dependent upon lending exposure. The amount of this lending exposure is in all cases less than the discounted value of collateral. Credit cards loans and the majority of consumer loans are not collateralised.

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral and other credit enhancements (continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

	Residential mortgage	*Other real estate*	*Securities*	*Vehicles*	*Other assets*	*Total*
Fair value of collateral – loan past due but not impaired						
Mortgage loans	484	–	11	–	–	495
Car loans	–	–	–	93	–	93
SME loans	–	20	–	9	1	30
Finance lease receivables	–	–	–	7	8	15
Total	**484**	**20**	**11**	**109**	**9**	**633**
Fair value of collateral – individually impaired loans						
Corporate loans	1 190	9 162	–	17	2 179	12 548
Trade finance	–	369	–	–	833	1 202
Mortgage loans	853	8	25	–	–	886
SME loans	48	213	–	95	238	594
Car loans	–	–	–	536	–	536
Finance lease receivables	–	334	–	13	8	355
Total	**2 091**	**10 086**	**25**	**661**	**3 258**	**16 121**

Other assets pledged as collateral for loans past due but not impaired and individually impaired loans at 31 December 2010 comprise non-traded equities/shares in the charter capital of the borrowers and their related parties (RUB 559 million), equipment (RUB 229 million), inventories (RUB 2 439 million) and pledge of rights (RUB 40 million).

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

	Residential mortgage	*Other real estate*	*Securities*	*Vehicles*	*Other assets*	*Total*
Fair value of collateral – loan past due but not impaired						
Corporate loans	1 240	3 036	–	54	573	4 903
Mortgage loans	521	1	13	–	–	535
Car loans	–	–	–	188	–	188
SME loans	19	27	–	8	19	73
Finance lease receivables	–	–	–	15	5	20
Total	**1 780**	**3 064**	**13**	**265**	**597**	**5 719**
Fair value of collateral – individually impaired loans						
Corporate loans	1 488	10 554	–	100	4 117	16 259
Trade finance	–	613	–	–	1 088	1 701
Mortgage loans	900	8	16	–	–	924
SME loans	48	287	–	98	284	717
Car loans	–	–	–	663	–	663
Finance lease receivables	–	403	–	–	92	495
Total	**2 436**	**11 865**	**16**	**861**	**5 581**	**20 759**

Other assets pledged as collateral for loans past due but not impaired and individually impaired loans at 31 December 2009 comprise non-traded equities/ shares in the charter capital of the borrowers and their related parties (RUB 1 349 million), equipment (RUB 884 million), inventories (RUB 3 773 million) and pledge of rights (RUB 172 million).

See Note 11 for more detailed information with respect to the allowance for impairment of loans to customers.

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral and other credit enhancements (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount loans to customers that would otherwise be past due or impaired whose terms have been renegotiated:

	31 December 2010	*31 December 2009*
Corporate loans	2 848	9 566
Mortgage loans	1 949	1 927
SME	573	839
Trade finance	–	582
Car loans	61	64
Plastic cards	11	3
Total	**5 442**	**12 981**

The renegotiation of terms includes extending of payment arrangements and the arrangement of interest rates, fines and commissions.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

(Millions of Russian Rubles)

29. Risk management (continued)

Collateral and other credit enhancements (continued)

The geographical concentration of Group's financial assets and liabilities is set out below:

	31 December 2010				*31 December 2009*			
	Russia	***OECD***	***Other***	***Total***	***Russia***	***OECD***	***Other***	***Total***
Assets:								
Cash and cash equivalents	14 403	479	1	**14 883**	10 072	441	5	**10 518**
Mandatory cash balances with the Central Bank of the Russian Federation	1 773	–	–	**1 773**	638	–	–	**638**
Trading securities	1 625	–	–	**1 625**	1	–	–	**1**
Due from other banks	1 295	9 361	–	**10 656**	916	16 582	–	**17 498**
Derivative financial assets	36	73	–	**109**	57	16	–	**73**
Loans to customers	70 656	–	–	**70 656**	90 900	–	–	**90 900**
Investment securities available for sale	3 951	–	–	**3 951**	4 679	–	–	**4 679**
Other assets	361	–	–	**361**	117	–	–	**117**
	94 100	**9 913**	**1**	**104 014**	**107 380**	**17 039**	**5**	**124 424**
Liabilities:								
Due to other banks	1 781	46 994	2	**48 777**	1 831	53 196	70	**55 097**
Derivative financial liabilities	35	94	–	**129**	76	94	–	**170**
Customer accounts	37 773	46	117	**37 936**	47 373	124	241	**47 738**
Debt securities issued	1 621	–	–	**1 621**	3 220	3 016	–	**6 236**
Other liabilities	231	28	–	**259**	148	–	–	**148**
Subordinated debt	–	7 006	–	**7 006**	–	6 944	–	**6 944**
	41 441	**54 168**	**119**	**95 728**	**52 648**	**63 374**	**311**	**116 333**
Net position	**52 659**	**(44 255)**	**(118)**	**8 286**	**54 732**	**(46 335)**	**(306)**	**8 091**
Financial commitments and contingencies	**12 086**	**797**	**649**	**13 532**	**10 668**	**684**	**1 094**	**12 446**

Liquidity risk and funding management

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 in addition to its core deposit base, manages 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.

The Group has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the CBRF, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the CBRF and on stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and equivalents and bonds available for sale.

- The cash part serves as a liquidity buffer. The main reason for holding this buffer is to prevent the liquidity deficit in case of early repayment of large term deposits of clients.
- The available for sale bond portfolio serves as collateral with the CBRF. The minimum volume of the bond portfolio is determined by the volume of the necessary collateral in CBRF. The actual volume is determined according to the liquidity requirements to the liquid assets in part of bonds additionally to cash liquid assets.

(Millions of Russian Rubles)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	4 288	10 683	31 863	10 723	57 557
Foreign exchange derivative contracts					
- Contractual amounts payable	5 212	103	–	–	5 315
- Contractual amounts receivable	(5 154)	(102)	–	–	(5 256)
Customer accounts	27 445	8 880	2 301	–	38 626
Debt securities issued	123	1 562	23	–	1 708
Subordinated debt	139	333	2 437	7 109	10 018
Total undiscounted financial liabilities	**32 053**	**21 459**	**36 624**	**17 832**	**107 968**

Financial liabilities As at 31 December 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to other banks	2 463	28 066	15 811	18 071	64 411
Foreign exchange derivative contracts					
- Contractual amounts payable	330	54	–	–	384
- Contractual amounts receivable	(246)	(46)	–	–	(292)
Customer accounts	24 233	16 343	10 327	–	50 903
Debt securities issued	3 536	1 823	1 323	–	6 682
Subordinated debt	137	328	2 444	7 492	10 401
Total undiscounted financial liabilities	**30 453**	**46 568**	**29 905**	**25 563**	**132 489**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2010	4 015	6 232	3 384	–	13 631
2009	6 066	5 325	987	187	12 565

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

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading and non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk (continued)

The responsible committees have set limits on the level of risk that may be accepted. The Group applies a sensitivity analysis to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions.

For managing the price, interest rate and currency risk the sensitivity to the reasonable possible change (RPC) of market index, yield curve and exchange rates are applied.

Market risk – Trading

Price risk

There were no material equity positions in the Trading book in 2010 and 2009.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the Trading book.

Currency	***Increase in basis points 2010***	***Sensitivity of loss before tax 2010***
RUR	400	(55)
EUR	100	1
USD	125	–

Currency	***Decrease in basis points 2010***	***Sensitivity of loss before tax 2010***
RUR	(100)	14
EUR	(25)	–
USD	(25)	–

There were no material positions sensitive to interest rate in the Trading book in 2009.

Market risk – Non - trading

Interest rate risk

The sensitivity of net interest income (NII) before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity (calculation is based on durations of instruments) of equity estimates revaluation of fixed rate available for sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2010***	***Sensitivity of NII before tax 2010***	***Sensitivity of equity 2010***
RUR	400	(32)	(81)
EUR	100	(3)	–
USD	125	(1)	–

Currency	***Decrease in basis points 2010***	***Sensitivity of NII before tax 2010***	***Sensitivity of equity 2010***
RUR	100	8	20
EUR	25	1	–
USD	25	–	–

(Millions of Russian Rubles)

29. Risk management (continued)

Market risk (continued)

Currency	*Increase in basis points 2009*	*Sensitivity of NII before tax 2009*	*Sensitivity of equity 2009*
RUR	711	8	(153)
EUR	85	7	–
USD	16	13	–

Currency	*Decrease in basis points 2009*	*Sensitivity of NII before tax 2009*	*Sensitivity of equity 2009*
RUR	711	(8)	153
EUR	85	(7)	–
USD	16	(13)	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

According to the Group principles, all foreign exchange risk is transferred from the Banking book to the Trading book. The Management Board has set internal currency based limits on the Trading book positions and regulatory CBRF limits on consolidated currency position. Positions are monitored on a daily basis and calculated according to RAL.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2010 on its consolidated Banking and Trading books assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUR, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2010*	*Effect on profit (loss) before tax 2010*	*Change in currency rate in % 2009*	*Effect on profit (loss) before tax 2009*
USD	9	(372)	12	(406)
EUR	11	(16)	25	(212)

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

The Group continues the implementation of an operational risk management framework supported by operational risk management governance. The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers (‘LORM’) and is supervised by the operational risk committee (‘ORC’). The ORC takes concrete risk mitigating measures either directly or via line management. The LORMs are specifically trained employees who also keep business functions.

The framework consists of a number of building blocks for managing operational risks, which are gradually being implemented. These building blocks are described in the ORM Policy, which also includes the methodology applied to define the operational risk capital charge as well as the methodologies used for IFRS and RAL provisioning purposes. The building blocks consist of:

- The Loss Events Database: since 2009 all operational losses of EUR 1 000 or more are recorded in a central database and reported to the ORC twice a year;
- Standards of Best Practice: The Bank translated standards of best practices into internal procedures. These standards cover such risks as access rights management, dual controls, accounting controls, complaints handling, etc. The ORC monitors the proper implementation of these standards and may allow exceptions to be made pursuant to a strict waiver procedure;
- Key Risk Indicators (‘KRI’): A KRI implementation project has been launched. KRIs help monitor the exposure against certain operational risks. For a selected number of KRIs data are already being collected. The LORMs assume an essential role in determining the KRI in consultancy with the ORM Division.

(Millions of Russian Rubles)

30. Fair values 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2010	***Level 1***	***Level 2***	***Total***
Financial assets			
Trading securities	1 625	–	1 625
Derivative financial instruments	–	109	109
Investment securities available for sale	3 951	–	3 951
	5 576	**109**	**5 685**
Financial liabilities			
Derivative financial instruments	–	129	129
	–	**129**	**129**

At 31 December 2009	***Level 1***	***Level 2***	***Total***
Financial assets			
Trading securities	1	–	1
Derivative financial instruments	–	73	73
Investment securities available for sale	4 679	–	4 679
	4 680	**73**	**4 753**
Financial liabilities			
Derivative financial instruments	–	170	170
	–	**170**	**170**

There have been no transfers from level 2 to level 1 and vice versa in 2010.

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

(Millions of Russian Rubles)

30. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2010			*31 December 2009*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	14 883	14 883	–	10 518	10 518	–
Mandatory cash balances with the Central Bank of the Russian Federation	1 773	1 773	–	638	638	–
Due from other banks	10 656	10 657	1	17 498	17 498	–
Loans to customers	70 656	71 108	452	90 900	88 298	(2 602)
Financial liabilities						
Due to other banks	48 777	48 821	(44)	55 097	48 560	6 537
Customer accounts	37 936	38 378	(442)	47 738	47 251	487
Debt securities issued	1 621	1 670	(49)	6 236	6 386	(150)
Subordinated debt	7 006	7 198	(192)	6 944	7 151	(207)
Total unrecognised change in unrealised fair value			**(274)**			**4 065**

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, judgement 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 quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Loans and receivables carried at amortised cost

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

The Group believes that the carrying amount of due from other banks balances closely approximates their fair value as all the loans granted to other banks are of a short term nature and expire shortly after the reporting date.

Liabilities carried at amortised cost

The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

31. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to ALCO the Group uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted above is used as a subsequent control tool and in reporting to the international finance creditors.

(Millions of Russian Rubles)

31. Maturity analysis of assets and liabilities (continued)

The tables below shows an analysis of financial assets and liabilities as of 31 December 2010 and 2009 according to when they are contracted to be recovered or settled, except for mortgage loans, which are divided based on recursion model, which uses statistic data for period of 1 year for estimation of future payments. See Note 29 for the Group's contractual undiscounted repayment obligations.

31 December 2010	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	14 883	–	–	–	–	–	14 883
Mandatory cash balances with the Central Bank of the Russian Federation	1 773	–	–	–	–	–	1 773
Trading securities	1 625	–	–	–	–	–	1 625
Due from other banks	6 389	4 267	–	–	–	–	10 656
Derivative financial assets	94	15	–	–	–	–	109
Loans to customers	3 502	7 099	17 723	32 537	5 194	4 601	70 656
Investment securities available for sale	3 951	–	–	–	–	–	3 951
Other assets	69	16	276	–	–	–	361
Total financial assets	**32 286**	**11 397**	**17 999**	32 537	5 194	4 601	**104 014**
Due to other banks	1 561	2 709	10 262	27 179	7 066	–	48 777
Derivative financial liabilities	36	23	6	64	–	–	129
Customer accounts	22 695	4 573	8 529	2 139	–	–	37 936
Debt securities issued	80	42	1 478	21	–	–	1 621
Other liabilities	230	2	7	20	–	–	259
Subordinated debt	125	14	321	2 041	4 505	–	7 006
Total financial liabilities	**24 727**	**7 363**	**20 603**	**31 464**	**11 571**	–	**95 728**
Net liquidity gap	**7 559**	**4 034**	**(2 604)**	**1 073**	**(6 377)**	**4 601**	**8 286**
Cumulative liquidity gap	**7 559**	**11 593**	**8 989**	**10 062**	**3 685**	**8 286**	

The Group has received significant funds from the Parent (as of 31 December 2010 and 2009 – RUB 52 317 million and RUB 57 657 million respectively). Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

The Group held financing as of 31 December 2010 from an international banking organisation. This loan arrangement in amount RUB 249 million is subject to fulfillment of financial covenants, which were not fully complied by the Group as of 31 December 2010. As of the date of signing the financial statements the creditor has not claimed early repayment of this loan.

31 December 2009	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	10 518	–	–	–	–	–	10 518
Mandatory cash balances with the Central Bank of the Russian Federation	638	–	–	–	–	–	638
Trading securities	1	–	–	–	–	–	1
Due from other banks	5 266	9 128	2 803	300	1	–	17 498
Derivative financial assets	50	23	–	–	–	–	73
Loans to customers	5 255	8 958	22 400	41 605	5 662	7 020	90 900
Investment securities available for sale	4 679	–	–	–	–	–	4 679
Other assets	107	10	–	–	–	–	117
Total financial assets	**26 514**	**18 119**	**25 203**	**41 905**	**5 663**	**7 020**	**124 424**
Due to other banks	2 116	359	26 673	13 839	12 110	–	55 097
Derivative financial liabilities	54	30	8	78	–	–	170
Customer accounts	17 223	6 703	15 366	8 446	–	–	47 738
Debt securities issued	17	3 443	1 696	1 080	–	–	6 236
Other liabilities	144	1	3	–	–	–	148
Subordinated debt	123	15	316	2 018	4 472	–	6 944
Total financial liabilities	**19 677**	**10 551**	**44 062**	**25 461**	**16 582**	–	**116 333**
Net liquidity gap	**6 837**	**7 568**	**(18 859)**	**16 444**	**(10 919)**	**7 020**	**8 091**
Cumulative liquidity gap	**6 837**	**14 405**	**(4 454)**	**11 990**	**1 071**	**8 091**	

(Millions of Russian Rubles)

32. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2010				*2009*			
	Parent	*Other significant shareholders*	*Entities under common control*	*Key manage-ment personnel*	*Parent*	*Other significant shareholders*	*Entities under common control*	*Key manage-ment personnel*
Consolidated statement of financial position:								
Cash and cash equivalents (contractual interest rates: 2010: 0%; 2009: 0.14%)	332	–	–	–	273	–	–	–
Due from other banks (contractual interest rates: 2010: 0.4 – 3.5%; 2009: 0.2 – 6.5%)	8 987	–	–	–	16 168	–	–	–
Gross amount of loans and advances to customers (contractual interest rates: 2010: 10 – 18%; 2009: 10 – 17%)	–	–	–	28	–	–	598	647
Allowance for impairment of loans to customers	–	–	–	–	–	–	(40)	(4)
Other assets	73	–	1	–	2	–	–	–
Due to other banks (contractual interest rates: 2010: 0.96 – 8.6%; 2009: 0.32 – 8.75%)	45 927	249	3	–	51 170	322	3	–
Customer accounts (contractual interest rates: 2010: 0.6 – 7.0%; 2009: 0.7 – 17.5%)	–	–	120	38	–	–	105	103
Debt securities issued (contractual interest rate: 2010: 0%; 2009: 9.1%)	–	–	–	–	155	–	–	–
Other liabilities	24	–	25	20	14	–	1	–
Subordinated debt (contractual interest rate: 2010: 5.81 – 8.03%; 2009: 5.8 – 8.0%)	6 390	–	–	–	6 333	–	–	–
Consolidated statement of comprehensive income:								
Interest income	352	–	76	77	207	–	102	93
Interest expense	(3 589)	(23)	(1)	(3)	(4 893)	(32)	(5)	(11)
Allowance for loan impairment	–	–	40	4	–	–	(23)	(1)
Fee and commission income	1	–	2	–	–	–	4	6
Fee and commission expense	(1)	–	–	–	(3)	–	–	–
Net (losses)/gains from trading in foreign currencies	6	–	–	–	296	–	33	(2)
Net losses from operations with derivatives	218	–	2	–	(13)	–	(1)	–
Administrative and other operating expenses	(15)	–	–	–	(12)	–	–	–
Credit related commitments:								
Undrawn credit lines	500	–	–	4	500	–	–	6
Guaranties issued	33	–	–	–	–	–	–	–

(Millions of Russian Rubles)

32. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2010	*2009*
Salaries and other short-term benefits	84	102
Social security costs	1	3
Total key management compensation	**85**	**105**

33. Capital adequacy

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

During the past year, the Group had 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 manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio under Basel II Capital Accord

The Group applies guidelines set out in June 2006 by the Basel Committee of Banking Regulation and Supervision in "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("Basel II").

The Group uses following approaches stipulated by the Basel II:

- The minimum capital requirements for credit risk are calculated based on the standardized approach supported by an external rating assessment;
- The minimum capital requirements for market risk are calculated under standardized measurement method as combination of interest rate risk, equity position risk and foreign exchange risk according to predefined models. The basic structure of the 1996 Market Risk Amendment regarding the treatment of market risk remains unchangeable. Employable models were adjusted in accordance with methodology used under standardized approach for calculating the minimum capital requirements for credit risk;
- The minimum capital requirements for operational risk are calculated based on Basic Indicator Approach.

The Group's capital adequacy ratio, computed in accordance with the Basel II Capital Accord as at 31 December 2010 and 2009, comprised:

	31 December 2010	*31 December 2009*
Tier 1 capital	13 066	13 260
Tier 2 capital	6 498	6 658
Regulatory capital	**19 564**	**19 918**
Weighted risks		
Credit risk	74 645	94 021
Market risk	5 985	4 655
Operational risk	14 093	20 921
Total weighted risk volume	**94 723**	**119 597**
Tier 1 capital ratio	13.79%	11.09%
Total capital ratio	20.65%	16.65%