Sovcombank Group

Consolidated financial statements

for the year ended 31 December 2010

Contents

Independent auditors' report

Consolidated statement of comprehensive income 1
Consolidated statement of financial position 2
Consolidated statement of cash flows 3
Consolidated statement of changes in equity 4

Notes to consolidated financial statements

1 Background 5
2 Basis of preparation 5
3 Significant accounting policies 6
4 Significant accounting judgments and estimates 19
5 Reclassification to prior period 19
6 Adjustment of prior period 20
7 Net interest income 21
8 Fee and commission income 21
9 Fee and commission expense 21
10 Net gain (loss) from foreign currencies 21
11 Other operating income 22
12 Allowances for loan impairment and other impairment 22
13 Revaluation of property, equipment and investment property 22
14 Personnel expenses 22
15 Other general administrative expenses 23
16 Income tax expense 23
17 Cash and cash equivalents 24
18 Financial instruments at fair value through profit or loss 24
19 Loans to customers 25
20 Other impairment and provisions 28
21 Investment property 28
22 Property, equipment and intangible assets 28
23 Other assets 29
24 Current accounts and deposits from customers 30
25 Deposits and balances from banks 30
26 Promissory notes 30
27 Subordinated debt 31
28 Other liabilities 31
29 Deferred tax 31
30 Charter capital and other capital contributions 32
31 Commitments 32
32 Contingencies 32
33 Risk management 33
34 Related party transactions 45
35 Fair value of financial instruments 46
36 Events subsequent to the balance sheet date 48
37 Business combination and disposal of subsidiaries 48
38 Goodwill 50
39 Capital adequacy 50
40 Principal consolidated subsidiaries 51

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 Board of Directors of Sovcombank (LLC)

We have audited the accompanying consolidated financial statements of SovcomBank (LLC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and 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 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.

Ernst & Young LLC

20 April 2011

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 RUR'000	2009 RUR'000 (adjusted)
Interest income	7	8,007,835	6,132,877
Interest expense	7	(2,946,337)	(2,807,823)
Net interest income		**5,061,498**	**3,325,054**
Fee and commission income	8	559,410	193,490
Fee and commission expense	9	(89,446)	(73,985)
Net fee and commission income		**469,964**	**119,505**
Net gain on financial instruments at fair value through profit or loss		604,091	2,108,922
Net gain on financial assets available-for-sale		229	98,673
Net gain (loss) from foreign currencies	10	21,919	(33,142)
Other operating income	11	13,813	75,636
Operating income		**6,171,514**	**5,694,648**
Allowances for loan impairment and other impairment	12	(1,321,402)	(3,100,049)
Revaluation of property and equipment, investment property	13	(58,031)	33,047
Personnel expenses	14	(1,533,247)	(1,436,681)
Other general administrative expenses	15	(1,284,544)	(1,246,707)
Income (loss) before taxes		**1,974,290**	**(55,742)**
Income tax expense	16	(375,166)	(12,268)
Income (Loss)		**1,599,124**	**(68,010)**
Other comprehensive income			
Revaluation reserve for assets available-for-sale:			
- Net change in fair value of available-for-sale assets, net of tax		1,671	33,208
Revaluation of property and equipment, net of tax		12,039	(10,306)
Other comprehensive income, net of tax		**13,710**	**22,902**
Total comprehensive income (loss)		**1,612,834**	**(45,108)**

The consolidated financial statements as set out on pages 1 to 51 were approved by the Board of Directors on 20 April 2011.

Mr. Khotimsky S.V.
Chief Executive Officer

Mr. Sokolov K.Y.
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2010

	Notes	*31 December 2010 RUR'000*	*31 December 2009 Adjusted RUR'000*	*31 December 2008 Adjusted RUR'000*
Assets				
Cash and cash equivalents	17	5,318,321	3,400,616	4,022,423
Mandatory cash balances with the Central Bank of the Russian Federation		220,181	168,643	25,856
Placements with banks		100,613	35,000	1,500
Financial instruments at fair value through profit or loss	18			
- Held by the Group		7,920,383	4,579,362	585,183
- Pledged under sale and repurchase agreements		5,779,772	8,954,785	50,669
Loans to customers	19	21,742,985	14,744,207	14,941,459
Available-for-sale assets				
- Held by the Group		–	10,259	439,156
- Pledged under sale and repurchase agreements		–	8,644	732,928
Held-to-maturity investments				
- Held by the Group		–	–	1,321,531
- Pledged under sale and repurchase agreements		–	–	755,689
Investment property	21	119,951	120,701	123,112
Property, equipment and intangible assets	22	831,305	1,016,436	1,151,208
Goodwill	38	450,587	407,478	407,478
Deferred tax asset	29	243,008	176,003	147,786
Other assets	23	570,401	362,183	487,743
Total assets		**43,297,507**	**33,984,317**	**25,193,721**
Liabilities				
Current accounts and deposits from customers	24	31,040,694	21,989,977	16,794,814
Deposits and balances from banks	25	4,554,283	7,526,911	4,566,513
Promissory notes	26	1,990,280	647,326	455,845
Subordinated debt	27	808,486	756,957	609,385
Deferred tax liability	29	4,706	–	43,419
Other liabilities	28	452,107	229,028	434,246
Total liabilities		**38,850,556**	**31,150,199**	**22,904,222**
Net assets attributable to participants				
Charter capital	30	1,097,561	1,097,561	1,097,561
Other capital contributions		2,428,960	2,428,960	1,838,759
Revaluation reserve for property and equipment		24,334	2,311	12,617
Revaluation reserve for available-for-sale assets		–	(1,671)	(34,879)
Retained earnings (accumulated losses)		896,096	(693,043)	(625,033)
Total net assets attributable to participants		**4,446,951**	**2,834,118**	**2,289,025**
Non-controlling interests		–	–	474
Total net assets		**4,446,951**	**2,834,118**	**2,289,499**
Total liabilities		**43,297,507**	**33,984,317**	**25,193,721**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2010

	Notes	2010 RUR'000	2009 RUR'000
Cash flows from operating activities			
Interest and fee and commission received		8,392,058	6,242,041
Interest and fee and commission paid		(2,233,131)	(2,789,092)
Net realised gain on other financial instruments at fair value through profit or loss		848,019	1,600,444
Net realised gain on financial assets available-for-sale		–	98,673
Net realised loss (gain) foreign currencies		(64,158)	188,151
Other operating income received		(47,028)	49,956
Personnel expenses and other general administrative expenses paid		(2,486,400)	(2,531,292)
Cash flows from operating activities		**4,409,360**	**2,858,881**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(51,538)	(148,755)
Placements with banks		(65,613)	(33,500)
Financial instruments at fair value through profit or loss		(426,767)	(14,143,255)
Loans to customers		(7,746,909)	(2,933,423)
Other assets		(63,848)	(76,187)
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		8,524,809	6,844,141
Deposits and balances from banks		(3,134,385)	4,310,985
Promissory notes		1,324,784	174,308
Other liabilities		(26,057)	(34,699)
Net cash provided from operating activities before taxes paid		**2,743,836**	**(3,181,504)**
Taxes paid		(425,469)	(24,875)
Cash flows from operations		**2,318,367**	**(3,206,379)**
Cash flows from investing activities			
Acquisition of joint-ventures, net of cash received	37	(271,076)	–
Sales of subsidiaries and associates, net of cash disposed	37	–	(961,285)
Purchases of property, equipment and intangible assets	22	(121,038)	(163,004)
Proceeds from disposal of property, equipment and intangible assets		20,647	119,267
Proceeds from disposal of investment property		–	2,411
Proceeds from sale of available-for-sale assets		20,847	1,191,428
Proceeds from sale of held-to-maturity investments		–	1,608,260
Cash flows from investing activities		**(350,620)**	**1,797,077**
Cash flows from financing activities			
Contribution by participants	30	–	590,201
Subordinated debt received		–	126,656
Cash flows from financing activities		**–**	**716,857**
Net increase (decrease) in cash and cash equivalents		**1,967,747**	**(692,445)**
Effect of changes in exchange rates on cash and cash equivalents		(50,042)	70,638
Cash and cash equivalents at the beginning of the year	17	3,400,616	4,022,423
Cash and cash equivalents at the end of the year	17	**5,318,321**	**3,400,616**

The consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Attributable to participants							
	Charter capital RUR'000	***Other capital contributions RUR'000***	***Revaluation reserve for property and equipment RUR'000***	***Revaluation reserve for assets available-for-sale RUR'000***	***Retained earnings RUR'000***	***Total RUR'000***	***Non-controlling interests RUR'000***	***Total net assets RUR'000***
Balance as at 1 January 2009 (Adjusted)	**1,097,561**	**1,838,759**	**12,617**	**(34,879)**	**(625,033)**	**2,289,025**	**474**	**2,289,499**
Total comprehensive income (loss)	**–**	**–**	**(10,306)**	**33,208**	**(68,010)**	**(45,108)**	**–**	**(45,108)**
Acquisition of non-controlling interests	–	–	–	–	–	–	(474)	(474)
Contributions by participants	–	590,201	–	–	–	590,201	–	590,201
Balance as at 31 December 2009 (Adjusted)	**1,097,561**	**2,428,960**	**2,311**	**(1,671)**	**(693,043)**	**2,834,118**	**–**	**2,834,118**
Total comprehensive income	**–**	**–**	**12,039**	**1,671**	**1,599,123**	**1,612,833**	**–**	**1,612,833**
Transfer from revaluation reserve due to disposal of buildings net of tax	–	–	9,984	–	(9,984)	–	–	–
Balance as at 31 December 2010 (Adjusted)	**1,097,561**	**2,428,960**	**24,334**	**–**	**896,096**	**4,446,951**	**–**	**4,446,951**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

(In thousands of Russian Rubles, unless otherwise indicated)

1 Background

Principal activities

These consolidated financial statements include the financial statements of Sovcombank (LLC) (the “Bank” or “Sovcombank”) and its subsidiaries (together referred to as the “Group” or “Sovcombank Group”). A list of principal consolidated subsidiaries of the Sovcombank Group is disclosed in Note 39.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank operates under general banking licence № 963 issued by the Central Bank of the Russian Federation (the “CBRF”). The Bank also has licences for operations with securities and custody services issued by the Federal Securities Market Commission (the “FSMC”) on 7 February 2006. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Group’s principal business activity is retail and corporate banking operations within the Russian Federation. The Group is headquartered in Kostroma and has a network of branches in the Central, Ural, Siberian, South and Far East Federal Districts. The Group operates in 25 regions and more than 260 cities of the Russian Federation. The Group had 2,944 employees as at 31 December 2010 (31 December 2009: 3,096).

Shareholders

As at 31 December 2010 and 31 December 2009, the Group's ownership was as follows:

	Ownership % 31 December 2010	***Ownership % 31 December 2009***
TBIF Financial Services B.V.	50.0000%	62.3725%
SovCo Capital Partners B.V.	50.0000%	37.6275%

Kardan N.V. is the ultimate parent company of TBIF. It was incorporated on 2 May 2003. Kardan activities include real estate, financial services and infrastructure. Its shares are listed and traded on the Official Segment of the Stock Market of Euronext in Amsterdam (Euronext Amsterdam) and on the Tel Aviv Stock Exchange in Israel (TASE). Sovco Capital Partners B.V. is controlled by the group of successful Russian businessmen and entrepreneurs (mostly former shareholders of Sovcombank), including key members of Sovcombank management. There is no single ultimate entity or individual that exercise control over the Group as at 31 December 2010 and as at 31 December 2009.

Russian business 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.

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.

2 Basis of preparation (continued)

General (continued)

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUR) 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 Significant accounting policies

Changes in accounting policies

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

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 amendment did not affect the Group's consolidated financial statements as the Group is not a government-related entity.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

IFRS 3 Business Combinations (revised in January 2008) and IAS 27 Consolidated and Separate Financial Statements (revised in January 2008)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. 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 Standards are applied prospectively.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Group's consolidated financial statements.

IFRIC 17 Distribution of Non-Cash Assets to Owners

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Group's consolidated financial statements.

3 Significant accounting policies (continued)

Changes in accounting policies (continued)

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.
- 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.
- IAS 36 *Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

Basis of consolidation

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group looses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduces to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Business combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the net assets attributable to participants.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

3 Significant accounting policies (continued)

Investments in associates

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in jointly controlled entities

Jointly controlled entitis are joint ventures that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. The venturer combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Cash and cash equivalents

The Group includes cash, nostro accounts with the CBRF and other banks, placements with other banks with an original maturity less than 90 days in cash and cash equivalents. The minimum mandatory reserve deposit with the CBRF is not considered to be a cash equivalent due to restrictions on its withdrawnability.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

3 Significant accounting policies (continued)

Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm’s length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

3 Significant accounting policies (continued)

Financial instruments (continued)

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

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

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

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 income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Offsetting

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

Property, equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings of the Group are measured at revalued amounts. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in other comprehensive income (in equity).

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20-50 years
Computers	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	2-10 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3 Significant accounting policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary and joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

The assets repossessed by the Group following legal proceedings for recovery of amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

Leases

i. Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. 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 income statement 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.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include current accounts and deposits from customers, deposits and balanced from banks, promissory notes, subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Group reviews its loans and receivables, to assess impairment on a regular basis using the traditional conservative approach. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group’s internal credit grading system that mainly considers credit risk characteristics such as asset type, industry, past-due status.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group’s management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

3 Significant accounting policies (continued)

Impairment (continued)

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Available-for-sale assets

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

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

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

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ► If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- ► If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- ► If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Impairment (continued)

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Provisions

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

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Any increase in the liability relating to financial guarantees is taken to the [consolidated] income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Net assets attributable to participants

In accordance with organization charter Participants of the Group, limited liability company, have the unilateral right to withdraw their capital from the company and receive their share of the company's net assets within six months after the end of the year of the withdrawal. As a result, charter capital and other reserves attributable to participants of the Group are recorded as liabilities.

Distributions to participants

Distributions to participants are recognized in the period in which they are declared. The Group distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

Revenue is recognised when the Groups' right to receive the payment is established.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(In thousands of Russian Rubles, unless otherwise indicated)

3 Significant accounting policies (continued)

Standards and interpretations issued but not yet effective

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 2009. 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.

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.

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position.

Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis The Group now evaluates the impact of the adoption of these amendments.

(In thousands of Russian Rubles, unless otherwise indicated)

4 Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

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.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RUR 450,587 thousand (2009: RUR 407,478 thousand). More details are provided in Note 37.

5 Reclassification to prior period

At 31 December 2009 the Group has recognised deferred tax assets and deferred tax liabilities attributable to the Group. The Group has corrected the error and recognised deferred tax assets net of deferred tax liabilities at 31 December 2009 in respect of this change.

	31 December 2009 before the reclassifications RUR'000	***Reclassification RUR'000***	***31 December 2009 after the reclassifications RUR'000***
Assets			
Deferred tax asset	349,740	(128,531)	221,209
Liabilities			
Deferred tax liability	128,531	(128,531)	–

Since the period ended 31 December 2010 the Group has ceased to accrue interest on fully impaired consumer loans which are fully provided for IFRS purposes. In respect of this change the Group has adjusted comparative amounts and has written off accrued interest income on fully impaired consumer loans in the amount of RUR 78,156 against provision expenses on loans to customers in the consolidated statement of comprehensive income for the period ended 31 December 2009.

Since 31 December 2010 the Group has started to classify commission expense paid to collection agencies to provision expense for impairment on loans to customers in accordance with nature of these expenses. In respect of this change the Group has reclassified commission expense paid to collection agencies to provision expense for impairment on loans to customers in the amount of RUR 37,596 in the consolidated statement of comprehensive income for the period ended 31 December 2009.

Since 31 December 2010 the Group has started to classify encashment fees to other general administrative expenses in accordance with nature of these expenses. In respect of this change the Group has reclassified these expenses from fee and commission expenses to other general administrative expenses in the amount of RUR 16,902 in the consolidated statement of comprehensive income for the period ended 31 December 2009.

(In thousands of Russian Rubles, unless otherwise indicated)

5 Reclassification to prior period (continued)

Since 31 December 2010 the Group decided to show revaluation of property and equipment, investment property in a separate line in consolidated statement of comprehensive income. The Group has also changed classification of Cash transportation fees from Fee and commission expense to Other general administrative expenses.

	31 December 2009 before the reclassifications RUR'000	*Reclassification RUR'000*	*31 December 2009 after the reclassifications RUR'000*
Interest income	6,211,033	(78,156)	6,132,877
Impairment losses	(3,140,609)	40,560	(3,100,049)
Other operating income	108,683	(33,047)	75,636
Revaluation of property and equipment, investment property	–	33,047	33,047
Other general administrative expenses	(1,267,401)	20,694	(1,246,707)
Fee and commission expense	(90,887)	16,902	(73,985)

Since 31 December 2010 the Group has adjusted the presentation of disclosure of other loans to individuals and disclosed them based on actual nature of loans granted to individuals: consumer loans, mortgage loans, small and medium size companies. The Group has changed the presentation of comparative amounts for the period ended 31 December 2009 in respect of this change.

	31 December 2009 before the reclassifications RUR'000	*Reclassification RUR'000*	*31 December 2009 after the reclassifications RUR'000*
Loans to individuals			
Other	655,576	(502,713)	152,863
Consumer loans	8,716,888	3,179	8,720,067
Mortgage loans	870,584	15,499	886,083
Loans to corporate entities and finance lease receivables			
Corporate	5,272,298	43,421	5,315,719
Small and medium size companies	812,778	440,614	1,253,392

6 Adjustment of prior period

The Group identified that deferred tax asset was overstated by the amount of RUR 45,206 thousand as of 31 December 2009 and as of 31 December 2008. The Group adjusted retrospectively its financial statements as of 31 December 2009 and as of 31 December 2008.

Comparative information as of 31 December 2009 and as of 31 December 2008 is adjusted as follows:

	31 December 2009 after reclassification before the adjustment RUR'000	*Adjustment RUR'000*	*31 December 2009 after the adjustment RUR'000*
Assets			
Deferred tax asset	221,209	(45,206)	176,003
Equity			
Accumulated losses	(647,837)	(45,206)	(693,043)

	31 December 2008 after reclassification before the adjustment RUR'000	*Adjustment RUR'000*	*31 December 2008 after the adjustment RUR'000*
Assets			
Deferred tax asset	192,992	(45,206)	147,786
Equity			
Accumulated losses	(579,827)	(45,206)	(625,033)

(In thousands of Russian Rubles, unless otherwise indicated)

7 Net interest income

	2010 RUR'000	*2009 RUR'000*
Interest income		
Loans to individuals	5,036,537	4,081,556
Loans to corporate entities and finance lease receivables	1,551,890	1,057,642
Financial instruments at fair value through profit or loss	1,371,387	928,977
Placements with banks	48,021	64,702
	8,007,835	**6,132,877**
Interest expense		
Current accounts and deposits from customers	(2,468,617)	(2,103,238)
Deposits and balances from banks	(299,567)	(597,271)
Promissory notes	(95,504)	(63,997)
Subordinated debt	(82,649)	(43,317)
	(2,946,337)	**(2,807,823)**

8 Fee and commission income

	2010 RUR'000	*2009 RUR'000*
Insurance agent's fee	348,214	15,771
Settlement operations	78,399	93,858
Plastic cards	34,793	18,817
Cash withdrawal	34,390	30,563
Securities operations	20,642	5,095
Foreign exchange operations	15,464	11,441
Guarantee issuance	17,303	6,808
Cash transfer	6,487	6,485
Other	3,718	4,652
	559,410	**193,490**

9 Fee and commission expense

	2010 RUR'000	*2009 RUR'000 (after reclassificastion)*
Settlement operations	(27,389)	(34,120)
Plastic cards	(25,857)	(10,380)
Depository services	(21,184)	(10,721)
Cash operations	(9,380)	(4,648)
Borrowings	(345)	(10,344)
Other	(5,291)	(3,772)
	(89,446)	**(73,985)**

10 Net gain (loss) from foreign currencies

	2010 RUR'000	*2009 RUR'000*
Dealing	(48,778)	209,597
Translation difference	70,697	(242,739)
	21,919	**(33,142)**

Dealing represents gains and losses from spot and tom contracts in foreign currency which the Group made to manage currency positions and to comply with requirements of the Central Bank of Russia in terms of open currency position.

(In thousands of Russian Rubles, unless otherwise indicated)

11 Other operating income

	2010 RUR'000	*2009 RUR'000 (after reclassificastion)*
Operating lease (Note 21)	5,099	5,277
Operations with precious metals	2,617	–
Income from operating sublease	2,423	1,100
Disposal of fixed assets	890	–
Penalties received	397	–
Insurance activities	–	40,042
Disposal of subsidiaries	–	25,680
Other	2,387	3,537
	13,813	**75,636**

12 Allowances for loan impairment and other impairment

	2010 RUR'000	*2009 RUR'000*
Loans to individuals (Note 19)	(935,274)	(2,447,533)
Loans to corporate entities and finance lease receivables (Note 18)	(352,234)	(611,491)
Other assets (Note 20)	(33,894)	(41,025)
	(1,321,402)	**(3,100,049)**

13 Revaluation of property, equipment and investment property

	2010 RUR'000	*2009 RUR'000*
Investment property (Note 21)	3,750	23,086
Revaluation of property and equipment	(61,781)	9,961
	(58,031)	**33,047**

14 Personnel expenses

	2010 RUR'000	*2009 RUR'000*
Employee compensation, including bonuses	(1,302,427)	(1,202,113)
Payroll related taxes	(230,820)	(234,568)
	(1,533,247)	**(1,436,681)**

(In thousands of Russian Rubles, unless otherwise indicated)

15 Other general administrative expenses

	2010 RUR'000	*2009 RUR'000 (after reclassificastion)*
Occupancy	(235,003)	(273,328)
Advertising and marketing	(182,510)	(179,244)
Depreciation and amortization (Note 22)	(164,612)	(168,473)
Professional services	(90,418)	(61,036)
Security	(85,157)	(85,082)
Communications and information services	(84,508)	(89,278)
Taxes other than income tax	(80,672)	(73,617)
Obligatory deposits insurance	(78,171)	(58,534)
Maintenance	(51,942)	(44,143)
Provisions Note 20)	(49,031)	(65,787)
IT supporting payments	(45,949)	(38,777)
Transport	(41,723)	(48,022)
Office stationery	(31,544)	(28,940)
Premises Insurance	(7,159)	(4,480)
Other	(56,145)	(27,966)
	(1,284,544)	**(1,246,707)**

16 Income tax expense

	2010 RUR'000	*2009 RUR'000*
Current tax expense	(445,599)	(74,414)
Reversal of temporary differences (Note 29)	70,433	62,146
Total income tax expense	**(375,166)**	**(12,268)**

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2010 RUR'000	*2009 RUR'000*
Net gains on investment securities available-for-sale	(418)	(8,301)
Revaluation of buildings	(3,010)	2,576
Income tax charged to other comprehensive income (Note 29)	**(3,428)**	**(5,725)**

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.

Reconciliation of effective tax rate

	2010 RUR'000	*2009 RUR'000*
Income/(loss) before tax	**1,974,290**	**(55,742)**
Income tax (expense)/benefit at the applicable tax rate	(394,858)	11,148
Effect of non-deductible expenses	(7,905)	(24,638)
Income on state securities taxed at different rates	6,405	14,788
Other	21,192	(13,566)
	(375,166)	**(12,268)**

(In thousands of Russian Rubles, unless otherwise indicated)

17 Cash and cash equivalents

	2010 RUR'000	*2009 RUR'000*
Due from the CBR	2,279,883	1,181,778
Cash on hand	1,470,111	928,161
Nostro accounts with OECD banks	603,481	636,991
Nostro accounts with Russian banks	508,044	620,417
Short-term placements less than 90 days with CBR	400,000	–
Short-term deposits less than 90 days with Russian banks	56,802	33,269
	5,318,321	**3,400,616**

18 Financial instruments at fair value through profit or loss

	2010 RUR'000	*2009 RUR'000*
Held by the Group		
Corporate bonds	6,333,254	3,058,353
Promissory notes	927,131	626,182
Government and municipal bonds	659,997	873,381
Equities	1	–
Derivative financial instruments	–	21,446
Total financial instruments at fair value through profit or loss held by the Group	**7,920,383**	**4,579,362**
Financial instruments at fair value through profit or loss pledged under sale and repurchase agreements		
Corporate bonds	5,578,550	5,736,360
Government and municipal bonds	201,222	2,617,695
Promissory notes	–	600,730
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**5,779,772**	**8,954,785**
Total financial instruments at fair value through profit or loss	**13,700,155**	**13,534,147**

As of 31 December 2010, total amount of corporate bonds held by the Group and pledged under sale and repurchase agreements amounted to RUR 11,911,804 thousand and comprised securities issued by Russian banks and financial companies in the amount of RUR 9,655,142 thousand (81%), oil-producing and oil-refining companies (6.9%), transport companies (3.7%) and other sectors accounting for less than 9% of the portfolio value, with maturity ranging from March 2011 to August 2020 and coupon rates of 7.5% – 20.0%. The most significant share of the issuer amounted to 17.04% in the total portfolio of corporate bonds maturing in December 2013 – Febrary 2041 and bearing coupon rate of 7.40% – 10.50%.

As of 31 December 2009, total amount of corporate bonds held by the Group and pledged under sale and repurchase agreements amounted to RUR 8,794,713 thousand and comprised securities issued by Russian banks and financial companies in the amount of RUR 7,018,885 thousand (79.8%), oil-producing and oil-refining companies (2.3%), transport companies (7.9%), telecommunication companies (7.5%) and other sectors accounting for less than 3% of the portfolio value, with maturity ranging from Febrary 2010 to September 2020 and coupon rates of 7.4% – 25.0%. The most significant share of the issuer amounted to 18.07% in the total portfolio of corporate bonds maturing in November 2011 – September 2020 and bearing coupon rate of 7.40% – 13.25%.

As of 31 December 2010 and 2009, the Group pledged securities as collateral under repurchase agreements included in deposits and balances from banks and deposits from customers (Note 25) RUR 4,330,872 thousand and RUR 645,129 thousand (Note 24), respectively (2009 RUR 3,499,206 thousand and RUR 0 thousand, respectively).

Reclassification from financial assets at fair value through profit or loss

Following the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*, during the second half of 2008 the Group reclassified certain financial assets from held for trading category recognised as financial assets at fair value through profit or loss to available for sale financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008. Information about the reclassified financial assets is presented in the table below:

(In thousands of Russian Rubles, unless otherwise indicated)

18 Financial instruments at fair value through profit or loss (continued)

During 2010 the Group sold financial assets reclassified to available-for-sale category following the amendments to IAS 39 and IFRS 7, *Reclassification of Financial Assets*.

	Available for sale financial assets
Carrying amount as at 31 December 2010	–
Fair value as at 31 December 2010	–
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year ended 31 December 2010 if the reclassification had not been made	229
Interest income recognized in profit or loss for the year ended 31 December 2010	1,149
Carrying amount as at 31 December 2009	18,903
Fair value as at 31 December 2009	18,903
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year ended 31 December 2009 if the reclassification had not been made	140,183
Interest income recognized in profit or loss for the year ended 31 December 2009	30,220

19 Loans to customers

	2010 RUR'000	***2009 RUR'000 (after reclassification)***
Loans to individuals		
Consumer loans	11,604,035	8,720,067
Mortgage loans	481,226	886,083
Car loans	65,161	234,316
Other	67,431	152,863
Total loans to individuals	**12,217,853**	**9,993,329**
Loans to legal entities and finance lease receivables		
Loans to corporate entities	7,870,640	5,315,719
Loans to small and medium size companies	2,129,197	1,253,392
Finance lease receivables	776,622	461,137
Total loans to legal entities and finance lease receivables	**10,776,459**	**7,030,248**
Gross loans to customers	**22,994,312**	**17,023,577**
Less: provision for loan impairment	(1,251,327)	(2,279,370)
Net loans to customers	**21,742,985**	**14,744,207**

As of 31 December 2010 and 2009, the Group had a concentration of loans represented by RUR 5,187,595 thousand and RUR 2,672,008 thousand, respectively, due from ten largest borrowers, which accounts for 22.6% and 15.70%, respectively, of the total amount of loans to customers. As of 31 December 2010 and 2009, an allowance of RUR 54,373 and RUR 44,654, respectively, was recognized against these loans. As of 31 December 2010 and 2009, total loan balances due from the ten largest borrowers accounted for 12.0% and 7.86% of the total assets, respectively.

Industry analysis of the loans to corporate entities

Loans to corporate entities were issued primarily to entities located within the Russian Federation, who operate in the following economic sectors:

	2010 RUR'000	***2009 RUR'000***
Commercial estate property rent	2,169,670	2,014,584
Manufacturing	1,436,845	555,888
Finance	1,398,170	870,908
Other activity with real estate	1,370,163	541,271
Trade	646,701	772,139
Hotel industry	206,637	89,885
Construction	157,090	2,000
Public sector	132,350	219,376
Leasing	109,600	18,114
Insurance	103,500	380
Agriculture	95,000	136,645
Catering	–	23,382
Transport	–	2,663
Other	44,914	68,484
	7,870,640	**5,315,719**

(In thousands of Russian Rubles, unless otherwise indicated)

19 Loans to customers (continued)

Industry analysis of the loans to corporate entities (continued)

Movements in the loan impairment provision for the years ended 31 December 2010 and 31 December 2009 are as follows:

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
At 1 January 2010	(303,219)	(380,205)	(113,518)	(1,271,293)	(125,284)	(42,858)	(42,993)	**(2,279,370)**
Charge for the year	(117,976)	(222,938)	(34,237)	(984,419)	(93,679)	(11,938)	37,511	**(1,427,676)**
Recoveries	–	22,917	–	101,633	15,618	–	–	**140,168**
Loans written off as uncollectible	254,112	268,701	65,152	1,505,077	173,688	48,821	–	**2,315,551**
At 31 December 2010	**(167,083)**	**(311,525)**	**(82,603)**	**(649,002)**	**(29,657)**	**(5,975)**	**(5,482)**	**(1,251,327)**
Individual impairment	(88,843)	(208,491)	–	–	–	–	–	**(297,334)**
Collective impairment	(78,240)	(103,034)	(82,603)	(649,002)	(29,657)	(5,975)	(5,482)	**(953,993)**
	(167,083)	**(311,525)**	**(82,603)**	**(649,002)**	**(29,657)**	**(5,975)**	**(5,482)**	**(1,251,327)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**279,484**	**377,257**	**–**	**–**	**–**	**–**	**–**	**656,741**

	Loans to corporate entities	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
At 1 January 2009	(142,170)	(45,269)	(14,514)	(1,332,755)	(67,695)	(39,113)	(77,429)	**(1,718,945)**
Charge for the year	(161,049)	(351,438)	(99,004)	(2,411,560)	(77,864)	(64,518)	28,253	**(3,137,180)**
Recoveries	–	–	–	78,156	–	–	–	**78,156**
Loans written off as uncollectible	–	16,502	–	2,394,866	20,275	60,773	6,183	**2,498,599**
At 31 December 2009	**(303,219)**	**(380,205)**	**(113,518)**	**(1,271,293)**	**(125,284)**	**(42,858)**	**(42,993)**	**(2,279,370)**
Individual impairment	(247,852)	(74,905)	–	–	–	–	–	**(322,757)**
Collective impairment	(55,367)	(305,300)	(113,518)	(1,271,293)	(125,284)	(42,858)	(42,993)	**(1,956,613)**
	(303,219)	**(380,205)**	**(113,518)**	**(1,271,293)**	**(125,284)**	**(42,858)**	**(42,993)**	**(2,279,370)**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**301,239**	**392,827**	**–**	**–**	**–**	**–**	**–**	**694,066**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised RUR 56,755 thousand (2009 – RUR 69,877 thousand).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2010 amounts to RUR 366,651 thousand (2009: RUR 348,087 thousand). In accordance with the CBR requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

(In thousands of Russian Rubles, unless otherwise indicated)

19 Loans to customers (continued)

Industry analysis of the loans to corporate entities (continued)

Analysis of collateral

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as at 31 December 2010:

RUR'000	*Loans to corporate entities*	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	3,920,532	921,540	–	–	451,569	–	5,831	**5,260,900**
Motor vehicles	15,624	25,628	–	–	–	59,186	4,127	**103,986**
Goods and materials	387,234	185,978	694,019	–	–	–	–	**1,267,231**
Securities and equity investments	944,846	114,573	–	–	–	–	144	**1,067,115**
Other collateral	1,669,682	416,011	–	2,262	–	–	6,434	**2,125,988**
No collateral	765,639	153,942	–	10,952,771	–	–	45,413	**11,917,765**
Total loans to customers	**7,703,557**	**1,817,672**	**694,019**	**10,955,033**	**451,569**	**59,186**	**61,949**	**21,742,985**

As at 31 December 2010 and December 31 2009 the group of loans with other collateral mainly represents loans secured by guarantees issued by third parties.

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as at 31 December 2009:

RUR'000	*Loans to corporate entities*	*Loans to small and medium size companies*	*Finance lease receivables*	*Consumer loans*	*Mortgage loans*	*Car loans*	*Other loans to individuals*	*Total*
Real estate	2,841,408	365,616	–	2,947	760,799	–	–	**3,970,770**
Motor vehicles	61,393	26,163	–	–	–	191,458	13,033	**292,047**
Goods and materials	445,335	17,616	347,619	–	–	–	–	**810,570**
Securities and equity investments	181,044	1,332	–	–	–	–	–	**182,376**
Other collateral	999,109	251,120	–	–	–	–	–	**1,250,229**
No collateral	484,211	211,340	–	7,445,827	–	–	96,837	**8,238,215**
Total loans to customers	**5,012,500**	**873,187**	**347,619**	**7,448,774**	**760,799**	**191,458**	**109,870**	**14,744,207**

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

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 investment in finance leases	539,909	474,234	**1,014,143**
Unearned future finance income on finance leases	(59,284)	(178,237)	**(237,521)**
Net investment in finance leases	**480,625**	**295,997**	**776,622**

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 investment in finance leases	343,301	191,243	**534,544**
Unearned future finance income on finance leases	(13,048)	(60,359)	**(73,407)**
Net investment in finance leases	**330,253**	**130,884**	**461,137**

(In thousands of Russian Rubles, unless otherwise indicated)

20 Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets (Note 23)	*Provision (Note 28)*	*Total*
31 December 2008	**–**	**–**	**–**
Charge	41,025	65,787	**106,812**
Write-offs	(8,502)	–	**(8,502)**
31 December 2009	**32,523**	**65,787**	**98,310**
Charge	33,894	49,031	**82,925**
Write-offs	(26,854)	–	**(26,854)**
Redemption of obligations	–	(65,787)	**(65,787)**
31 December 2010	**39,563**	**49,031**	**88,594**

As at 31 December 2010 and as at 31 December 2009 the Group created provision under litigation case against the Group recognised in accordance with IAS 37 in the amount of RUR 49,031 thousand and RUR 65,787 thousand, respectively.

21 Investment property

	2010 RUR'000	*2009 RUR'000*
Fair value at the beginning of the year	120,701	123,112
Transfer to inventory	(4,500)	(25,497)
Revaluation (Note 13)	3,750	23,086
Fair value at the end of the year	**119,951**	**120,701**

During 2010 the Group recognized rental income in relation to investment property in the amount of RUR 5,099 thousand (31 December 2009: RUR 5,277 thousand) (Note 11).

The Management of the Group estimated fair value of investment property based on the results of independent appraisal company.

22 Property, equipment and intangible assets

	Land and buildings RUR'000	*leasehold improvements RUR'000*	*Computers RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount								
As at 1 January 2010	589,823	76,142	252,336	40,768	188,837	4,767	156,302	**1,308,975**
Additions through business combinations (Note 37)	–	–	329	504	–	–	–	**833**
Additions	17,269	214	72,394	4,895	3,309	–	25,711	**123,792**
Disposals	(32,590)	(8,417)	(24,685)	(8,580)	(14,861)	(4,767)	(59,653)	**(153,553)**
Revaluation	(46,730)	–	–	–	–	–	–	**(46,730)**
Elimination of accumulated depreciation of revalued assets	(14,658)	–	–	–	–	–	–	**(14,658)**
As at 31 December 2010	**513,114**	**67,939**	**300,374**	**37,587**	**177,285**	**–**	**122,360**	**1,218,659**
Depreciation								
As at 1 January 2010	–	(43,977)	(107,865)	(17,546)	(74,683)	–	(48,468)	**(292,539)**
Depreciation charge	(16,030)	(14,800)	(62,590)	(7,261)	(40,091)	–	(23,840)	**(164,612)**
Disposals	1,372	5,403	16,877	5,003	6,321	–	20,163	**55,139**
Revaluation	14,658	–	–	–	–	–	–	**14,658**
As at 31 December 2010	**–**	**(53,374)**	**(153,578)**	**(19,804)**	**(108,453)**	**–**	**(52,145)**	**(387,354)**
Carrying value as at 31 December 2010	**513,114**	**14,565**	**146,796**	**17,783**	**68,832**	**–**	**70,215**	**831,305**
Carrying value as at 31 December 2009	**589,823**	**32,165**	**144,471**	**23,222**	**114,154**	**4,767**	**107,834**	**1,016,436**

(In thousands of Russian Rubles, unless otherwise indicated)

22 Property, equipment and intangible assets (continued)

	Land and buildings RUR'000	*leasehold improvements RUR'000*	*Computers RUR'000*	*Motor vehicles RUR'000*	*Furniture and equipment RUR'000*	*Construction in progress RUR'000*	*Intangible assets RUR'000*	*Total RUR'000*
Cost/revalued amount								
As at 1 January 2009	610,649	74,244	218,961	50,671	222,063	8,449	133,604	**1,318,641**
Additions	17,184	1,898	70,476	4,707	11,158	2,331	55,250	**163,004**
Disposals	(6,406)	–	(24,716)	(13,475)	(31,635)	(5,987)	(22,552)	**(104,771)**
Disposals of subsidiaries (Note 37)	(7,555)	–	(12,385)	(1,135)	(12,749)	(26)	(10,000)	**(43,850)**
Revaluation	(2,921)	–	–	–	–	–	–	**(2,921)**
Elimination of accumulated depreciation of revalued assets	(21,128)	–	–	–	–	–	–	**(21,128)**
As at 31 December 2009	**589,823**	**76,142**	**252,336**	**40,768**	**188,837**	**4,767**	**156,302**	**1,308,975**
Depreciation								
As at 1 January 2009	–	(19,180)	(67,856)	(15,431)	(40857)	–	(24,109)	**(167,433)**
Depreciation charge	(22,025)	(24,797)	(49,648)	(4,906)	(40,699)	–	(26,398)	**(168,473)**
Disposals	2	–	2,693	2,335	1,521	–	2,039	**8,590**
Disposals of subsidiaries (note 37)	895	–	6,946	456	5,352			**13,649**
Revaluation	21,128	–	–	–	–	–	–	**21,128**
As at 31 December 2009	**–**	**(43,977)**	**(107,865)**	**(17,546)**	**(74,683)**	**–**	**(48,468)**	**(292,539)**
Carrying value as at 31 December 2009	**589,823**	**32,165**	**144,471**	**23,222**	**114,154**	**4,767**	**107,834**	**1,016,436**

Revalued assets

As at 31 December 2010 land and buildings were revalued by Management of the Group based on the results of independent appraisal company. The fair value of assets was determined based on the active market data, i.e. the market approach was used to determine the fair value. The market approach was based upon analysis of the results of comparable sales of similar buildings.The net book value of the buildings as of 31 December 2010 was decreased by RUR 46,732 thousand, which represents a negative revaluation of the Group's buildings that was recognised as negative revaluation in the profit and loss (Note 13) in the amount of RUR 61,781 thousand and as positive revaluation through other comprehensive income and revaluation reserve in the amount of RUR 15,049 thousand.

The carrying value of land and buildings as at 31 December 2010, if the land and buildings would not have been revalued, would be RUR 621,319 thousand.

23 Other assets

	2010 RUR'000	*2009 RUR'000*
Advances to suppliers	232,807	79,005
Foreclosed assets	97,358	81,037
VAT receivables on leasing operations	87,316	46,848
Income tax assets	54,786	65,719
Security deposit placed in MasterCard Europe	45,715	45,366
Consideration receivable on disposal of subsidiaries	27,665	27,665
Advances for taxes other than VAT and income tax	12,319	6,133
Settlements with personnel	2,282	2,401
Coins	43	19,270
Other	49,673	21,262
	609,964	**394,706**
Impairment allowance in respect of foreclosed assets and advances to suppliers (Note 20)	(39,563)	(32,523)
	570,401	**362,183**

As a result of collection efforts on defaulted loans, the Group foreclosed real estate property and other assetds. As the Group has taken a decision to dispose foreclosed assets assets within a year, such assets are classified as inventory according to IAS 2, and are measured at the lower of cost and net realizable value. As of 31 December 2010 foreclosed assets amount to RUR 97,358 thousand (31 December 2009 – RUR 81,037 thousand).

(In thousands of Russian Rubles, unless otherwise indicated)

24 Current accounts and deposits from customers

	2010 RUR'000	*2009 RUR'000*
Individuals		
Current accounts and demand deposits	1,433,845	1,761,052
Term deposits	22,528,165	15,786,461
Legal entities		
Current accounts and demand deposits	5,314,358	3,896,221
Term deposits	1,119,197	546,243
Amounts payable under repurchase agreements	645,129	–
	31,040,694	**21,989,977**

At 31 December 2010 and as of 31 December 2009 amounts due to customers of RUR 5,611,707 thousand and RUR 4,977,087 thousand, respectively, were due to ten largest customers that represented 18.1% and 22.6% of the total amount of current accounts and deposits from customers, respectively.

As at 31 December 2010 and as of 31 December 2009 the Group had one customer whose balance exceeded 10% of the total amount of current accounts and deposits from customers and that amounted to RUR 3,223,461 thousand and RUR 2,583,252 thousand, respectively.

Included in time deposits are deposits of individuals in the amount of RUR 22,528,165 thousand (2009 – RUR 15,786,461 thousand). 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.

As of 31 December 2010, the Bank had pledged corporate bonds securities as collateral under repurchase agreements with the corporate entities in the amount of RUR 607,175 thousand (refer Note 18).

25 Deposits and balances from banks

	2010 RUR'000	*2009 RUR'000*
Repurchase agreements with other banks	4,330,872	3,499,206
Deposits from banks	149,237	47,007
Loro accounts of banks	74,174	139,420
Deposits from CBR collateralized by securities	–	3,841,278
	4,554,283	**7,526,911**

As at 31 December 2010 the Group had two counterparties (31 December 2009: two counterparties), whose aggregated balances exceeded more than 10% of total deposits and balances from banks. The total amount of these balances as at 31 December 2010 was RUR 999,153 thousand or 21.9% of deposits and balances from banks and other financial institutions (31 December 2009: RUR 5,817,512 thousand or 77% of deposits and balances from banks and other financial institutions).

As of 31 December 2010 and 2009, the Bank had pledged promissory notes, government and municipal bonds and corporate bonds securities as collateral under repurchase agreements with the Central Bank of Russia and other banks in the amount of RUR 5,172,597 thousand and 8,954,785 thousand, respectively (refer Note 18).

26 Promissory notes

As of 31 December 2010, the Group issued interest bearing promissory notes for the total amount of RUR 1,596,483 thousand (2009 – RUR 620,319 thousand), which mainly represented settlement promissory notes bearing annual maturing within 365 days (2009 – maturing within 365 days). As of 31 December 2010, other discount promissory notes in the total amount of RUR 393,797 thousand (2009 – RUR 27,007 thousand) were issued by the Group.

(In thousands of Russian Rubles, unless otherwise indicated)

27 Subordinated debt

Principal'000	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*31 December 2010 RUR'000*	*31 December 2009 RUR'000*
25,000	USD	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)	3m Libor+4.5%	24.10.2008 22.01.2009	15.10.2018	808,486	756,957
						808,486	**756,957**

As of 31 December 2010, the Group accrued additional fees in the amount of RUR 45,000 thousand payable to FMO in accordance with terms of agreements which were accounted for as part of effective interest rate on subordinated debt. In accordance with terms of agreement additional fees are calculated based on the financial result of the Group agreements the Group and paid since the Group starts to accumulate profit for the period.

28 Other liabilities

	2010 RUR'000	*2009 RUR'000*
Payables to personnel	216,369	25,288
Payables to suppliers	70,788	44,041
Taxes payable other than VAT and income tax	36,807	17,099
Provision (Note 20)	49,031	65,787
Accrued expenses on obligatory deposit insurance	15,757	15,502
Obligations under lease agreements	14,976	–
VAT payable	7,814	7,542
Income taxes payable	615	–
Consideration payable on acquisition of subsidiaries	–	41,645
Other	39,950	12,124
	452,107	**229,028**

29 Deferred tax

Movement in temporary differences during the year ended 31 December 2010 and 31 December 2009:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*			
	2008 (adjusted)	*In the income statement*	*In other compre-hensive income*	*Disposal of subsidiaries (Note 37)*	*2009 (adjusted)*	*In the income statement*	*In other compre-hensive income*	*Effect of business combination (Note 37)*	*2010*
Tax effect of deductible temporary differences:									
Loans to customers	111,675	117,360	–	–	229,035	48,354	–	–	277,389
Other assets	–	–	–	–	–	41,030	–	–	41,030
Other liabilities	21,092	7,130	–	1,002	29,224	(22,222)	–	–	7,002
Tax losses carried forward	50,176	7,167	–	–	57,343	(57,343)	–	–	–
Gross deferred tax asset	**182,943**	**131,657**	**–**	**1,002**	**315,602**	**9,819**	**–**	**–**	**325,421**
Unrecognised deferred tax asset	–	–	–	–	–	–	–	–	–
Deferred tax asset	**182,943**	**131,657**	**–**	**1,002**	**315,602**	**9,819**	**–**		**325,421**
Tax effect of taxable temporary differences:									
Financial instruments at fair value through profit or loss	(7,019)	(92,562)	(8,301)	–	(107,882)	54,964	(418)	–	(53,336)
Investment property	(4,957)	(364)	–	–	(5,321)	(1,510)	–	–	(6,831)
Property, equipment and intangible assets	(63,249)	20,064	2,576	14,213	(26,396)	9,286	(3,010)	–	(20,120)
Current accounts and deposits from customers	(3,187)	3,187	–	–	–	–	–	–	–
Promissory notes	(164)	164	–	–	–	(878)	–	–	(878)
Subordinated debt	–	–	–	–	–	(1,248)		–	(1,248)
Deferred tax liability	**(78,576)**	**(69,511)**	**(5,725)**	**14,213**	**(139,599)**	**60,614**	**(3,428)**	**–**	**(82,413)**
Deferred tax asset	**104,367**	**62,146**	**(5,725)**	**15,215**	**176,003**	**70,433**	**(3,428)**	**–**	**243,008**
Deferred tax liability								**(4,706)**	**(4,706)**

(In thousands of Russian Rubles, unless otherwise indicated)

30 Charter capital and other capital contributions

As of 31 December 2010 and 31 December 2009 charter capital totalled RUB 1,097,561 thousand.

In March and June 2009 TBIF Financial Services B.V. made additional capital contributions in the amount RUR 510,201,000 and RUR 80,000,000, respectively.

In accordance with SovcomBank LLC charter, participants may unilaterally withdraw their interests. In such cases the Bank will be obliged to pay the withdrawing participant's share of net assets of the Bank, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

31 Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

Contracted amount	***2010 RUR'000***	***2009 RUR'000***
Guarantees	1,098,258	613,102
Loan and credit line commitments	1,545,379	400,539
Letters of credit	–	23,090
	2,643,637	**1,036,731**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Group does not have any non-cancellable operating leases as of 31 December 2010 and as of 31 December 2009.

32 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

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, except for legal claims on up-front lending commission.

During 2010 the Group was subject to the legal actions raised by the borrowers regarding the compensation of up-front lending commission charged by the Group at loan origination. As of 31 December 2010 the total amount of claims against the Group compounded RUR 27 million, that were provided in accordance with IAS 37 (Note 20). The Bank expects occurrence of new legal claims from borrowers regarding compensation of up-front lending commission on loans issued before 31 December 2010. The amount of potentially future claim against the Group cannot be measured with sufficient reliability.

The Bank has cancelled up-front commissions for all consumer finance product starting from 1 January 2011.

32 Contingencies (continued)

Taxation contingencies

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.

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.

33 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

The Group’s risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. Application of risk management policies is subject to regular review by the Internal Audit department.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group’s organisational structure. Apart from the standard credit and market risk analysis, the Risk Department implemented a system of identification and quantification of operational risks.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group’s income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the First Deputy Chairman of the Management Board of the Group. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Market risk (continued)

Interest rate risk

The market risk for the trading portfolio is managed and monitored using sensitivity analysis. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Committee. The Group sets limits on the level of mismatch of interest rate repricing that may be undertaken. The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates on the fair value for one year. The above parameter is measured by reference to the effect of the fair value of such fixed-rate instruments held as of 31 December 2010 and 2009. Such measurement envisages applying the assumption of a parallel shift of the yield curve.

Currency	*Increase in basis points*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
RUR	50	(133,131)	(133,131)	(177,481)	(177,481)
USD	50	(5,947)	(5,947)	(2,133)	(2,133)
EUR	50	–	–	(1,027)	(1,027)

Currency	*Decrease in basis points*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
RUR	50	133,131	133,131	177,481	177,481
USD	50	5,947	5,947	2,133	2,133
EUR	50	–	–	1,027	1,027

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorisedby the the earlier of contractual re-pricing or maturity dates.

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

The position as at 31 December 2010 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	456,802	–	–	–	–	4,861,519	–	5,318,321
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	220,181	–	220,181
Placements with banks	–	–	100,613	–	–	–	–	100,613
Loans to customers	1,799,183	2,571,774	8,156,017	8,310,280	190,521	–	715,210	21,742,985
Investment property	–	–	–	–	–	119,951	–	119,951
Property, equipment and intangible assets	–	–	–	–	–	831,305	–	831,305
Goodwill	–	–	–	–	–	450,587	–	450,587
Deferred tax asset	–	–	–	–	–	243,008	–	243,008
Other assets	–	–	–	–	–	570,401	–	570,401
Total assets	**2,255,985**	**2,571,774**	**8,256,630**	**8,310,280**	**190,521**	**7,296,952**	**715,210**	**29,597,352**
Liabilities								
Current accounts and deposits from customers	4,244,023	3,336,520	11,473,660	6,672,129	4	5,314,358	–	31,040,694
Deposits and balances from banks	4,497,965	8,238	20,908	27,172	–	–	–	4,554,283
Promissory notes	152,785	193,688	1,046,900	595,487	1,420	–	–	1,990,280
Subordinated debt	–	808,486	–	–	–	–	–	808,486
Deferred tax liabilities	–	–	–	–	–	4,706	–	4,706
Other liabilities	–	–	–	–	–	452,107	–	452,107
Total liabilities	**8,894,773**	**4,346,932**	**12,541,468**	**7,294,788**	**1,424**	**5,771,171**	**–**	**38,850,556**
Net position as at 31 December 2010	**(6,638,788)**	**(1,775,158)**	**(4,284,838)**	**1,015,492**	**189,097**	**1,525,781**	**715,210**	**(9,253,204)**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Market risk (continued)

The position as at 31 December 2009 is as follows:

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*Non-interest bearing RUR'000*	*Overdue RUR'000*	*Total RUR'000*
Assets								
Cash and cash equivalents	33,269	–	–	–	–	3,367,347	–	3,400,616
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	168,643	–	168,643
Placements with banks	–	–	–	35,000	–	–	–	35,000
Loans to customers	860,134	1,685,329	5,656,345	5,173,037	345,925	–	1,023,437	14,744,207
Investment property	–	–	–	–	–	120,701	–	120,701
Property, equipment and intangible assets	–	–	–	–	–	1,016,436	–	1,016,436
Goodwill	–	–	–	–	–	407,478	–	407,478
Deferred tax asset	–	–	–	–	–	176,003	–	176,003
Other assets	–	–	–	–	–	362,183	–	362,183
Total assets	**893,403**	**1,685,329**	**5,656,345**	**5,208,037**	**345,925**	**5,618,791**	**1,023,437**	**20,431,267**
Liabilities								
Current accounts and deposits from customers	7,020,440	2,504,128	6,339,200	6,118,204	8,005	–	–	21,989,977
Deposits and balances from banks	4,911,574	2,503,428	109,006	2,903	–	–	–	7,526,911
Promissory notes	284,713	7,120	338,761	15,392	1,340	–	–	647,326
Subordinated debt	–	756,957	–	–	–	–	–	756,957
Other liabilities	–	–	–	–	–	229,028	–	229,028
Total liabilities	**12,216,727**	**5,771,633**	**6,786,967**	**6,136,499**	**9,345**	**229,028**	**–**	**31,150,199**
Net position as at 31 December 2009	**(11,323,324)**	**(4,086,304)**	**(1,130,622)**	**(928,462)**	**336,580**	**5,389,763**	**1,023,437**	**(10,718,932)**

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Group's policy requires that total currency risk exposure should not exceed 10% of equity.

An analysis of sensitivity of the Group's profit or loss for the year and equity to participants to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in exchange rates of major currencies is as follows:

	2010		***2009***	
	Profit or loss RUR'000	***Equity RUR'000***	***Profit or loss RUR'000***	***Equity RUR'000***
5% appreciation of USD against RUR	(6,526)	(6,526)	(1,815)	(1,815)
5% depreciation of USD against RUR	6,526	6,526	1,815	1,815
5% appreciation of EUR against RUR	(1,439)	(1,439)	(822)	(822)
5% depreciation of EUR against RUR	1,439	1,439	822	822

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Currency risk (continued)

The following table shows the currency structure of assets and liabilities as at 31 December 2010:

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	3,882,717	849,778	585,826	–	5,318,321
Mandatory cash balances with the Central Bank of the Russian Federation	220,181	–	–	–	220,181
Placements with banks	100,613	–	–	–	100,613
Financial instruments at fair value through profit or loss					
- Held by the Group	7,615,256	305,127	–	–	7,920,383
- Pledged under sale and repurchase agreements	5,779,772	–	–	–	5,779,772
Loans to customers	18,386,624	2,683,363	672,998	–	21,742,985
Investment property	119,951	–	–	–	119,951
Property, equipment and intangible assets	831,305	–	–	–	831,305
Goodwill	450,587	–	–	–	450,587
Deferred tax asset	243,008	–	–	–	243,008
Other assets	523,840	46,561	–	–	570,401
Total assets	**38,153,854**	**3,884,829**	**1,258,824**	**–**	**43,297,507**
Liabilities					
Current accounts and deposits from customers	25,656,688	3,154,125	2,223,862	6,019	31,040,694
Deposits and balances from banks	4,446,677	43,679	63,927	–	4,554,283
Promissory notes	1,157,063	619,254	213,963	–	1,990,280
Subordinated debt	–	808,486	–	–	808,486
Deferred tax liability	4,706	–	–	–	4,706
Other liabilities	451,499	569	39	–	452,107
Total liabilities, other than net assets attributable to participants	**31,716,633**	**4,626,113**	**2,501,791**	**6,019**	**38,850,556**
Net balance sheet position as at 31 December 2010	**6,437,221**	**(741,284)**	**(1,242,967)**	**(6,019)**	**4,446,951**
Net off-balance sheet position as at 31 December 2010	**(1,825,993)**	**610,757**	**1,215,236**	**–**	**–**
Net position as at 31 December 2010	**4,611,228**	**(130,527)**	**(27,731)**	**(6,019)**	**4,446,951**
Credit related commitments	**2,433,626**	**200,186**	**9,826**	**–**	**2,643,638**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Currency risk (continued)

The following table shows the currency structure of assets and liabilities as at 31 December 2009:

	RUR RUR'000	*USD RUR'000*	*EUR RUR'000*	*Other RUR'000*	*Total RUR'000*
Assets					
Cash and cash equivalents	1,950,418	511,076	939,122	–	3,400,616
Mandatory cash balances with the Central Bank of the Russian Federation	168,643	–	–	–	168,643
Placements with banks	35,000	–	–	–	35,000
Financial instruments at fair value through profit or loss					
– Held by the Group	3,977,871	484,548	116,943	–	4,579,362
– Pledged under sale and repurchase agreements	8,954,785	–	–	–	8,954,785
Loans to customers	13,081,949	1,268,640	393,618	–	14,744,207
Available–for–sale assets					
– Held by the Group	10,259	–	–	–	10,259
– Pledged under sale and repurchase agreements	8,644	–	–	–	8,644
Investment property	120,701	–	–	–	120,701
Property, equipment and intangible assets	1,016,436	–	–	–	1,016,436
Goodwill	407,478	–	–	–	407,478
Deferred tax asset	176,003	–	–	–	176,003
Other assets	306,684	48,132	7,367	–	362,183
Total assets	**30,214,871**	**2,312,396**	**1,457,050**	**–**	**33,894,317**
Liabilities					
Current accounts and deposits from customers	17,263,186	2,504,927	2,221,864	–	21,989,977
Deposits and balances from banks	7,470,660	1,941	54,310	–	7,526,911
Promissory notes	196,796	240,410	210,120	–	647,326
Subordinated debt	–	756,957	–	–	756,957
Other liabilities	228,870	62	96	–	229,028
Total liabilities, other than net assets attributable to participants	**25,159,512**	**3,504,297**	**2,486,390**	**–**	**31,150,199**
Net balance position as at 31 December 2009	**5,055,359**	**(1,191,901)**	**(1,029,340)**	**–**	**2,834,118**
Net off-balance position as at 31 December 2009	**(2,155,305)**	**1,146,527**	**1,008,778**	–	**–**
Net position as at 31 December 2009	**2,900,054**	**(45,374)**	**(20,562)**	**–**	**2,834,118**
Credit related commitments	**1,002,841**	**33,890**	**–**	**–**	**1,036,731**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group identifies the prepayment risk for the consumer loans and during 2010 the mentioned financial instrument were repaid prior to maturity for the total amount RUR 2,043,752 thousand or 19.9% of expected payments (during 2009: RUR 211,199 thousand or 2.5%).

Operational risk

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

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- ► Procedures for review and approval process of different kinds of credit products;
- ► Methodology for the credit assessment of lessees under leasing contracts;
- ► Methodology for the credit assessment of borrowers (commercial and retail);
- ► Methodology for the credit assessment of issuers and insurance companies;
- ► Methodology for the evaluation and monitoring of collateral;
- ► Procedures for the ongoing monitoring of loans and other credit exposures;
- ► Procedures for collection process for different borrowers and lessees.

Relevant client manager produce commercial loan/credit applications which are then passed on to the Loans Department. The latter is responsible for the Group's commercial loans portflio. Reports produced by the department's credit analysts are based on structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and Economic security department. A second opinion is given accompanied by a check that credit policy requirements have been met. The credit application should be approved by the appropriate Credit Committee depending on the exposure and the borrower. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal department and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Group's Retail Lending Division through the behavioural check and application data verification procedures developed together with the Risk Department. Some retail loan application are subject to additional verification conducted by Economic Security Department. All underwriting procedures are approved by the Risk Committee.

Retail loan portfolio is subject to continuous monitoring by the Risk Management Department. Portfolio quality analysis and fraud prevention procedures are conducted on a regular basis.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance sheet credit related commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The table below shows the maximum exposure to credit risk for the components of the consolidated 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 2010*	*Maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)	17	3,848,210	2,472,455
Financial instruments at fair value through profit or loss	18	13,700,155	13,534,147
Available-for-sale assets		–	18,903
Loans to customers	19	21,742,985	14,744,207
Other assets (less settlements with tax authorities)	23	415,980	243,483
		39,707,330	**31,013,195**
Credit related commitments	31	2,643,637	1,036,731
Total credit risk exposure		**42,350,967**	**32,049,926**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Credit risk (continued)

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 detail 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 in Note 19.

Credit quality of loans to individuals

The credit quality of loans to individuals and loans to corporate entities portfolio are managed by the Group based on overdue group. The tables below show the credit quality of loan to individuals based allocation of loans depending on overdue days as of 31 December 2010 and 31 December 2009.

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans RUR'000	*Allowance for impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans, %*
Consumer loans				
- Not past due	10,396,880	(57,988)	10,338,892	0.56%
- Overdue less than 30 days	347,624	(34,583)	313,041	9.95%
- Overdue 30-89 days	210,751	(73,782)	136,969	35.01%
- Overdue 90-179 days	231,008	(132,707)	98,301	57.45%
- Overdue 180-360 days	417,772	(349,942)	67,830	83.76%
Total consumer loans	**11,604,035**	**(649,002)**	**10,955,033**	**5.59%**
Mortgage loans				
- Not past due	356,096	(3,496)	352,600	0.98%
- Overdue less than 30 days	49,503	(2,459)	47,044	4.97%
- Overdue 30-89 days	13,685	(1,363)	12,322	9.96%
- Overdue 90-179 days	11,539	(2,284)	9,255	19.79%
- Overdue 180-360 days	23,986	(7,136)	16,850	29.75%
- Overdue more than 360 days	26,417	(12,919)	13,498	48.90%
Total mortgage loans	**481,226**	**(29,657)**	**451,569**	**6.16%**
Car loans				
- Not past due	45,850	(447)	45,403	0.97%
- Overdue less than 30 days	10,728	(1,609)	9,119	15.00%
- Overdue 30-89 days	6,155	(2,462)	3,693	40.00%
- Overdue 90-179 days	2,428	(1,457)	971	60.01%
Total car loans	**65,161**	**(5,975)**	**59,186**	**9.17%**
Other loans to individuals				
- Not past due	57,979	(2,026)	55,953	3.49%
- Overdue less than 30 days	4,599	(460)	4,139	10.00%
- Overdue 30-89 days	2,065	(826)	1,239	40.00%
- Overdue 90-179 days	303	(182)	121	60.07%
- Overdue 180-360 days	2,485	(1,988)	497	80.00%
Total other loans to individuals	**67,431**	**(5,482)**	**61,949**	**8.13%**
Total loans to individuals	**12,217,853**	**(690,116)**	**11,527,737**	**5.6%**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Credit quality of loans to individuals (continued)

The following table provides information on the credit quality of loans to individuals as at 31 December 2009:

	Gross loans RUR'000	*Allowance for impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans, %*
Consumer loans				
- Not past due	6,776,186	(68,542)	6,707,644	1.0%
- Overdue less than 30 days	361,074	(63,675)	297,399	17.6%
- Overdue 30-89 days	339,127	(155,313)	183,814	45.8%
- Overdue 90-179 days	366,081	(215,286)	150,795	58.8%
- Overdue 180-360 days	877,599	(768,477)	109,122	87.6%
Total consumer loans	**8,720,067**	**(1,271,293)**	**7,448,774**	**14.6%**
Mortgage loans				
- Not past due	539,229	(5,265)	533,964	1.0%
- Overdue less than 30 days	50,436	(2,516)	47,920	5.0%
- Overdue 30-89 days	19,073	(2,076)	16,997	10.9%
- Overdue 90-179 days	17,089	(3,002)	14,087	17.6%
- Overdue 180-360 days	83,597	(24,728)	58,869	29.6%
- Overdue more than 360 days	176,659	(87,697)	88,962	49.6%
Total mortgage loans	**886,083**	**(125,284)**	**760,799**	**14.1%**
Car loans				
- Not past due	142,848	(1,421)	141,427	1.0%
- Overdue less than 30 days	27,601	(4,810)	22,791	17.4%
- Overdue 30-89 days	16,975	(6,771)	10,204	39.9%
- Overdue 90-179 days	18,753	(10,980)	7,773	58.6%
- Overdue 180-360 days	28,139	(18,876)	9,263	67.1%
Total car loans	**234,316**	**(42,858)**	**191,458**	**18.3%**
Other loans to individuals				
- Not past due	119,248	(20,587)	98,661	17.3%
- Overdue less than 30 days	5,270	(2,122)	3,148	40.3%
- Overdue 30-89 days	1,352	(1,208)	144	89.4%
- Overdue 90-179 days	4,212	(2,482)	1,730	58.9%
- Overdue 180-360 days	12,638	(7,216)	5,422	57.1%
- Overdue more than 360 days	10,143	(9,378)	765	92.5%
Total other loans to individuals	**152,863**	**(42,993)**	**109,870**	**28.1%**
Total loans to individuals	**9,993,329**	**(1,482,428)**	**8,510,901**	**14.8%**

Credit quality of loans to corporate entities

The following table provides information on the credit quality of the loans to corporate entities and finance lease receivables as at 31 December 2010:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to corporate entities and finance lease receivables				
Loans and finance lease receivables without individual signs of impairment	9,672,325	(172,489)	9,499,836	1.8%
Impaired loans and finance lease receivables:				
- Overdue less than 90 days	415,968	(40,417)	375,551	9.7%
- Overdue more than 90 days and less than 1 year	393,170	(153,232)	239,938	38.9%
- Overdue more than 1 year	294,996	(195,073)	99,923	66.1%
Total impaired loans and finance lease receivables	**1,104,134**	**(388,722)**	**715,412**	**35.2%**
Individual impairment	656,741	(297,334)	359,407	45.3%
Collective impairment	447,393	(91,388)	356,005	20.4%
Total loans to corporate entities and finance lease receivables	**10,776,459**	**(561,211)**	**10,215,248**	**5.2%**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Credit quality of loans to corporate entities (continued)

The majority of loans to corporate entities are represented by loans issued to small and medium size companies.

The following table provides information on the credit quality of the loans to corporate entities and finance lease receivables as at 31 December 2009:

	Gross loans RUR'000	*Impairment RUR'000*	*Net loans RUR'000*	*Impairment to gross loans %*
Loans to corporate entities and finance lease receivables				
Unimpaired loans and finance lease receivables	5,042,686	(123,566)	4,919,120	2.5%
Impaired loans and finance lease receivables:				
- Overdue less than 90 days	966,619	(107,110)	859,509	11.1%
- Overdue more than 90 days and less than 1 year	795,084	(397,569)	397,515	50.0%
- Overdue more than 1 year	225,859	(168,697)	57,162	74.7%
Total impaired loans and finance lease receivables	**1,987,562**	**(673,376)**	**1,314,186**	**33.9%**
Individual impairment	694,066	(322,757)	371,309	46.5%
Collective impairment	1,293,496	(350,619)	942,877	27.1%
Total loans to corporate entities and finance lease receivables	**7,030,248**	**(796,942)**	**6,233,306**	**11.3%**

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

Starting from the fourth quarter of 2008, due to a significant economic deterioration affecting the credit quality of borrowers, as well as due to a rapid devaluation of the Russian rouble against the US dollar and Euro, the Group started restructuring of loans to legal entities that would otherwise be past due or impaired. The Group has restructured loans to legal entities by changing the loan repayment schedule and interest rates on loans. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. As of 31 December 2010, the total amount of loans which were restructured according to the above schedule was RUR 274,747 thousand (31 December 2009: RUR 189,379 thousand).

Impairment assessment

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including car loans, mortgage loans, consumer loans, and loans to corporate entities and finance lease receivables) 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 Group has estimated loan impairment for loans to individuals based on its past historical loss experience and in some cases peer group experience for comparable loan groups. The Group estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance 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 payout should bankruptcy occur, 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.

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank is in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The following tables show the undiscounted cash flows on the Group's financial liabilities, guarantees and unrecognized loan commitments on the basis of their earliest possible contractual maturity as at 31 December 2010 and 31 December 2009:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Financial liabilities							
As at 31 December 2010							
Current accounts and deposits from customers	9,569,966	3,383,679	12,219,916	7,948,680	4	33,122,245	31,040,694
Deposits and balances from banks	4,506,667	6,089	23,296	30,997	–	4,567,049	4,554,283
Promissory notes	102,034	249,339	1,145,673	779,921	3,000	2,279,967	1,990,280
Subordinated debt	3,016	6,032	27,143	144,765	909,452	1,090,408	808,486
Other liabilities	88,981	363,126	–	–	–	452,107	452,107
Total financial liabilities	**14,270,664**	**4,008,265**	**13,416,028**	**8,904,363**	**912,456**	**41,511,776**	**38,845,850**
Credit related commitments	**330,031**	**286,999**	**1,312,508**	**714,099**	**–**	**2,643,637**	**2,643,637**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Liquidity risk (continued)

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Financial liabilities							
As at 31 December 2009							
Current accounts and deposits from customers	6,850,239	2,549,992	7,046,832	7,875,617	10,483	24,333,163	21,989,977
Deposits and balances from banks	4,979,779	2,520,994	48,072	3,091	–	7,551,936	7,526,911
Promissory notes	285,604	7,273	357,952	18,182	2,873	671,884	647,326
Subordinated debt	–	8,912	27,230	144,567	900,983	1,081,692	756,957
Other liabilities	25,288	58,272	65,787	–	79,681	229,028	229,028
Total financial liabilities	**12,140,910**	**5,145,443**	**7,545,873**	**8,041,457**	**994,020**	**33,867,703**	**31,150,199**
Credit related commitments	**206,328**	**412,654**	**256,637**	**161,112**	**–**	**1,036,731**	**1,036,731**

The following table shows monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

	Less than 1 month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Less than 1 year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	5,318,321	–	–	**5,318,321**	–	–	**–**	–	**5,318,321**
Mandatory cash balances with the Central Bank of the Russian Federation	220,181	–	–	**220,181**	–	–	**–**	–	**220,181**
Placements with banks	–	–	100,613	**100,613**	–	–	**–**	–	**100,613**
Financial instruments at fair value through profit or loss									
- Held by the Group	7,920,383	–	–	**7,920,383**	–	–	**–**	–	**7,920,383**
- Pledged under sale and repurchase agreements	5,779,772	–	–	**5,779,772**	–	–	**–**	–	**5,779,772**
Loans to customers	1,799,183	2,571,774	8,156,017	**12,526,974**	8,310,280	190,521	**8,500,801**	715,210	**21,742,985**
Other assets	390,594	16,008	130,444	**537,046**	33,355	–	**33,355**	–	**570,401**
Total assets	**21,428,434**	**2,587,782**	**8,387,074**	**32,403,290**	**8,343,635**	**190,521**	**8,534,156**	**715,210**	**41,652,656**
Liabilities									
Current accounts and deposits from customers	9,558,381	3,336,520	11,473,660	**24,368,561**	6,672,129	4	**6,672,133**	–	**31,040,694**
Deposits and balances from banks	4,497,965	8,238	20,908	**4,527,111**	27,172	–	**27,172**	–	**4,554,283**
Promissory notes	152,785	193,688	1,046,900	**1,393,373**	595,487	1,420	**596,907**	–	**1,990,280**
Subordinated debt	–	–	–	**–**	–	808,486	**808,486**	–	**808,486**
Other liabilities	88,981	363,126	–	**452,107**	–	–	**–**	–	**452,107**
Total liabilities, other than net assets attributable to participants	**14,298,112**	**3,901,572**	**12,541,468**	**30,741,152**	**7,294,788**	**809,910**	**8,104,698**	**–**	**38,845,850**
Net position as at 31 December 2010	**7,130,322**	**(1,313,790)**	**(4,154,394)**	**1,662,138**	**1,048,847**	**(619,389)**	**429,458**	**715,210**	**2,806,806**
Cumulative gap as at 31 December 2010	**7,130,322**	**5,816,532**	**1,662,138**	**1,662,138**	**2,710,985**	**2,091,596**	**2,091,596**	**2,806,806**	**–**
Credit related commitments	**330,031**	**286,999**	**1,312,508**	**1,929,538**	**714,099**	**–**	**714,099**	**–**	**2,643,637**

(In thousands of Russian Rubles, unless otherwise indicated)

33 Risk management (continued)

Liquidity risk (continued)

The following table shows monetary assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

	Less than 1month RUR'000	*1 to 3 months RUR'000*	*3 months to 1 year RUR'000*	*Less than 1year RUR'000*	*1 to 5 years RUR'000*	*More than 5 years RUR'000*	*More than 1 year RUR'000*	*No maturity and overdue RUR'000*	*Total RUR'000*
Assets									
Cash and cash equivalents	3,400,616	–	–	**3,400,616**	–	–	**–**	–	**3,400,616**
Mandatory cash balances with the Central Bank of the Russian Federation	53,831	19,208	48,620	**121,659**	46,917	67	**46,984**	–	**168,643**
Placements with banks	–	–	–	**–**	35,000	–	**35,000**	–	**35,000**
Financial instruments at fair value through profit or loss									
- Held by the Group	4,579,362	–	–	**4,579,362**	–	–	**–**	–	**4,579,362**
- Pledged under sale and repurchase agreements	5,898,256	3,056,529	–	**8,954,785**	–	–	**–**	–	**8,954,785**
Loans to customers	860,134	1,685,329	5,656,345	**8,201,808**	5,173,037	345,925	**5,518,962**	1,023,437	**14,744,207**
Available-for-sale assets									
- Held by the Group	10,259	–	–	**10,259**	–	–	**–**	–	**10,259**
- Pledged under sale and repurchase agreements	8,644	–	–	**8,644**	–	–	**–**	–	**8,644**
Other assets	303,230	2,681	56,272	**362,183**	–	–	**–**	–	**362,183**
Total assets	**15,114,332**	**4,763,747**	**5,761,237**	**25,639,316**	**5,254,954**	**345,992**	**5,600,946**	**1,023,437**	**32,263,699**
Liabilities									
Current accounts and deposits from customers	7,020,440	2,504,128	6,339,200	**15,863,768**	6,118,204	8,005	**6,126,209**	–	**21,989,977**
Deposits and balances from banks	4,911,574	2,503,428	109,006	**7,524,008**	2,903	–	**2,903**	–	**7,526,911**
Promissory notes	284,713	7,120	338,761	**630,594**	15,392	1,340	**16,732**	–	**647,326**
Subordinated debt	–	–	–	**–**	–	756,957	**756,957**	–	**756,957**
Other liabilities	25,288	58,272	65,787	**149,347**	–	–	**–**	79,681	**229,028**
Total liabilities, other than net assets attributable to participants	**12,242,015**	**5,072,948**	**6,852,754**	**24,167,717**	**6,136,499**	**766,302**	**6,902,801**	**79,681**	**31,150,199**
Net position as at 31 December 2009	**2,872,317**	**(309,201)**	**(1,091,517)**	**1,471,599**	**(881,545)**	**(420,310)**	**(1,301,855)**	**943,756**	**1,113,500**
Cumulative gap as at 31 December 2009	**2,872,317**	**2,563,116**	**1,471,599**	**1,471,599**	**590,054**	**169,744**	**169,744**	**1,113,500**	**–**
Credit related commitments	**206,327**	**412,654**	**256,638**	**875,619**	**161,112**	**–**	**161,112**	**–**	**1,036,731**

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The above table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2010 and 2009, with the exception of securities included into financial instruments at fair value through profit or loss and financial assets available for sale as at 31 December 2010 and 2009. As at 31 December 2010 and 2009 securities included into financial instruments at fair value through profit or loss and financial assets available for sale are shown in the category "Less than 1 month", because as at that date the Group's management believed that all of these financial instruments could be sold within one month in the normal course of business or were able to be used as collateral for loans from the CBR.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However Management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

(In thousands of Russian Rubles, unless otherwise indicated)

34 Related party transactions

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

Total remuneration included in employee compensation (refer Note 14):

	2010 RUR'000	*2009 RUR'000*
Members of the Board of Directors	109,274	43,140
Other key management personnel	67,911	44,594
	177,185	**87,734**

The outstanding balances as at 31 December 2010 with related parties are as follows:

	Participants of Parent Group RUR'000	*Key management personnel RUR'000*	*Other related parties RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**363,066**	**14,757**	**82,756**	**460,579**
Loans issued during the year	1,507,903	129,414	43,580	**1,680,897**
Loan repayments during the year	(1,364,727)	(77,586)	(62,316)	**(1,504,629)**
Other movements	(22,245)	(2,688)	–	**(24,933)**
Loans outstanding at 31 December, gross	**483,997**	**63,897**	**64,020**	**611,914**
Less: allowance for impairment at 31 December	–	(200)	(768)	**(968)**
Loans outstanding at 31 December, net	**483,997**	**63,697**	**63,252**	**610,946**
Deposits at 1 January	**–**	**103,223**	**216,989**	**320,212**
Deposits received during the year	338,406	9,340	292,899	**640,645**
Deposits repaid during the year	(56,074)	(102,824)	(308,175)	**(467,073)**
Other movements	6,033	38	9,067	**15,138**
Deposits at 31 December	**288,365**	**9,777**	**210,780**	**508,922**
Current accounts at 31 December	**1,270**	**23,554**	**21,488**	**46,312**
Guarantees received	–	6,605	102,265	**108,870**

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

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Loans outstanding at 1 January, gross	**123,932**	**6,138**	**235,518**	**365,588**
Loans issued during the year	667,171	55,465	402,875	**1,125,511**
Loan repayments during the year	(450,229)	(44,154)	(470,119)	**(964,502)**
Other movements	22,192	(2,692)	(85,518)	**(66,018)**
Loans outstanding at 31 December, gross	**363,066**	**14,757**	**82,756**	**460,579**
Less: allowance for impairment at 31 December	–	(211)	(993)	**(1,204)**
Loans outstanding at 31 December, net	**363,066**	**14,546**	**81,763**	**459,375**
Deposits at 1 January	**–**	**10,198**	**–**	**10,198**
Deposits received during the year	–	390,988	503,626	**894,614**
Deposits repaid during the year	–	(298,025)	(286,685)	**(584,710)**
Other movements	–	62	48	**110**
Deposits at 31 December	**–**	**103,223**	**216,989**	**320,212**
Current accounts at 31 December	**151**	**30,745**	**3,586**	**34,482**
Guarantees received	–	391,039	–	**391,039**

(In thousands of Russian Rubles, unless otherwise indicated)

34 Related party transactions (continued)

Amounts included in the consolidated income statement for 2010 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	47,748	929	12,050	**60,727**
Interest expense	(6,208)	(779)	(14,065)	**(21,052)**
Provision for loans impairment	–	11	225	**236**
Fee and commission income	60	229	195	**484**
Other income	–	2	–	**2**
General administrative expenses	–	(2,641)	(102)	**(2,743)**

Amounts included in the consolidated income statement for 2009 in relation to transactions with the related parties are as follows:

	Participants RUR'000	*Key management personnel RUR'000*	*Other RUR'000*	*Total RUR'000*
Interest income	32,552	2,149	20,637	**55,338**
Interest expense	–	(3,759)	(9,234)	**(12,993)**
Provision for loans impairment	4,957	108	8,428	**13,493**
Fee and commission income	7,019	(477)	(942)	**5,600**
General administrative expenses	–	(734)	(53)	**(787)**

35 Fair value of financial instruments

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

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; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	12,467,897	927,131	305,127	**13,700,155**
	12,467,897	**927,131**	**305,127**	**13,700,155**

At 31 December 2009	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial instruments at fair value through profit or loss	12,907,965	626,182	–	**13,534,147**
Available-for-sale assets	18,903	–	–	**18,903**
	12,926,868	**626,182**	**–**	**13,553,050**

(In thousands of Russian Rubles, unless otherwise indicated)

35 Fair value of financial instruments (continued)

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 Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial assets at fair value through profit or loss and investment securities available-for-sale

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2010	*Total gain/(loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehen-sive income*	*Business combination*	*Purchases*	*Sales*	*Settlements*	*Transfers to level 1*	*At 31 December 2010*
Financial assets									
Financial instruments at fair value through profit or loss	–	4,838	–	–	300,289	–	–	–	305,127
Total level 3 financial assets	**–**	**4,838**	**–**	**–**	**300,289**	**–**	**–**	**–**	**305,127**
Financial liabilities									
Derivative financial instruments	–	–	–	–	–	–	–	–	–
Total level 3 financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total net level 3 financial assets / (liabilities)	**–**	4,838	**–**	**–**	**300,289**	**–**	**–**	**–**	**305,127**

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.

	2010 RUR'000	*2010 RUR'000*	*2010 RUR'000*	*2009 RUR'000*	*2009 RUR'000*	*2009 RUR'000*
	Carrying Value	*Fair Value*	*Unrecognised gain/(loss)*	*Carrying Value*	*Fair Value*	*Unrecognised gain/(loss)*
Assets						
Cash and cash equivalents	5,318,321	5,318,321	–	3,400,616	3,400,616	–
Mandatory reserves with the Central Bank of the Russian Federation	220,181	220,181	–	168,643	168,643	–
Placements with banks and other financial institutions	100,613	100,613	–	35,000	35,000	–
Loans to customers	21,742,985	22,015,455	272,470	14,744,207	14,643,732	(100,475)
Other assets	570,401	570,401	–	362,183	362,183	–
Liabilities						
Current accounts and deposits from customers	31,040,694	31,467,467	(426,773)	21,989,977	22,038,446	(48,469)
Deposits and balances from banks	4,554,283	4,554,283	–	7,526,911	7,526,911	–
Subordinated debt	808,486	808,486	–	756,957	756,957	–
Promissory notes	1,990,280	1,990,280	–	647,326	647,326	–
Other liabilities	452,107	452,107	–	229,028	229,028	–
			(154,303)			**(148,944)**

35 Fair value of financial instruments (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and accounts with the Central Bank of Russia

The carrying value of cash and accounts with the CBR approximates their fair value due to relatively short-term maturity of these financial instruments.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month the fair value approximates their carrying amount due to the relatively short-term maturities of these financial instruments.

Loans and advances to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

Debt securities issued

Fair value of debt securities issued is assed based on the available market quotes of bonds issued at the year end.

Due to customers

The estimate was made by discounting of scheduled future cash flows of the term deposits through the estimated maturity using prevailing market rates as of the respective year-end.

36 Events subsequent to the balance sheet date

No significant events impacting the financial statements were identified.

37 Business combination and disposal of subsidiaries

Acquisition of LLC “Sollers-Finance”

In December 2010 the Group acquired 50% of LLC “Sollers-Finance” for a total consideration of RUR 273,500 thousand that represents RUR 105,000 thousand additional contribution to charter capital and purchase consideration of RUR 168,500 paid to the previous owner of the company.

LLC “Sollers-Finance” provides its customers with the leasing services for automobiles supplied by Sollers Group – another partcipany of the company, as well as construction and agricultural equipment.

(In thousands of Russian Rubles, unless otherwise indicated)

37 Business combination and disposal of subsidiaries (continued)

Acquisition of LLC "Sollers-Finance" (continued)

The acquisition of the LLC "Sollers-Finance" had the following effect on the Group's assets and liabilities at the date of acquisition:

	50% of assets and liabilities recognised at fair value on acquisition RUR'000
Assets	
Cash and cash equivalents	2,424
Loans to customers	364,606
Property, equipment and intangible assets	833
Other assets	49,963
Total assets	**417,826**
Liabilities	
Deposits and balances from banks	165,916
Other liabilities	16,813
Deferred tax liabilities	4,706
Total liabilities	**187,435**
Net identifiable assets and liabilities	**230,391**
Goodwill (Note 38)	43,109
Consideration paid	(273,500)
Cash and cash equivalents acquired	2,424
Net cash outflow	**(271,076)**

Disposal of Bank "Regionalniy Kredit" and Insurance company "ARKA-Strahovanie"

In July 2009 the Group sold its 100% stake in ARKA-Strakhovanie and Bank Regionalniy Kredit to a third party, which was not related to the Group for RUR 1,093,544 thousand.

The disposal of the subsidiary had the following effect on assets and liabilities at the date of disposal:

RUR'000	***Carrying amount at date of disposal***	***Assets repurchased***	***Net amounts disposed***
Assets			
Cash and cash equivalents	1,223,081	–	1,223,081
Mandatory cash balances with the Central Bank of the Russian Federation	5,968	–	5,968
Financial instruments at fair value through profit or loss	2,523,739	–	2,523,739
Loans	370,484	370,484	–
Property, equipment and intangible assets	420,341	390,140	30,201
Other assets	156,409	43,459	112,950
Total assets	**4,700,022**	**804,083**	**3,895,939**
Liabilities			
Current accounts and deposits from customers	2,066,335	–	2,066,335
Deposits and balances from banks	1,351,833	–	1,351,833
Promissory notes	6,379	–	6,379
Other liabilities	192,396	–	192,396
Deferred tax liability	15,215	–	15,215
Total liabilities	**3,632,158**	–	**3,632,158**
Net identifiable assets and liabilities	**1,067,864**	**804,083**	**263,781**

(In thousands of Russian Rubles, unless otherwise indicated)

37 Business combination and disposal of subsidiaries (continued)

Disposal of Bank "Regionalniy Kredit" and Insurance company "ARKA-Strahovanie" (continued)

RUR'000	*Consideration received*	*Cash (outflow) inflow*
Cash and cash equivalents	–	(1,223,081)
Cash received	261,796	261,796
Consideration receivable	27,665	–
Loans repurchased	370,484	–
Property, equipment and intangible assets repurchased	390,140	–
Other assets repurchased	43,459	–
Total assets	**1,093,544**	**(961,285)**

38 Goodwill

Movements in goodwill for the year ended 31 December 2010 are as follows:

	Arka Group RUR'000	*Credit Island Primorye RUR'000*	*Nika RUR'000*	*Sollers-Finance RUR'000*	*Total RUR'000*
Goodwill as at 31 December 2009	115,035	202,443	90,000	–	**407,478**
Acquired in business combination	–	–	–	43,109	**43,109**
Goodwill as at 31 December 2010	**115,035**	**202,443**	**90,000**	**43,109**	**450,587**

Movements in goodwill for the year ended 31 December 2009 are as follows:

	Arka Group RUR'000	*Credit Island Primorye RUR'000*	*Nika RUR'000*	*Total RUR'000*
Goodwill as at 31 December 2008	115,035	202,443	90,000	**407,478**
Goodwill as at 31 December 2009	**115,035**	**202,443**	**90,000**	**407,478**

The retail business is considered as the cash generating unit and all goodwill is allocated to this unit. Management performed an impairment assessment in respect of the goodwill and concluded there was no impairment. A value in use assessment was performed by management to assess for impairment. Projected cash flows are based on management approved budgets over a three year period and a 20% discount rate is used.

39 Capital adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis exceeded the 10% minimum level required by the CBR.

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2010 and 2009, comprised 14.7% and 13.4%, respectively.

	31 December 2010	*31 December 2009*
Tier 1 capital	3,996,364	2,426,640
Tier 2 capital	808,486	756,957
Total capital	4,804,850	3,183,597
Risk weighted assets	**32,698,598**	**23,735,370**
Tier 1 capital ratio	12.2%	10.2%
Total capital ratio	14.7%	13.4%

(In thousands of Russian Rubles, unless otherwise indicated)

40 Principal consolidated subsidiaries

Included in the table below is the list of the principal consolidated subsidiaries and joint-ventures of the Group as at 31 December 2010:

	Principal activity	*31 December 2010*	*Voting rights/ Equity owned 31 December 2009*
Leasing			
LLC "Leasing Company Razvitie"	Leasing	100.00% (subsidiary)	100.00%
LLC "Regionalnaya Lisingovaya Compania"	Leasing	100.00% (subsidiary)	100.00%
LLC "Sollers-Finance"	Leasing	50.00% (joint venture)	–
Retail lending			
LLC "ARKA"	Retail lending	100.00% (subsidiary)	99.9974%
LLC "BKA"	Retail lending	100.00% (subsidiary)	99.9974%
LLC "Kreditniy Ostrov "Primorye"	Retail lending	100.00% (subsidiary)	99.9974%