

CREDIT EUROPE BANK LTD.

Consolidated Financial Statements

For the year ended 31 December 2010

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Independent Auditors' Report

To the Board of Directors of Credit Europe Bank Ltd.

We have audited the accompanying consolidated financial statements of Credit Europe Bank Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 about whether the consolidated financial statements are free from material misstatement.

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

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

ZAO KPMG

ZAO KPMG
24 March 2011

CREDIT EUROPE BANK LTD.
Consolidated Income Statement for the year ended 31 December 2010

	Notes	2010 RUB'000	2009 RUB'000
Interest income	4	8,857,190	9,238,645
Interest expense	4	(3,014,947)	(3,444,452)
Net interest income		5,842,243	5,794,193
Fee and commission income	5	1,665,542	1,547,253
Fee and commission expense	6	(389,855)	(334,128)
Net fee and commission income		1,275,687	1,213,125
Net gain on financial instruments at fair value through profit or loss	7	326,878	935,396
Net foreign exchange income	8	175,377	289,141
Other income		49,310	93,045
		551,565	1,317,582
Impairment losses	9	(721,530)	(3,083,633)
General administrative expenses	10	(3,731,112)	(3,327,709)
Operating expenses		(4,452,642)	(6,411,342)
Income before income tax		3,216,853	1,913,558
Income tax expense	11	(614,804)	(385,798)
Net income for the year		2,602,049	1,527,760

The consolidated financial statements were approved by the Board of Directors on 24 March 2011.


 Haluk Aydinoglu
 President


 Emin Altug Candan
 Head of Financial Control
 Department

CREDIT EUROPE BANK LTD.
Consolidated Statement of Financial Position as at 31 December 2010

	Notes	2010 RUB'000	2009 RUB'000
ASSETS			
Cash		1,165,966	935,902
Due from the Central Bank of the Russian Federation	12	1,036,131	580,318
Placements with banks and other financial institutions	13	12,008,148	11,608,508
Financial instruments at fair value through profit or loss			
- Held by the Group	14	117,017	160,597
- Pledged under sale and repurchase agreements	14	-	59,479
Loans to customers	15	60,480,396	47,925,256
Available-for-sale financial assets			
- Held by the Group	16	6,789,651	1,754,448
- Pledged under sale and repurchase agreements	16	1,093,578	4,021,725
Held-to-maturity investments	17	444,328	970,730
Current income tax prepayments		613,969	384,367
Property and equipment	18	677,280	599,793
Other assets	19	471,194	406,052
Total Assets		84,897,658	69,407,175
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	14	339,471	75,476
Deposits and balances from banks and other financial institutions	20	16,006,972	10,578,969
Current accounts and deposits from customers	21	31,559,534	21,808,245
Debt securities in issue	22	17,849,049	19,299,076
Other borrowed funds	23	3,970,573	4,652,167
Deferred tax liability	24	80,244	28,611
Other liabilities		534,044	350,083
Total Liabilities		70,339,887	56,792,627
Shareholders' Equity			
Share capital	25	8,549,789	8,549,789
Share premium		158,631	158,631
Additional paid-in capital	25	285,924	285,924
Revaluation reserve for available-for-sale financial assets		(367)	22,558
Hedge reserve		(15,561)	-
Retained earnings		5,579,355	3,597,646
Total Shareholders' Equity		14,557,771	12,614,548
Total Liabilities and Shareholders' Equity		84,897,658	69,407,175
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The consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements.

CREDIT EUROPE BANK LTD.
Consolidated Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010 RUB'000	2009 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		3,216,853	1,913,558
Adjustments for:			
Net interest income		(5,842,243)	(5,794,193)
Net impairment losses		721,530	3,083,633
Unrealized loss on financial instruments at fair value through profit or loss		360,139	1,912,898
Depreciation		189,715	239,091
Net loss on disposal of property and equipment		35,542	30,343
Other non-cash items		392,839	107,153
(Gain) loss from revaluation of financial assets and liabilities in foreign currencies		(346,972)	4,731
		(1,272,597)	1,497,214
(Increase) decrease in operating assets			
Minimum reserve deposit		(5,762)	(262,175)
Placements with banks and other financial institutions		(1,219,029)	-
Financial instruments at fair value through profit or loss		35,779	(18,090)
Loans to customers		(14,365,862)	2,540,491
Other assets		(73,324)	(14,005)
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		5,557,772	(10,338,819)
Current accounts and deposits from customers		9,940,096	13,228,276
Other liabilities		(16,398)	(62,086)
Net cash from operating activities before interest and income tax paid		(1,419,325)	6,570,806
Interest received		9,614,354	8,977,560
Interest paid		(2,938,569)	(3,515,326)
Income tax paid		(783,149)	(837,689)
Cash flows from operating activities		4,473,311	11,195,351
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale financial assets		(15,221,584)	(11,634,332)
Sale and redemption of available-for-sale financial assets		13,132,734	6,005,968
Acquisition of held-to-maturity investments		(120,333)	(868,977)
Sale and redemption of held-to-maturity investments		647,488	311,888
Net purchases of property and equipment		(302,744)	(109,694)
Cash used in investing activities		(1,864,439)	(6,295,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from other borrowed funds		69,851	34,065,744
Repayments of other borrowed funds		(702,147)	(42,706,802)
Proceeds from debt securities in issue		9,169,153	8,336,339
Repayments of debt securities in issue		(10,572,830)	(1,068,671)
Dividends paid		(620,340)	-
Cash used in financing activities		(2,656,313)	(1,373,390)
Net (decrease) increase in cash and cash equivalents		(47,441)	3,526,814
Effect of changes in exchange rates on cash and cash equivalents		(94,262)	44,802
Cash and cash equivalents at the beginning of the year		12,819,424	9,247,808
Cash and cash equivalents at the end of the year	33	12,677,721	12,819,424

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

CREDIT EUROPE BANK LTD.
Consolidated Statement of Changes in Equity for the year ended 31 December 2010

	Share capital RUB'000	Share premium RUB'000	Additional paid-in capital RUB'000	Revaluation reserve for available-for- sale financial assets RUB'000	Hedge reserve RUB'000	Retained earnings RUB'000	Total RUB'000
Balance as at 1 January 2009	8,549,789	158,631	285,924	-	451,538	2,069,886	11,515,768
Total comprehensive income							
Net income for the year	-	-	-	-	-	1,527,760	1,527,760
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 5,640 thousand	-	-	-	22,558	-	-	22,558
Net gain on cash flow hedges transferred to profit or loss, net of deferred tax of RUB 112,884 thousand	-	-	-	-	(451,538)	-	(451,538)
Total other comprehensive income	-	-	-	22,558	(451,538)	-	(428,980)
Total comprehensive income for the year	-	-	-	22,558	(451,538)	1,527,760	1,098,780
Balance as at 31 December 2009	8,549,789	158,631	285,924	22,558	-	3,597,646	12,614,548
Total comprehensive income							
Net income for the year	-	-	-	-	-	2,602,049	2,602,049
Other comprehensive income							
Net realized gain available-for-sale financial assets transferred to profit or loss on disposal, net of deferred tax of RUB 5,734 thousand	-	-	-	(22,925)	-	-	(22,925)
Net unrealized loss on derivatives hedging variability of cash flow, net of deferred tax of RUB 3,890 thousand	-	-	-	-	(15,561)	-	(15,561)
Total other comprehensive income	-	-	-	(22,925)	(15,561)	-	(38,486)
Total comprehensive income for the year	-	-	-	(22,925)	(15,561)	2,602,049	2,563,563
Dividends declared and paid	-	-	-	-	-	(620,340)	(620,340)
Balance as at 31 December 2010	8,549,789	158,631	285,924	(367)	(15,561)	5,579,355	14,557,771

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.

*CREDIT EUROPE BANK LTD.
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010*

	2010 RUB '000	2009 RUB '000
Net income for the year	2,602,049	1,527,760
Other comprehensive income (loss), net of income tax		
Revaluation reserve for assets available-for-sale:		
- Net realized gain on available-for-sale financial assets transferred to profit or loss on disposal, net of deferred tax of RUB 5,734 thousand	(22,925)	-
- Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 5,640 thousand	-	22,558
Cash flow hedge:		
- Net unrealized loss on derivatives hedging variability of cash flow, net of deferred tax of RUB 3,890 thousand	(15,561)	-
- Net gain on cash flow hedges transferred to profit or loss, net of deferred tax of RUB 112,884 thousand	-	(451,538)
Total other comprehensive loss for the year, net of income tax	(38,486)	(428,980)
Total comprehensive income for the year	2,563,563	1,098,780

1 Background

Principal activities

These consolidated financial statements include the financial statements of Credit Europe Bank Ltd. (the “Bank”) and its subsidiaries (together referred to as the “Group”).

Credit Europe Bank Ltd. (former Finansbank Russia Ltd.) was established in the Russian Federation as a closed joint stock company and was granted its general banking license in 1997. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”).

The Bank has 123 locations (including 75 street branches, 34 trade center branches, 14 representative offices) (2009 – 106 locations (including 62 street branches, 30 trade center branches, and 14 representative offices)), from which it conducts business throughout the Russian Federation. The registered address of the Bank’s head office is Moscow, Paveletskaya Sq. 2/2. The average number of persons employed by the Bank during the year was 3,250 (2009 – 2,869).

The principal subsidiaries of the Bank are as follows:

Name	Country of incorporation	Ownership %	
		2010	2009
CEB Russia Capital S.A.	Luxembourg	see below	see below
Credit Europe Life Ltd.	Russia	100%	100%

CEB Russia Capital S.A. (former Finans Russia Capital S.A.) is a special purpose entity established to facilitate the issue of loan participation notes by the Group (refer to Note 22). This entity is not owned by the Group, control arises through the predetermination of the entity’s activities.

Credit Europe Life Ltd. is a fully owned subsidiary of the Bank established in 2007 with the purpose of providing a wide range of life insurance services. The entity obtained its insurance license on 28 February 2008.

Shareholders

The Bank’s ultimate parent company is FIBA Holding A.S., a Turkish joint stock company, which is ultimately controlled by a single individual, Mr. Husnu Ozyegin.

Russian business environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from Management’s assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”). Management have determined the Group’s functional currency to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. The RUB is also the Group’s presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB has been rounded to the nearest thousand.

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments made by Management in the application of IFRS that have significant effect on these consolidated financial statements are described in Note 15 “Loans to customers” in respect of the loan impairment allowance.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Group has established one special purpose entity ("SPE") to facilitate the issue of loan participation notes. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to its operations and net assets are presently attributable to the Bank via a number of agreements.

Transactions eliminated on consolidation

Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

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. 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.

Hyperinflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR and amounts due from other financial institutions with an original contractual maturity of 90 days or less and which are free from contractual encumbrances to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

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 by the Group as at fair value through profit or loss.

The Group designates 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.

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;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group 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 financial 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.

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 which 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 cannot 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.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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 the consolidated income statement. 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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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.

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 the consolidated income statement;
- a gain or loss on an available-for-sale financial 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 financial asset is recognized 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 the consolidated income statement 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 or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

Hedge accounting

The Group uses cross-currency swaps and forwards to hedge the foreign currency risk arising from its deposits and balances from banks and other financial institutions and current accounts and deposits from customers in foreign currency.

Derivatives which qualify for hedge accounting are recognized initially at fair value with attributable transaction costs recognized in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

The cumulative gain or loss recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Qualification for hedge accounting

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met.

- a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk.
- b) The hedge is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- d) The effectiveness of the hedge can be reliably measured, i.e. cash flows of the hedged item that are attributable to the hedged risk can be reliably measured.
- e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

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 deposits and balances from banks and other financial institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

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

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 realize the asset and settle the liability simultaneously.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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 a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives 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. The estimated useful lives are as follows:

Equipment	5 to 20 years
Motor vehicles	2 to 3 years
Computer software	3 to 10 years
Leasehold improvements	lesser of lease term or 3 years

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. 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.

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 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 the consolidated income statement 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.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot 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 the consolidated income statement and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is 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 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 the consolidated income statement 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.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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.

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

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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 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. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Penalty income is recognised in the consolidated statement of comprehensive income when penalty is charged to a customer, taking into account its collectability.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

The presentation of penalties on overdue loans was changed in 2010 to better present the substance of the underlying transactions. In the 2010 consolidated financial statements penalties on overdue loans are presented within fee and commission income. For consistency of presentation, prior year figures have been reclassified. As a result RUB 452,092 thousand, previously presented on the face

of the consolidated income statement as penalties on overdue loans, is now presented within fee and commission income (Note 5).

The presentation of factoring commissions was changed in 2010 to better present the substance of the underlying transactions. In the 2010 consolidated financial statements factoring commissions are presented within interest income. For consistency of presentation, prior year figures have been reclassified. As a result RUB 21,049 thousand, previously presented within fee and commission income, is now presented as interest income.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 Related Party Disclosures (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.
- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets.
- Improvements to IFRSs 2010 resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

The Group has not yet analysed the likely impact of the new standards on its financial position or performance.

4 Interest income and interest expense

	2010 RUB'000	2009 RUB'000
Interest income		
Loans to individuals	5,844,626	5,892,268
Loans to corporate and SME customers	2,443,485	2,546,439
Available-for-sale financial assets	397,872	343,986
Held-to-maturity investments	91,161	76,860
Financial instruments at fair value through profit or loss	37,212	28,189
Placements with banks and other financial institutions	22,244	33,037
Derivatives	20,590	317,866
	8,857,190	9,238,645
Interest expense		
Debt securities in issue	1,493,122	1,090,537
Current accounts and deposits from customers	810,406	395,018
Deposits and balances from banks and other financial institutions	469,439	892,004
Other borrowed funds	241,980	1,066,893
	3,014,947	3,444,452

5 Fee and commission income

	2010 RUB'000	2009 RUB'000
Penalties on overdue loans	377,584	452,092
Credit card fees	374,679	221,506
Cash deposit fees	123,761	114,209
Cash withdrawal fees	118,155	119,686
Annual credit card maintenance fees	114,031	102,803
Commissions from insurance companies	113,517	127,578
Early redemption fees	100,625	81,812
Intermediary services fees	95,511	34,001
Foreign exchange fees	50,990	39,677
Commission for fund transfers	46,507	58,250
Transaction processing fees	46,420	35,002
Documentary services fees	34,347	79,092
Annual account maintenance fees	32,876	43,273
Fees from retailers	7,381	12,719
Commission for restructurization	3,066	2,838
Other	26,092	22,715
	1,665,542	1,547,253

6 Fee and commission expense

	2010 RUB'000	2009 RUB'000
Credit card fees	206,501	113,384
Cash transportation fees	85,685	94,191
Fees to retailers	21,281	41,772
Payment and transaction services	21,559	19,068
Insurance related expenses	30,401	34,118
Brokerage expense	10,382	10,853
Fees for documentary services	4,936	7,470
Portfolio and other management fee expense	4,209	5,210
Fees for banknote transactions	3,263	7,274
Other	1,638	788
	389,855	334,128

7 Net gain on financial instruments at fair value through profit or loss

	2010 RUB'000	2009 RUB'000
Capital market gain arising from debt instruments	326,878	935,396

8 Net foreign exchange income

	2010 RUB'000	2009 RUB'000
Gain/(loss) from revaluation of financial assets and liabilities	346,972	(4,731)
(Loss)/gain on spot transactions and derivatives	(171,595)	293,872
	175,377	289,141

9 Impairment losses

	2010 RUB'000	2009 RUB'000
Loans to customers	640,954	3,030,039
Other assets	40,969	53,594
Losses on financial guarantee contracts	39,607	-
	721,530	3,083,633

10 General administrative expenses

	2010 RUB'000	2009 RUB'000
Employee compensation	1,906,115	1,572,675
Occupancy	482,355	490,728
Social security premiums and federal budget payments	263,060	248,610
Taxes other than on income	207,474	186,584
Depreciation	189,715	239,091
Repairs and maintenance	156,376	128,878
Communications and information services	135,020	156,476
Office supplies	116,962	92,305
Security	54,733	56,768
Professional services	54,360	48,999
Travel expenses	44,551	26,547
Advertising and marketing	43,494	14,643
Insurance premiums	12,431	21,793
Other	64,466	43,612
	3,731,112	3,327,709

11 Income tax expense

	2010 RUB'000	2009 RUB'000
Current tax expense		
Current year	577,283	407,155
Overprovided in prior years	(23,736)	(10,472)
	553,547	396,683
Deferred tax expense		
Origination and reversal of temporary differences	61,257	(10,885)
Total income tax expense in the consolidated income statement	614,804	385,798

The applicable tax rate for current tax is 20% (2009: 20%). The Group applied 20% deferred tax rate (2009: 20%)

Reconciliation of effective tax rate:

	2010 RUB'000	(%)	2009 RUB'000	(%)
Income before tax	3,216,853		1,913,558	
Income tax at the applicable tax rate	643,372	20.00%	382,712	20.00%
Income taxed at lower rates	(8,800)	(0.27%)	(21,061)	(1.10%)
Non-deductible costs	3,968	0.12%	34,619	1.81%
Overprovided in prior years	(23,736)	(0.74%)	(10,472)	(0.55%)
	614,804	19.11%	385,798	20.16%

12 Due from the Central Bank of the Russian Federation

	2010 RUB'000	2009 RUB'000
Minimum reserve deposit	311,066	305,304
Nostro accounts	725,065	275,014
	1,036,131	580,318

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro accounts represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13 Placements with banks and other financial institutions

	2010 RUB'000	2009 RUB'000
<i>Not impaired or past due</i>		
Nostro accounts		
Largest 30 Russian banks	213,161	147,286
Small and medium sized Russian banks and financial institutions	106,605	505,108
OECD banks	51,990	79,709
Russian subsidiaries of OECD banks	-	3,017
Total nostro accounts	371,756	735,120
 Loans and deposits		
OECD banks	11,636,392	10,873,342
Largest 30 Russian banks	-	46
Total loans and deposits	11,636,392	10,873,388
	12,008,148	11,608,508

Concentration of placements with banks and other financial institutions

As at 31 December 2010, the Group had three counterparties, whose balances exceeded 10% of total placements with banks and other financial institutions (2009: one). The gross value of these balances as at 31 December 2010 and 2009 was RUB 9,718,630 thousand and RUB 10,803,895 thousand, respectively.

14 Financial instruments at fair value through profit or loss

	2010 RUB'000	2009 RUB'000
Assets		
Held by the Group		
<i>Debt and other fixed-income instruments – trading</i>		
Russian corporate bonds	-	58,274
Foreign corporate bonds	78,001	-
<i>Derivative financial instruments</i>		
Foreign currency contracts	31,590	102,323
Options	7,426	-
	117,017	160,597
 Pledged under sale and repurchase agreements		
<i>Debt and other fixed-income instruments – trading</i>		
Moscow Government bonds	-	59,479
 Liabilities		
<i>Derivative financial instruments</i>		
Foreign currency contracts	335,710	39,093
Interest rate swaps	-	36,383
Options	3,761	-
	339,471	75,476

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2010 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, have been recognised in the consolidated income statement and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2010 RUB'000	2009 RUB'000	2010	2009
Buy USD sell RUB				
Less than three months	4,054,647	417,672	30.6266	29.8653
Between three months and one year	3,352,459	-	31.8654	-
Buy USD sell EUR				
Less than three months	4,811,623	1,461,209	1.3156	1.4401
Buy EUR sell USD				
Less than three months	151,418	157,283	1.3243	1.4389
Buy RUB sell USD				
Less than three months	2,321,479	4,811,189	30.5810	30.5810
Between three months and one year	-	136,880	-	34.2466
Buy RUB sell EUR				
Less than three months	22,347	-	40.6504	-
Buy YTL sell USD				
Less than three months	1,015,620	-	1.5586	-
Between three months and one year	1,371,860	-	1.5434	-
More than one year	1,436,102	-	1.5667	-
Buy YTL sell EUR				
More than one year	329,589	-	2.1701	-
Buy EUR sell YTL				
More than one year	312,582	-	2.17	-

The table below shows the fair values of financial instruments designated for hedging during 2010, recorded as assets or liabilities, together with their notional amounts:

RUB'000	2010		
	Fair Value		
	Notional principal	Assets	Liability
Cross-currency swaps	2,743,720	-	202,685

The Group used as at 31 December 2010 cross-currency swaps to hedge the foreign currency risk arising from a foreign currency deposit and borrowing by entering into USD/TRY swap transaction. The hedged cash flows occurred and affected the consolidated income statement in 2010. There were no such cross-currency swaps as at 31 December 2009.

The effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognized directly in equity as at 31 December 2010 was RUB 15,561 thousand, net of tax RUB 3,890 thousand.

In 2008, the Group reclassified certain trading securities with effect from 1 July 2008 into held-to-maturity investments following amendments to IAS 39 *Financial instrument: Recognition and Measurements*. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Group had the intention and ability to hold them until maturity. The Group determined that the deterioration of the global and Russian financial markets leading up to 1 July 2008 constituted rare circumstances that permit reclassification out of the trading category.

The disclosures below detail the impact of the reclassifications on the consolidated financial statements:

	31 December 2010 RUB'000		31 December 2009 RUB'000	
	Carrying value	Fair value	Carrying value	Fair value
Securities held for trading reclassified to held-to-maturity investments	120,456	128,960	117,072	115,091
	120,456	128,960	117,072	115,091

Included in the table above are amounts related to financial instruments held by the Group as at 31 December 2010.

RUB'000	Recognized for reclassified assets			Would have been recognized if the reclassifications were not made		
	2008	2009	2010	2008	2009	2010
Interest income	7,422	17,282	17,910	5,803	14,211	13,535
Net (loss) gain on financial instruments at fair value through profit or loss	(15,182)	-	-	(100,779)	89,580	13,869
Total effect on profit or loss for the year (before tax)	(7,760)	17,282	17,910	(94,976)	103,791	27,404

15 Loans to customers

	2010 RUB'000	2009 RUB'000
Commercial loans		
Loans to large corporates	27,559,603	22,070,695
Loans to small and medium size companies	3,489,920	3,150,969
Total commercial loans	31,049,523	25,221,664
Loans to individuals		
Auto loans	13,326,623	11,499,656
Credit cards	5,483,439	3,732,158
Cash loans	5,265,312	5,874,507
Instant loans	4,824,121	3,148,681
Mortgage loans	2,806,077	2,192,873
Other	29,872	24,711
Total loans to individuals	31,735,444	26,472,586
Gross loans to customers	62,784,967	51,694,250
Impairment allowance	(2,304,571)	(3,768,994)
Net loans to customers	60,480,396	47,925,256

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

	2010 RUB'000	2009 RUB'000
Balance at the beginning of the year	3,768,994	3,098,731
Net charge for the year	640,954	3,030,039
Write-offs	(2,105,377)	(2,359,776)
Balance at the end of the year	2,304,571	3,768,994

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2010:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to large corporates				
Loans for which no impairment has been identified	27,254,838	(539,398)	26,715,440	1.98
Impaired loans:				
- not past due	304,765	(14,069)	290,696	4.62
Total impaired loans	304,765	(14,069)	290,696	4.62
Total loans to large corporates	27,559,603	(553,467)	27,006,136	2.01
Loans to small and medium size companies				
Loans for which no impairment has been identified	3,144,322	(80,043)	3,064,279	2.55
Impaired loans:				
- overdue less than 90 days	123,876	(16,589)	107,287	13.39
- overdue more than 90 days and less than 1 year	190,332	(79,185)	111,147	41.60
- overdue more than 1 year	31,390	(9,818)	21,572	31.28
Total impaired loans	345,598	(105,592)	240,006	30.55
Total loans to small and medium size companies	3,489,920	(185,635)	3,304,285	5.32
Total commercial loans	31,049,523	(739,102)	30,310,421	2.38

As at 31 December 2010, interest accrued on impaired loans amounted to RUB 78,125 (2009: RUB 41,267 thousand).

The impaired loan balance of RUB 304,765 thousand included in the loans to large corporate portfolio comprises a single loan to a borrower which had been classified as impaired following delays in payments on the loan, however this loan was fully repaid after the year end following the disposal of collateral.

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2009:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to large corporates				
Loans for which no impairment has been identified	21,626,558	(479,206)	21,147,352	2.22
Impaired loans:				
- overdue more than 90 days and less than 1 year	444,137	(39,195)	404,942	8.82
Total impaired loans	444,137	(39,195)	404,942	8.82
Total loans to large corporates	22,070,695	(518,401)	21,552,294	2.35
Loans to small and medium size companies				
Loans for which no impairment has been identified	2,632,041	(22,855)	2,609,186	0.87
Impaired loans:				
- overdue less than 90 days	178,486	(32,426)	146,060	18.17
- overdue more than 90 days and less than 1 year	328,455	(281,916)	46,539	85.83
- overdue more than 1 year	11,987	(10,786)	1,201	89.98
Total impaired loans	518,928	(325,128)	193,800	62.65
Total loans to small and medium size companies	3,150,969	(347,983)	2,802,986	11.04
Total commercial loans	25,221,664	(866,384)	24,355,280	3.44

The Group considers loans which are contractually overdue for more than 90 days to be non-performing.

The Group has estimated loan impairment for commercial loans except for loans with an initial balance less than RUB 7,500 thousand amongst the small and medium size company ("SME") portfolio based on an analysis of the future cash flows for impaired loans and based on its past loss experience considering current economic condition for portfolios of loans for which no indicators of impairment has been identified.

For loans with an initial balance less than RUB 7,500 thousand granted to SMEs, the Group estimates loan impairment based on its past historical loss experience. Management assumed that losses migration rates are constant and can be estimated based on historic loss migration pattern for the last twelve month period. In addition, Management assumed that the Group can sell these loans to SMEs overdue more than 360 days for a minimum 3% of their gross amounts.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on commercial loans as at 31 December 2010 would be RUB 303,104 thousand (2009: RUB 243,553 thousand) lower/higher.

During the year ended 31 December 2010, the Group renegotiated commercial loans that would otherwise be past due of RUB 304,765 thousand (2009: RUB 831,035 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

Analysis of collateral

The following table provides an analysis of the commercial loan portfolio, net of impairment, by types of collateral as at 31 December 2010 and 2009:

	2010	% of loan	2009	% of loan
	RUB'000	portfolio	RUB'000	portfolio
Mortgage	9,511,263	31.38	6,704,874	27.53
Surety and corporate guarantees	6,356,226	20.97	6,879,834	28.25
Inventories	704,358	2.32	623,327	2.56
Equipment	373,506	1.23	349,322	1.43
Bank guarantees	127,499	0.42	88,706	0.36
Motor vehicles	80,575	0.27	117,432	0.48
Other	288,550	0.95	21,113	0.09
No collateral	12,868,444	42.46	9,570,672	39.30
Total	30,310,421	100.00	24,355,280	100.00

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

The following tables provide an analysis of the impaired commercial loan portfolio by fair value of collateral as at 31 December 2010:

	Gross loans	Impairment	Net loans	Fair value of collateral
	RUB'000	RUB'000	RUB'000	RUB'000
Mortgage	496,878	(24,051)	472,827	496,878
Equipment	82,914	(57,629)	25,285	82,914
Surety	36,756	(25,506)	11,250	36,756
Motor vehicles	17,303	(11,201)	6,102	17,303
Cash	15,238	(703)	14,535	15,238
Inventories	1,274	(571)	703	1,274
Total	650,363	(119,661)	530,702	650,363

The following tables provide the analysis of the impaired commercial loan portfolio by fair value of collateral as at 31 December 2009:

	Gross loans	Impairment	Net loans	Fair value of collateral
	RUB'000	RUB'000	RUB'000	RUB'000
Surety	687,050	(280,509)	406,541	687,050
Inventories	159,841	(48,431)	111,410	159,841
Equipment	66,011	(2,829)	63,182	66,011
Mortgage	26,825	(18,958)	7,867	26,825
Motor vehicles	23,338	(13,596)	9,742	23,338
Total	963,065	(364,323)	598,742	963,065

During the year ended 31 December 2010 the Group did not obtain any assets by taking control of collateral accepted as security for loans to legal entities (2009: 45,853 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2010 are as follows:

	Loans to large corporates	Loans to small and medium size companies	Total
	RUB'000	RUB'000	RUB'000
Loan impairment allowance as at 1 January	518,401	347,983	866,384
Loans written off during the year as uncollectible	(7,248)	(311,914)	(319,162)
Loan impairment losses during the year	42,314	149,566	191,880
Loan impairment allowance as at 31 December 2010	553,467	185,635	739,102

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2009 are as follows:

	Loans to large corporates	Loans to small and medium size companies	Total
	RUB'000	RUB'000	RUB'000
Loan impairment allowance as at 1 January	405,397	163,270	568,667
Loans written off during the year as uncollectible	(174,658)	(164,166)	(338,824)
Loan impairment losses during the year	287,662	348,879	636,541
Loan impairment allowance as at 31 December 2009	518,401	347,983	866,384

Credit quality of loans to individuals

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

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	11,712,682	(20,991)	11,691,691	0.18
- Overdue less than 30 days	438,161	(20,402)	417,759	4.66
- Overdue 30-89 days	201,003	(46,849)	154,154	23.31
- Overdue 90-179 days	144,727	(86,169)	58,558	59.54
- Overdue 180-360 days	225,941	(160,339)	65,602	70.96
- Overdue more than 360 days	604,109	(524,537)	79,572	86.83
Total auto loans	13,326,623	(859,287)	12,467,336	6.45
Credit cards				
- Not past due	5,054,891	(17,027)	5,037,864	0.34
- Overdue less than 30 days	176,774	(15,304)	161,470	8.66
- Overdue 30-89 days	96,612	(33,673)	62,939	34.85
- Overdue 90-179 days	51,428	(37,000)	14,428	71.95
- Overdue 180-360 days	103,734	(84,995)	18,739	81.94
Total credit cards	5,483,439	(187,999)	5,295,440	3.43
Cash loans				
- Not past due	4,624,117	(18,861)	4,605,256	0.41
- Overdue less than 30 days	245,532	(17,793)	227,739	7.25
- Overdue 30-89 days	105,763	(37,051)	68,712	35.03
- Overdue 90-179 days	98,875	(77,680)	21,195	78.56
- Overdue 180-360 days	191,025	(165,667)	25,358	86.73
Total cash loans	5,265,312	(317,052)	4,948,260	6.02
Instant loans				
- Not past due	4,580,956	(7,882)	4,573,074	0.17
- Overdue less than 30 days	119,061	(7,221)	111,840	6.06
- Overdue 30-89 days	37,723	(14,348)	23,375	38.04
- Overdue 90-179 days	27,488	(21,994)	5,494	80.01
- Overdue 180-360 days	58,893	(51,247)	7,646	87.02
Total instant loans	4,824,121	(102,692)	4,721,429	2.13
Mortgage loans				
- Not past due	2,417,996	(5,029)	2,412,967	0.21
- Overdue less than 30 days	80,539	(3,004)	77,535	3.73
- Overdue 30-89 days	28,683	(3,021)	25,662	10.53
- Overdue 90-179 days	49,239	(14,740)	34,499	29.94
- Overdue 180-360 days	157,787	(46,906)	110,881	29.73
- Overdue more than 360 days	71,833	(24,576)	47,257	34.21
Total mortgage loans	2,806,077	(97,276)	2,708,801	3.47
Other loans to individuals				
- Not past due	27,769	(35)	27,734	0.13
- Overdue less than 30 days	846	(36)	810	4.26
- Overdue 30-89 days	208	(92)	116	44.23
- Overdue 90-179 days	406	(385)	21	94.83
- Overdue 180-360 days	643	(615)	28	95.65
Total other loans to individuals	29,872	(1,163)	28,709	3.89
Total loans to individuals	31,735,444	(1,565,469)	30,169,975	4.93

Credit quality of loans to individuals

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

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	9,150,598	(60,779)	9,089,819	0.66
- Overdue less than 30 days	528,555	(45,864)	482,691	8.68
- Overdue 30-89 days	294,448	(88,011)	206,437	29.89
- Overdue 90-179 days	211,388	(129,671)	81,717	61.34
- Overdue 180-360 days	427,409	(309,361)	118,048	72.38
- Overdue more than 360 days	887,258	(758,719)	128,539	85.51
Total auto loans	11,499,656	(1,392,405)	10,107,251	12.11
Credit cards				
- Not past due	3,147,997	(26,433)	3,121,564	0.84
- Overdue less than 30 days	145,222	(25,247)	119,975	17.39
- Overdue 30-89 days	77,588	(44,025)	33,563	56.74
- Overdue 90-179 days	89,736	(74,656)	15,080	83.20
- Overdue 180-360 days	271,615	(250,101)	21,514	92.08
Total credit cards	3,732,158	(420,462)	3,311,696	11.27
Cash loans				
- Not past due	4,711,473	(87,225)	4,624,248	1.85
- Overdue less than 30 days	353,889	(44,261)	309,628	12.51
- Overdue 30-89 days	178,993	(78,494)	100,499	43.85
- Overdue 90-179 days	149,840	(123,266)	26,574	82.27
- Overdue 180-360 days	471,159	(421,846)	49,313	89.53
- Overdue more than 360 days	9,153	(8,879)	274	97.01
Total cash loans	5,874,507	(763,971)	5,110,536	13.00
Instant loans				
- Not past due	2,786,324	(79,897)	2,706,427	2.87
- Overdue less than 30 days	108,634	(13,429)	95,205	12.36
- Overdue 30-89 days	48,334	(22,223)	26,111	45.98
- Overdue 90-179 days	42,675	(33,401)	9,274	78.27
- Overdue 180-360 days	160,903	(133,307)	27,596	82.85
- Overdue more than 360 days	1,811	(1,757)	54	97.02
Total instant loans	3,148,681	(284,014)	2,864,667	9.02
Mortgage loans				
- Not past due	1,998,844	(3,086)	1,995,758	0.15
- Overdue less than 30 days	63,268	(1,826)	61,442	2.89
- Overdue 30-89 days	15,447	(1,518)	13,929	9.83
- Overdue 90-179 days	29,144	(4,220)	24,924	14.48
- Overdue 180-360 days	52,385	(16,203)	36,182	30.93
- Overdue more than 360 days	33,785	(11,903)	21,882	35.23
Total mortgage loans	2,192,873	(38,756)	2,154,117	1.77
Other loans to individuals				
- Not past due	20,817	(541)	20,276	2.60
- Overdue less than 30 days	969	(118)	851	12.18
- Overdue 30-89 days	355	(152)	203	42.82
- Overdue 90-179 days	426	(315)	111	73.94
- Overdue 180-360 days	2,031	(1,767)	264	87.00
- Overdue more than 360 days	113	(109)	4	96.46
Total other loans to individuals	24,711	(3,002)	21,709	12.15
Total loans to individuals	26,472,586	(2,902,610)	23,569,976	10.96

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions as at 31 December 2010 used in determining the impairment losses for loans to individuals include:

- Management assumed that the Group can sell cash and other loans to individuals overdue more than 360 days for a minimum 3%, instant loans and credit cards loans overdue more than 360 days for a minimum 5% of their gross amounts. During 2010 the Group sold similar types of loans to individuals overdue more than 360 days at higher percentages from their gross amounts than the ones used in the assumptions described above.
- Management assumed that the Group can recover a minimum 12% of the gross amounts of auto loans overdue more than 360 days through the sale of cars held as collateral.
- Management assumed that the Group can recover a minimum 63% and 58% of the gross amounts of mortgage loans granted in Moscow and other regions respectively overdue more than 360 days through the sale of housing real estate held as collateral.
- Management assumed that overdue loans migration rates are constant and can be estimated based on historic loss migration pattern for the past twelve months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent loan impairment on retail loans as at 31 December 2010 would be RUB 301,700 thousand (2009: RUB 235,700 thousand) lower/higher.

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Cash, instant, other loans to individuals and credit card loans are not secured.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

RUB'000	Auto loans	Cash loans	Credit cards	Instant loans	Mortgage loans	Other loans	Total
Loan impairment allowance as at 1 January	1,392,405	763,971	420,462	284,014	38,756	3,002	2,902,610
Loans written off during the year as uncollectible	(607,689)	(530,198)	(365,677)	(245,002)	(34,661)	(2,988)	(1,786,215)
Loan impairment losses during the year	74,571	83,279	133,214	63,680	93,181	1,149	449,074
Loan impairment allowance as at 31 December 2010	859,287	317,052	187,999	102,692	97,276	1,163	1,565,469

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

RUB'000	Auto loans	Cash loans	Credit cards	Instant loans	Mortgage loans	Other loans	Total
Loan impairment allowance as at 1 January	940,108	729,701	373,629	457,520	27,980	1,126	2,530,064
Loans written off during the year as uncollectible	(463,602)	(724,779)	(379,434)	(449,711)	-	(3,426)	(2,020,952)
Loan impairment losses during the year	915,899	759,049	426,267	276,205	10,776	5,302	2,393,498
Loan impairment allowance as at 31 December 2009	1,392,405	763,971	420,462	284,014	38,756	3,002	2,902,610

As at 31 December 2010 the Group has renegotiated loans to individuals that would otherwise be past due of RUB 630,552 thousand (2009: RUB 484,432 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

Industry and geographical analysis of loans issued to large corporates

Loans to large corporates were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	2010 RUB'000	2009 RUB'000
Commercial customers		
Real Estate	5,059,597	5,229,826
Tourism	4,481,231	2,668,185
Public Sector	3,428,367	-
Petrochemistry & Metallurgy	2,735,517	2,693,239
Retail	2,534,368	939,212
Energy	2,013,503	1,817,423
Automotive	1,593,156	1,359,822
Leasing	1,446,237	566,542
Private Banking	1,015,074	952,708
Transportation	799,239	3,360
Machinery	778,328	-
Food & Beverage Services	513,502	2,286,684
Textile	331,717	428,577
Media	252,697	404,050
Construction	93,929	1,063,139
Electronics & Home Appliances	39,999	1,140,219
Other	443,142	517,709
	27,559,603	22,070,695
Impairment allowance	(553,467)	(518,401)
	27,006,136	21,552,294

Loan maturities

The maturity of the Group's loan portfolio is presented in Note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the significant portion of loans issued by the Group, it is likely that many of the Group's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

16 Available-for-sale financial assets

	2010 RUB'000	2009 RUB'000
Held by the Group		
<i>Debt and other fixed-income instruments</i>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	6,771
Other regional authorities and municipal bonds	5,040,377	156,095
Total government and municipal bonds	5,040,377	162,866
 Corporate bonds	 1,749,274	 1,591,582
	6,789,651	1,754,448
 Pledged under sale and repurchase agreements		
<i>Debt and other fixed-income instruments</i>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	2,871,427
Moscow Government bonds	-	868,393
Total government and municipal bonds	-	3,739,820
 Corporate bonds	 1,093,578	 281,905
	1,093,578	4,021,725

17 Held-to-maturity investments

	2010 RUB'000	2009 RUB'000
Debt and other fixed-income instruments		
Financial institutions' bonds	226,872	604,313
Corporate bonds	217,456	366,417
	444,328	970,730

18 Property and equipment

RUB'000

	Equipment	Motor vehicles	Computer software	Leasehold improvements	Total
Cost					
At 1 January 2010	941,228	27,698	151,043	246,662	1,366,631
Additions	159,863	13,767	83,764	45,350	302,744
Disposals	(79,229)	(8,829)	(4,535)	(11,665)	(104,258)
At 31 December 2010	1,021,862	32,636	230,272	280,347	1,565,117
Depreciation					
At 1 January 2010	(479,308)	(13,213)	(54,635)	(219,682)	(766,838)
Depreciation charge	(100,114)	(7,251)	(43,567)	(38,783)	(189,715)
Disposals	45,257	7,316	4,478	11,665	68,716
At 31 December 2010	(534,165)	(13,148)	(93,724)	(246,800)	(887,837)
Carrying value					
At 31 December 2010	487,697	19,488	136,548	33,547	677,280
At 31 December 2009	461,920	14,485	96,408	26,980	599,793

RUB'000

	Equipment	Motor vehicles	Computer software	Leasehold improvements	Total
Cost					
At 1 January 2009	936,966	23,355	107,916	238,766	1,307,003
Additions	43,489	14,842	43,127	8,236	109,694
Disposals	(39,227)	(10,499)	-	(340)	(50,066)
At 31 December 2009	941,228	27,698	151,043	246,662	1,366,631
Depreciation					
At 1 January 2009	(338,508)	(18,592)	(30,903)	(159,467)	(547,470)
Depreciation charge	(150,986)	(4,152)	(23,732)	(60,221)	(239,091)
Disposals	10,186	9,531	-	6	19,723
At 31 December 2009	(479,308)	(13,213)	(54,635)	(219,682)	(766,838)
Carrying value					
At 31 December 2009	461,920	14,485	96,408	26,980	599,793
At 31 December 2008	598,458	4,763	77,013	79,299	759,533

19 Other assets

	2010 RUB'000	2009 RUB'000
Advances given	215,806	152,116
ATM settlements	98,645	102,778
Assets held for sale	96,713	94,144
Accounts receivable	42,165	30,721
Deferred merchant fees	37,182	22,000
Amounts blocked as collateral for plastic cards settlements	24,051	23,867
Materials and supplies	16,521	20,497
Amounts blocked as collateral for other operations	10,425	68
Settlements for plastic cards transactions	2,122	7,241
Other	55,627	39,714
	599,257	493,146
Impairment allowance	(128,063)	(87,094)
	471,194	406,052

Analysis of movements in the impairment allowance

	2010 RUB'000	2009 RUB'000
Balance at the beginning of the year	87,094	33,500
Net charge for the year	40,969	53,594
Balance at the end of the year	128,063	87,094

20 Deposits and balances from banks and other financial institutions

	2010 RUB'000	2009 RUB'000
Vostro accounts	54,020	2,552
Term deposits	15,035,521	6,615,068
Repurchase agreements	917,431	3,961,349
	16,006,972	10,578,969

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2010 and 2009, the Group had one bank whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as at 31 December 2010 and 2009 was RUB 12,951,376 thousand and RUB 4,166,217 thousand, respectively.

Securities pledged

As at 31 December 2010 and 2009 the Group had certain securities pledged as collateral under repurchase agreements (refer to Notes 14 and 16).

21 Current accounts and deposits from customers

	2010 RUB'000	2009 RUB'000
Current accounts and demand deposits		
- Retail	1,726,672	1,297,160
- Corporate	3,485,153	2,365,470
Term deposits		
- Retail	5,726,205	5,686,989
- Corporate	20,621,504	12,458,626
	31,559,534	21,808,245

As at 31 December 2010, retail term deposits include RUB 3,477,174 thousand (2009: RUB 4,376,492 thousand) and corporate term deposits include RUB 11,528,330 thousand (2009: RUB 6,445,651 thousand) representing deposits from banks which, acting in an agent capacity, attract funds from third parties for the purpose of placing these funds with the Group on behalf and at the request of the third parties.

Blocked accounts

As at 31 December 2010 the Group maintained customer deposit balances of RUB 176,846 thousand (2009: RUB 35,897 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

22 Debt securities in issue

	2010 RUB'000	2009 RUB'000
Loan participation notes	13,815,383	11,663,328
Russian bonds denominated in RUB	4,033,666	7,635,748
	17,849,049	19,299,076

In April 2007, the Group issued USD 250,000,000 of loan participation notes with a coupon rate of 7.5%. These loan participation notes matured on 13 April 2010. In October 2009, the Group issued USD 150,000,000 of loan participation notes with a coupon rate of 9.0%. These loan participation notes mature on 25 October 2012. In May 2010, the Group issued USD 300,000,000 of loan participation notes with a coupon rate of 7.75%. These loan participation notes mature on 20 May 2013.

In February 2007, the Group issued RUB 3,500,000 thousand of bonds with a coupon rate of 7.94%. These bonds matured on 3 February 2010. In June 2008, the Group issued RUB 4,000,000 thousand of bonds with a coupon rate of 9.00%. These bonds mature on 28 June 2011.

23 Other borrowed funds

	2010 RUB'000	2009 RUB'000
Deposits from the Ministry of Finance, the CBR and a state owned corporation	3,970,573	4,652,167
	3,970,573	4,652,167

As at 31 December 2010, other borrowed funds include borrowings from the Ministry of Finance of Russia of RUB 1, 097,427 thousand with interest rates ranging from 4.5% to 4.6% and maturing on 19 January 2011 and deposits on demand from the State Corporation "Fund for assistance of housing and communal services reform" of RUB 2,873,146 thousand with interest rates ranging from 2.7% to 5.13% maturing on 6 January 2011.

As at 31 December 2009, other borrowed funds include borrowings from the CBR of RUB 4,150,172 thousand with interest rates ranging from 11.3% to 12.4% and maturing from 20 January 2010 to 27 October 2010 and deposits from the State Corporation "Fund for assistance of housing and communal services reform" of RUB 501,995 thousand with interest rates 10.4% and maturing on 16 June 2010.

24 Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2010 and 2009.

These deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values:

RUB'000	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Financial instruments at fair value through profit or loss	52,121	12,957	-	-	52,121	12,957
Loans to customers	-	-	(203,631)	(87,365)	(203,631)	(87,365)
Available-for-sale financial assets	-	32,603	(29,167)	-	(29,167)	32,603
Property and equipment	-	-	(40,254)	(38,850)	(40,254)	(38,850)
Other assets	84,316	40,320	-	-	84,316	40,320
Debt securities in issue	-	-	(10,469)	(3,168)	(10,469)	(3,168)
Other liabilities	66,840	14,892	-	-	66,840	14,892
Total deferred tax assets (liabilities)	203,277	100,772	(283,521)	(129,383)	(80,244)	(28,611)

The tax rate applicable for deferred taxes was 20% (2009: 20%).

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows.

2010 RUB'000	Recognised		Recognised in other comprehensive income	Balance 31 December 2010
	Balance 1 January 2010	in profit or loss		
Financial instruments at fair value through profit or loss	12,957	35,274	3,890	52,121
Loans to customers	(87,365)	(116,266)	-	(203,631)
Available-for-sale financial assets	32,603	(67,504)	5,734	(29,167)
Property and equipment	(38,850)	(1,404)	-	(40,254)
Other assets	40,320	43,996	-	84,316
Debt securities in issue	(3,168)	(7,301)	-	(10,469)
Other liabilities	14,892	51,948	-	66,840
	(28,611)	(61,257)	9,624	(80,244)

2009				
	Balance	Recognised	Recognised	Balance
RUB'000	1 January 2009	in profit or loss	in other comprehensive income	31 December 2009
Financial instruments at fair value through profit or loss	(154,651)	54,724	112,884	12,957
Loans to customers	55,920	(143,285)	-	(87,365)
Available-for-sale financial assets	-	38,243	(5,640)	32,603
Property and equipment	(49,452)	10,602	-	(38,850)
Other assets	(22,065)	62,385	-	40,320
Debt securities in issue	(2,256)	(912)	-	(3,168)
Other liabilities	25,764	(10,872)	-	14,892
	(146,740)	10,885	107,244	(28,611)

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2010 and 2009 comprise the following:

	2010			2009		
RUB'000	Amount before tax	Tax income	Amount net-of-tax	Amount before tax	Tax income/ (expense)	Amount net-of-tax
Net change in fair value of available- for-sale financial assets	-	-	-	28,198	(5,640)	22,558
Net change in fair value of available- for-sale financial assets transferred to profit or loss	(28,659)	5,734	(22,925)	-	-	-
Net unrealized gain on derivatives hedging variability of cash flow	(19,451)	3,890	(15,561)	-	-	-
Net gain on cash flow hedges transferred to profit or loss	-	-	-	(564,422)	112,884	(451,538)
Other comprehensive income	(48,110)	9,624	(38,486)	(536,224)	107,244	(428,980)

25 Shareholders' equity

Issued capital

The authorized, issued and outstanding share capital comprises 1,470 thousand ordinary shares (2009: 1,470 thousand). All shares have a nominal value of RUB 5,670.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general Shareholders' meetings of the Group.

The composition of shareholders and their respective percentage of ownership is as follows:

	2010	2009
Credit Europe Bank N.V.	96.34%	96.28%
Credit Europe Group N.V.	1.80%	1.68%
Others	1.86%	2.04%
	100.00%	100.00%

Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Russian Federation. During 2010, the Bank paid dividends in respect of the year ended 31 December 2009, in the amount of RUB 422 per one share totaling RUB 620,340 thousand.

Additional paid-in capital

Also included in shareholders' equity, as at 31 December 2010, is additional paid-in capital of RUB 285,924 thousand, comprising contributions received from Credit Europe Bank N.V. during the year ended 31 December 2007.

26 Analysis by segment

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Commercial banking – comprises corporate and SME banking operations which include deposit taking and commercial lending, settlements and cash operations. Commercial banking services also include trade finance.
- Retail banking – comprises retail banking operations which include deposit taking and commercial lending, settlements and cash operations.
- Treasury (investment banking and financial markets) – includes corporate finance, operations on foreign exchange, debt and equity capital markets, brokerage, securities trading.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment income before income tax as included in the internal management reports that are reviewed by the CEO. Segment income is used to measure performance as Management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Segment breakdown of assets and liabilities of the Group is set out below:

	2010 RUB'000	2009 RUB'000
ASSETS		
Treasury	9,529,570	7,711,509
Commercial banking	34,663,208	28,391,749
Retail banking	39,457,979	32,427,500
Unallocated assets	1,246,901	876,417
Total Assets	84,897,658	69,407,175
LIABILITIES		
Treasury	3,300,837	2,426,195
Commercial banking	36,631,979	28,599,493
Retail banking	29,410,882	25,312,769
Unallocated liabilities	996,189	454,170
Total Liabilities	70,339,887	56,792,627

Segment information for the main reportable segments of the Group for the year ended 31 December 2010 is set out below:

RUB'000	Treasury	Commercial banking	Retail banking	Total
External interest income	530,115	2,264,237	6,062,838	8,857,190
Fee and commission income	255	278,050	1,387,237	1,665,542
Net foreign exchange income	14,081	87,479	73,817	175,377
Net gain on financial instruments at fair value through profit or loss	326,878	-	-	326,878
Other income	3,116	5,667	40,527	49,310
Net revenue from other segments	131,517	448,568	(580,085)	-
Revenue	1,005,962	3,084,001	6,984,334	11,074,297
Impairment losses	-	(211,165)	(510,365)	(721,530)
Interest expense	(237,415)	(1,285,268)	(1,492,264)	(3,014,947)
Fee and commission expense	(9,563)	(13,938)	(366,354)	(389,855)
General administrative expenses	(129,583)	(535,402)	(3,066,127)	(3,731,112)
Segment result	629,401	1,038,228	1,549,224	3,216,853
Income tax expense				(614,804)
Net income after taxes				2,602,049
Other segment items				
Additions of property and equipment	9,583	45,465	247,696	302,744
Depreciation and amortisation	(6,005)	(28,491)	(155,219)	(189,715)

Segment information for the main reportable segments of the Group for the year ended 31 December 2009 is set out below:

RUB'000	Treasury	Commercial banking	Retail banking	Total
External interest income	473,691	2,426,160	6,338,794	9,238,645
Fee and commission income	13,691	231,810	1,301,752	1,547,253
Net foreign exchange income	40,234	176,994	71,913	289,141
Net gain on financial instruments at fair value through profit or loss	935,396	-	-	935,396
Other income	6,952	13,818	72,275	93,045
Net revenue from other segments	(149,995)	410,701	(260,706)	-
Revenue	1,319,969	3,259,483	7,524,028	12,103,480
Impairment losses	-	(531,326)	(2,552,307)	(3,083,633)
Interest expense	(214,262)	(1,432,281)	(1,797,909)	(3,444,452)
Fee and commission expense	(10,507)	(18,691)	(304,930)	(334,128)
General administrative expenses	(79,271)	(493,077)	(2,755,361)	(3,327,709)
Segment result	1,015,929	784,108	113,521	1,913,558
Income tax expense				(385,798)
Net income after taxes				1,527,760
Other segment items				
Additions of property and equipment	1,988	23,697	84,009	109,694
Depreciation and amortisation	(4,332)	(51,650)	(183,109)	(239,091)

Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation and substantially all non-current assets are located in the Russian Federation.

27 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 credit, liquidity, market and operational risks.

Risk Management Function

The ultimate goal of risk management is to establish a global risk management framework covering all aspects of the Group's daily business activities as well as strategic planning. The Group also adopted the concept of pro-active risk management which is especially important in emerging markets.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management function. For these purposes the Supervisory Board established the Senior Risk Management Committee (SRMC), which is delegated with the power and authority to manage and control risk management process in the Group. The Group's Risk Management is headed by the Chief Risk Officer (CRO), who is a member of SRMC.

In order to fulfill assigned tasks the CRO is an active member of all committees of the Group. As a result, the CRO is involved in the pro-active controls over the Group and is informed about all important decisions in the Group.

The CRO leads central and independent risk management in the Group that has:

- clearly defined roles and participation in the strategic decision making process;
- formalized policies and procedures that communicate the risk management process;
- consistent methodologies for risk measurement that capture the potential for losses, foregone opportunities and risk diversification effects across different risk categories;
- limit structures that set maximum tolerances in relation to capital and the corporate risk taking philosophy;
- comprehensive management reports that communicate risk on a periodic basis;
- information technology to satisfy risk information needs throughout the organization.

The CRO is appointed by the Supervisory Board and systematically reports on the Supervisory Board Meetings and provides shareholders with an independent Risk Management Report on a regular basis. The organizational design of the risk management infrastructure includes the Risk Management Department that provides effective risk articulation in the Group through encouraging a system of risk committees and operating in close cooperation with the Internal Audit, Compliance, Financial Control and Business Lines Departments.

At the risk origination level, business line managers are responsible for coordination and execution of risk management processes. They are in charge of following the relevant risk policies and procedures, executing daily monitoring of exposures and limit usages, and controlling the key risk indicators of their respective businesses on a scheduled basis.

Thus, a risk governance framework of the Group consists of three "Lines of Defense": the business managers, who have the primary responsibility for day-to-day risk coordination; the Risk Management Department, which provides high level policies, limits and risk control; and the Senior Risk Management Committee, which controls the implementation of priorities of risk management set by the Supervisory Board.

Credit risk

Credit risk is the risk of financial loss for the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk constitutes the most significant risk type for the Group. The Group is mainly involved in corporate, retail and limited but developing SME activities. The Group also takes credit exposures through Treasury transactions with banks and financial institutions, which however do not constitute a significant source of risk.

The Group has developed policies and procedures for management of credit exposures (both for on- and off-balance) and established a system of Credit Committees, including the Corporate Credit Committee, the SME Credit Committee, the Retail Credit Committee and the Financial Institutions Credit Committee. The Group's credit policies are reviewed and approved by the Senior Risk Management Committee.

(i) Corporate Credit Risk

In this field the Group has advanced risk management methods at both a portfolio and borrower level. At the borrower level, internally developed rating model and methods of financial analysis based on Credit Europe Bank N.V. (Parent Bank) methodology and leveraging the experience of the group in emerging markets are in use. On a portfolio level, the risks are monitored using a concentration limits approach.

The Group has a "Chinese Wall" between the Corporate Banking and Corporate Credits Departments, the heads of which are reporting to the President directly. Decisions on credit limits are made by the Corporate Credit Committee based on the Credit Package prepared by Corporate Banking and independent appraisal and financial analyses prepared by the Corporate Credits Department.

The Group has developed a Collateral Management Function and a professional team of Collateral Managers. Individual transactions are also reviewed by the Group's Legal and Compliance departments depending on the specific risks. The Corporate Credit Committee takes loan decisions by considering their analysis.

The Group monitors concentrations of credit risk by industry/sector, by geographic location, by currency, tenor, collateral, internal rating and others. Each Corporate Credits Department prepares monthly Corporate Portfolio Risk Report which is reviewed by the Corporate Credit Committee and submitted to the members of the Supervisory Board.

Utilization of credit limits is done with the participation of the Corporate Credits Department, Collateral Management Division, Legal and Independent Credit Back-office departments.

The credit process is monitored by the Risk Management Department that reports directly to the Supervisory Board. The CRO is the member of the Corporate Credit Committee.

(ii) Retail Credit Risk

The Group operates with a wide spectrum of retail credit products such as multipurpose loans, instant loans, mortgage loans, auto loans, express cash loans, holiday loans, overdraft credit cards and installment credit cards.

The Group uses an internally developed automated system for credit application, credit approval and booking processing. A system of decision trees and scoring tools to provide better equilibrium between profitability, growth and risk is embedded into this system.

The Group has policies and limits by retail product type. The policies, limits and rules, algorithms and scoring procedures are approved by the Retail Credit Committee. The Retail Credit Committee controls the entire retail credit process by approving policies and procedures, regularly updating methods, algorithms and instructions on retail credit risk assessment, delegating authorities depending on the type of product and making particular credit decisions.

The Retail Credit Committee's aim is to ensure adequate level of risk management practices for the size and complexity of Group's operations for individual retail exposures as well as at a portfolio level. The CRO is the member of Retail Credit Committee.

In addition to advanced reports of the Retail Credit Department and Analytics and Strategic Planning Division of Moscow Region Branches Department, Risk Management independently monitors portfolio performance, controls quality and quantity characteristics of the total retail credit portfolio, in particular by using techniques of roll-over, cohort and coincident, vintage analyses for probability of default estimations, which are also regularly reported to the Supervisory Board.

(iii) SME Credit Risk

SME business line has both corporate experience for larger loans ("standard loans") and retail skills for small size credits ("microloans").

The Group established SME Credit Committee which is in charge of individual credit decisions for standard loans and takes decisions over the policies and rules for all SME credit products. The CRO is a member of SME Credit Committee.

The Group continuously monitors the SME loan portfolio and regularly reassesses the creditworthiness of its customers and quality of risk management tools and methods.

Liquidity risk

Liquidity risk is defined as the current or prospective threat to an institution's earnings and capital as a result of the possibility that it will not be able to meet its short-term payment obligations at any point in time without involving unacceptable costs or losses. Liquidity risk is the risk that the volume and timing of potential cash inflows and outflows are not adequately matched, whereby a shortfall arising at any point in time cannot be made up by selling assets or by obtaining refinancing because:

- the market for the asset in question has insufficient liquidity;
- the institution has insufficient liquid assets to sell or to pledge in order to obtain refinancing;
- the institution is insufficiently solvent and as a result has insufficient borrowing capacity;
- the institution has insufficient funding relationships.

The Group maintains liquidity risk management in accordance with the nature, size and complexity of the activities that the Group carries out. The system used by the Group to monitor, control and report liquidity risk is clearly described in the Group's Liquidity Policy.

The Group has also implemented a quantifying and monitoring system for both daily and longer periods.

The Group calculates statutory ratios for short, medium, medium-long, and long liquidity and monitors structural liquidity in accordance with the requirement of the CBR. The Group was in compliance with these ratios during the years ended 31 December 2010 and 31 December 2009.

The Group also monitors its liquidity risk through Static Maturity Gap analyses on a monthly basis for three major currencies: EUR, USD and RUB. Furthermore, a liquidity stress test is carried out to monitor the vulnerability of the Group to the withdrawal of all short-term liabilities. The analyses are based on the Parent Bank's methodology.

The Asset and Liability Committee (ALCO) is responsible for managing liquidity risk basing on the reports of Financial Control, Risk Management and Treasury Departments. Daily management of cash flow and liquidity is done by Treasury Department and executed by Treasury Back-office and

controlled by Financial Control and Risk Management Departments. The Treasury Daily Report is used for the purpose of managing and optimizing the cash-flow of the Group on a daily basis.

The Treasury daily report includes the total money market borrowings and placements, the daily and overall income from client operations on foreign exchange market, the daily and overall income from foreign exchange trading activities, the daily activities on the fixed income market and the current market price of the fixed income portfolio. The report also includes the list and details of long-term instruments used for liquidity management and a brief table showing general macro economic data that helps the Management Board to have a better understanding of current economic trends.

ALCO is held on weekly and monthly basis and analyzes liquidity reports and stress-testing results and takes necessary actions to match asset and liability positions both on- and off-balance sheet in such a way that the Group is able to keep its liquidity risk below the pre-determined limits.

The following tables show the undiscounted cash flows on the Group's financial assets, liabilities and credit related 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 position of the Group as at 31 December 2010 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow)/ inflow	Carrying amount
Non-derivative assets							
Due from the Central Bank of the Russian Federation	1,036,131	-	-	-	-	1,036,131	1,036,131
Placements with banks and other financial institutions	10,788,552	-	-	1,235,398	-	12,023,950	12,008,148
Financial instruments at fair value through profit or loss	-	-	2,952	79,145	-	82,097	78,001
Loans to customers	10,337,841	12,852,062	9,271,853	9,252,008	31,675,878	73,389,642	60,480,396
Available-for-sale financial assets	30,055	6,250,355	13,590	162,977	2,107,389	8,564,366	7,883,229
Held-to-maturity investments	-	15,289	5,919	92,271	456,877	570,356	444,328
Current income tax prepayments	-	613,969	-	-	-	613,969	613,969
Other financial assets	114,106	325,943	2,088	16,706	12,351	471,194	471,194
Derivative assets							
- Inflow	2,650,412	629,035	-	-	312,582	3,592,029	39,016
- Outflow	(2,640,736)	(627,697)	-	-	(329,589)	(3,598,022)	-
Total assets	22,316,361	20,058,956	9,296,402	10,838,505	34,235,488	96,745,712	83,054,412
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	(7,855,274)	(1,107,939)	(2,837,703)	(401,079)	(4,678,863)	(16,880,858)	(16,006,972)
Current accounts and deposits from customers	(14,941,067)	(9,382,653)	(2,650,628)	(4,245,397)	(972,137)	(32,191,882)	(31,559,534)
Debt securities in issue	-	(22,701)	(4,790,013)	(567,280)	(15,188,925)	(20,568,919)	(17,849,049)
Other borrowed funds	(3,974,556)	-	-	-	-	(3,974,556)	(3,970,573)
Other financial liabilities	(197,749)	(106,804)	(60,944)	-	(168,547)	(534,044)	(534,044)
Derivative liabilities							
- Inflow	8,165,118	932,569	609,538	4,114,781	1,765,692	15,587,698	-
- Outflow	(8,214,525)	(946,485)	(632,840)	(4,254,522)	(1,738,027)	(15,786,399)	(339,471)
Total liabilities	(27,018,053)	(10,634,013)	(10,362,590)	(5,353,497)	(20,980,807)	(74,348,960)	(70,259,643)
Net position	(4,701,692)	9,424,943	(1,066,188)	5,485,008	13,254,681	22,396,752	12,794,769
Credit related commitments	10,461,538	622,207	62,002	210,486	56,996	11,413,229	

The position of the Group as at 31 December 2009 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow)/ inflow	Carrying amount
Non-derivative assets							
Due from the Central Bank of the Russian Federation	580,318	-	-	-	-	580,318	580,318
Placements with banks and other financial institutions	11,609,648	-	-	-	-	11,609,648	11,608,508
Financial instruments at fair value through profit or loss	-	5,797	2,017	-	168,443	176,257	117,753
Loans to customers	3,867,467	9,755,013	9,278,160	9,345,599	28,075,583	60,321,822	47,925,256
Available-for-sale financial assets	40,746	134,772	171,701	321,443	7,675,907	8,344,569	5,776,173
Held-to-maturity investments	-	59,263	974,889	219,383	791,861	2,045,396	970,730
Other financial assets	98,292	246,353	7,053	30,971	23,383	406,052	406,052
Derivative assets							
- Inflow	3,640,752	302,442	-	136,880	-	4,080,074	102,323
- Outflow	(3,555,148)	(297,050)	-	(120,977)	-	(3,973,175)	-
Total assets	16,282,075	10,206,590	10,433,820	9,933,299	36,735,177	83,590,961	67,487,113
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	(6,233,610)	(884,095)	(3,462,438)	-	(139,085)	(10,719,228)	(10,578,969)
Current accounts and deposits from customers	(10,641,727)	(3,726,467)	(2,971,214)	(4,143,187)	(571,504)	(22,054,099)	(21,808,245)
Debt securities in issue	-	(3,879,148)	(7,410,082)	(384,148)	(9,533,223)	(21,206,601)	(19,299,076)
Other borrowed funds	(2,022,621)	-	(1,055,106)	(1,796,819)	-	(4,874,546)	(4,652,167)
Other financial liabilities	(81,438)	(92,695)	(61,963)	(74,755)	(39,232)	(350,083)	(350,083)
Derivative liabilities							
- Inflow	2,607,108	297,050	-	-	453,663	3,357,821	-
- Outflow	(2,634,687)	(302,442)	-	-	(453,663)	(3,390,792)	(75,476)
Total liabilities	(19,006,975)	(8,587,797)	(14,960,803)	(6,398,909)	(10,283,044)	(59,237,528)	(56,764,016)
Net position	(2,724,900)	1,618,793	(4,526,983)	3,534,390	26,452,133	24,353,433	10,723,097
Credit related commitments	4,214,608	-	-	1,980,160	-	6,194,768	

For further information on the Group's exposure to liquidity risk at year end refer to Note 36.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks for the Group comprise foreign currency risk and interest rate risk. Market risk arises from open positions, foreign currency and trading portfolio, which are exposed to general and specific market movements and changes in the level of volatility of market prices. Overall authority for market risk is vested in the ALCO.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Re-pricing risk

An analysis of sensitivity of the Group's net income for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 31 December 2009 is as follows:

	2010 RUB'000	2009 RUB'000
100 bp parallel increase	77,538	(17,216)
100 bp parallel decrease	(47,883)	71,723

Interest rate risk, attributable to financial instruments at fair value though profit or loss does not constitute a major risk and therefore, case-by-case approval and price monitoring systems are used to follow market risk. Approval is done using both volatility and return study by Treasury and credibility analysis by Corporate Credits Department. In the case of large portfolios, VaR analysis will be applied both on security as well as on portfolio level.

Fair value interest rate risk

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(1,306)	(219,706)	(2,807)	(137,559)
100 bp parallel fall	(1,892)	232,621	2,938	144,641

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, most of such activities do not qualify as hedging relationships in accordance with IFRS.

At the end of each day, the Treasury Department prepares a Daily Treasury Report. The report includes the total borrowings and placements undertaken on the money market, the daily and overall income from foreign currency pricing activities, the daily and overall income from foreign currency trading activities, the daily activities on the fixed income market and the current market

price of the fixed income portfolio. The report also includes the list and details of long-term instruments used for liquidity management and a brief table showing general macro economic data that helps the Management Board to have a better understanding of the current economic trends.

The foreign currency position is monitored daily. Daily reporting on currency position is done by both Accounting and Financial Control Departments. The CBR sets an absolute level of 10% of its equity as the maximum limit of each currency risk exposure to be taken. The sum of all long (short) open foreign currency positions (absolute values) in different currencies should not exceed 20% of the equity of the Group.

An analysis of sensitivity of the Group's net income for the year and equity 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 rates of major currencies to RUB is as follows:

	2010 RUB'000	2009 RUB'000
5% appreciation of USD against RUB	(21,829)	(25,458)
5% depreciation of USD against RUB	21,829	25,458
5% appreciation of EUR against RUB	(4,146)	(9,752)
5% depreciation of EUR against RUB	4,146	9,752

In addition to the CBR requirements, the Group follows international practice and sets its own limits. The absolute level of 10% of its equity is set as the maximum limit of currency risk exposure to be taken separately for each position and for the sum of all positions.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes IT, HR, fraud, operations and legal risk.

The Group established the Operational Risk Committee. The Committee determines policies and procedures in the area of operational risks. Meetings are held monthly, where regular reports from Operations, Customer Care Unit and IT departments are discussed together with current issues. Apart from the Operational Committee the Group has also an IT Steering Committee which is entitled to set strategies and priorities for IT projects and take decisions on IT risks and processes, an HR committee to manage HR Risks, and a Disciplinary Committee to deal with Code of Conduct issues.

The Group collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools.

The CRO is the member of all mentioned committees and groups and reports directly to Supervisory Board on important developments and issues.

28 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks, have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2010, this minimum level is 10% (2009: 10%). The Group was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 31 December 2009.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards, commonly known as Basel II.

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

	2010 RUB'000	2009 RUB'000
Tier 1 capital		
Share capital	8,549,789	8,549,789
Share premium	158,631	158,631
Additional paid-in capital	285,924	285,924
Retained earnings	5,579,355	3,597,646
Intangible assets	(136,548)	(96,408)
Total tier 1 capital	14,437,151	12,495,582
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	-	22,558
Total tier 2 capital	-	22,558
Deductions		
Hedge Reserve	(15,561)	-
Revaluation reserve for available-for-sale financial assets	(367)	-
Total capital	14,421,223	12,518,140
Risk-weighted assets		
Banking book	72 981 852	62,429,181
Trading book	749,249	964,715
Total risk weighted assets	73,731,101	63,393,896
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	19.56%	19.75%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	19.58%	19.71%

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

29 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 three years.

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 reporting date if counterparties failed completely to perform as contracted.

	2010 RUB'000	2009 RUB'000
Contracted amount		
Loan and credit line commitments	8,738,063	3,375,368
Guarantees and letters of credit	949,846	1,991,973
Credit card commitments	1,692,506	807,472
Undrawn overdraft facilities	32,814	19,955
	11,413,229	6,194,768

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.

30 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2010 RUB'000	2009 RUB'000
Less than one year	46,241	45,539
	46,241	45,539

The Group leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually changed annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUB 482,355 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2009: RUB 490,728 thousand).

31 Contingencies

Litigation

The Group's Management is not informed of any significant actual, pending or threatened claims against the Group.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

32 Related party transactions

The Bank's ultimate parent company is FIBA Holding A.S. a Turkish joint stock company, which is ultimately controlled by a single individual, Mr. Husnu Ozyegin.

The Bank's immediate parent is Credit Europe Bank N.V. which produces publicly available financial statements.

Transactions with the key management personnel

Total remuneration included in employee compensation (refer Note 10):

	2010 RUB'000	2009 RUB'000
Key management personnel	255,988	214,355

The outstanding balances and average interest rates as at 31 December 2010 and 2009 with the members of the key management personnel are as follows:

	2010 RUB'000	Average Interest Rate	2009 RUB'000	Average Interest Rate
Consolidated Statement of Financial Position				
ASSETS				
Loans to customers	28,931	11.99%	35,481	12.30%
LIABILITIES				
Deposits from customers	41,639	5.69%	20,054	6.88%

Other amounts included in the consolidated income statement in relation to transactions with the members of the key management personnel are as follows:

	2010 RUB'000	2009 RUB'000
Consolidated Income Statement		
Interest income	3,366	2,265
Interest expense	(1,916)	(1,644)

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2010 and related consolidated income statement amounts of transactions for the year ended 31 December 2010 with other related parties are as follows.

	Parent company		Subsidiaries of the Group's ultimate parent company		Total
	RUB'000	Average interest rate	RUB'000	Average interest rate	RUB'000
Consolidated Statement of Financial Position					
ASSETS					
Placements with banks and other financial institutions	5,381,719	1.19%	199	-	5,381,918
Financial instruments at fair value through profit or loss	18,389	-	17,236	-	35,625
Other assets	-	-	357	-	357
LIABILITIES					
Financial instruments at fair value through profit or loss	284,417	-	-	-	284,417
Deposits and balances from banks and other financial institutions	12,951,334	4.19%	42	-	12,951,376
Debt securities issued	5,456,493	10.54%	-	-	5,456,493
Current accounts and deposits from customers*	902,870	6.97%	4,636,622	3.62%	5,539,492
Other liabilities	-	-	187	-	187
Off balance sheet items					
Guarantees issued	-	-	40,054	-	40,054
Consolidated Income Statement					
Interest income	138,708	-	14,742	-	153,450
Interest expense	(602,317)	-	(9,894)	-	(612,211)
Fee and commission income	-	-	1,429	-	1,429
Net foreign exchange (loss) income	(95,327)	-	17,479	-	(77,848)
Other income	-	-	8,717	-	8,717

* - Included in current accounts and deposits from customers is RUB 5,118,957 thousand, which represents deposits from related party banks which, acting in an agent capacity, attract funds from third parties for the purpose of placing these funds with the Group on behalf and at the request of the third parties.

The outstanding balances and the related average interest rates as at 31 December 2009 and related consolidated income statement amounts of transactions for the year ended 31 December 2009 with other related parties are as follows.

	Parent company		Subsidiaries of the Group's ultimate parent company		Total
	RUB'000	Average interest rate	RUB'000	Average interest rate	RUB'000
Consolidated Statement of Financial Position					
ASSETS					
Placements with banks and other financial institutions	10,803,895	0.38%	195	-	10,804,090
Financial instruments at fair value through profit or loss	90,796	-	-	-	90,796
Loans to customers (gross amount)	-	-	919,395	7.08%	919,395
LIABILITIES					
Financial instruments at fair value through profit or loss	45,285	-	-	-	45,285
Deposits and balances from banks and other financial institutions	4,166,217	8.40%	51	-	4,166,268
Debt securities issued	10,091,077	8.98%	-	-	10,091,077
Current accounts and deposits from customers*	3,239,135	4.52%	6,581,243	3.74%	9,820,378
Other liabilities	-	-	121	-	121
Off balance sheet items					
Guarantees issued	-	-	61,005	-	61,005
Consolidated Income statement					
Interest income	523,136	-	87,628	-	610,764
Interest expense	(1,454,421)	-	(81,782)	-	(1,536,203)
Net foreign exchange loss	(101,796)	-	(24,611)	-	(126,407)
Other income	-	-	5,469	-	5,469

* - Included in current accounts and deposits from customers is RUB 9,356,622 thousand, which represents deposits from related party banks which, acting in an agent capacity, attract funds from third parties for the purpose of placing these funds with the Group on behalf and at the request of the third parties.

33 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

	2010 RUB'000	2009 RUB'000
Cash	1,165,966	935,902
Due from the Central Bank – nostro accounts	725,065	275,014
Nostro accounts with banks and amounts due from other financial institutions with an original maturity of 90 days or less and which are free from contractual encumbrances	10,786,690	11,608,508
	12,677,721	12,819,424

34 Fair value of financial instruments

The estimated fair values of financial instruments at fair value through profit or loss, available-for-sale and held-to-maturity investments and debt securities in issue are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

	2010 RUB'000	2010 RUB'000	2009 RUB'000	2009 RUB'000
ASSETS	Fair value	Carrying value	Fair value	Carrying value
Placements with banks and other financial institutions	11,987,820	12,008,148	11,607,203	11,608,508
Financial instruments at fair value through profit or loss	117,017	117,017	220,076	220,076
Available-for-sale financial assets	7,883,229	7,883,229	5,776,173	5,776,173
Loans to customers	61,394,992	60,480,396	49,144,117	47,925,256
Held-to-maturity investments	503,203	444,328	1,051,749	970,730
LIABILITIES				
Financial instruments at fair value through profit or loss	339,471	339,471	75,476	75,476
Deposits and balances from banks and other financial institutions	15,894,687	16,006,972	10,436,834	10,578,969
Current accounts and deposits from customers	31,757,345	31,559,534	21,585,534	21,808,245
Debt securities in issue	18,341,313	17,849,049	19,230,083	19,299,076
Other borrowed funds	3,970,586	3,970,573	4,477,198	4,652,167

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

RUB '000	Level 1	Level 2	Total
- Financial instruments at fair value through profit or loss	78,001	-	78,001
- Derivative assets	-	39,016	39,016
- Derivative liabilities	-	(339,471)	(339,471)
- Available-for-sale financial assets	7,883,229	-	7,883,229
	7,961,230	(300,455)	7,660,775

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

RUB '000	Level 1	Level 2	Total
- Financial instruments at fair value through profit or loss	117,753	-	117,753
- Derivative assets	-	102,323	102,323
- Derivative liabilities	-	(75,476)	(75,476)
- Available-for-sale financial assets	5,776,173	-	5,776,173
	5,893,926	26,847	5,920,773

As at 31 December 2010 and 31 December 2009, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

35 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2010 and 2009 and their corresponding average effective interest rates as at that date.

	Value RUB'000	2010 Average Effective Interest Rate	Value RUB'000	2009 Average Effective Interest Rate
Interest bearing assets				
Placements with banks and other financial institutions				
<i>Loans and deposits</i>				
- RUB	-	-	270,046	5.00%
- USD	7,793,242	0.58%	9,084,751	0.26%
- EUR	3,843,150	0.97%	1,518,591	0.25%
Financial instruments at fair value through profit or loss				
- RUB	-	-	117,753	15.38%
- USD	78,001	6.71%	-	-
Loans to customers				
- RUB	37,116,297	21.62%	26,860,757	26.20%
- USD	15,262,304	9.91%	17,600,442	10.62%
- EUR	8,101,795	6.01%	3,464,057	6.14%
Available-for-sale financial assets				
- RUB	893,416	8.47%	5,728,828	11.00%
- USD	855,858	6.31%	47,345	13.30%
- EUR	6,133,955	1.00%	-	-
Held-to-maturity investments				
- RUB	25,100	10.30%	278,112	16.68%
- USD	419,228	13.72%	692,618	8.30%
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- RUB	1,614,408	7.68%	3,893,726	9.27%
- USD	6,890,925	4.20%	2,723,894	3.24%
- EUR	5,132,720	4.16%	-	-
- other currencies	1,397,468	10.50%	-	-
<i>Repurchase agreements</i>				
- RUB	-	-	3,961,349	6.36%
- EUR	917,431	1.25%	-	-
Current accounts and deposits from customers				
<i>Term deposits</i>				
- RUB	7,285,284	6.37%	4,054,262	8.29%
- USD	9,528,407	4.08%	10,155,728	4.17%
- EUR	7,137,115	4.17%	3,935,625	4.14%
- other currencies	2,396,903	10.40%	-	-
Debt securities in issue				
- RUB	4,033,666	10.37%	7,635,748	9.95%
- USD	13,815,383	8.13%	11,663,328	8.35%
Other borrowed funds				
- RUB	3,970,573	3.67%	4,652,167	11.83%

36 Maturity analysis

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

	Less than 1 month RUB'000	1 to 3 months RUB'000	3 months to 1 year RUB'000	1 to 5 year RUB'000	More than 5 years RUB'000	No maturity RUB'000	Total RUB'000
ASSETS							
Cash	1,165,966	-	-	-	-	-	1,165,966
Due from the Central Bank of the Russian Federation	1,036,131	-	-	-	-	-	1,036,131
Placements with banks and other financial institutions	10,786,690	-	1,221,458	-	-	-	12,008,148
Financial instruments at fair value through profit or loss	10,638	11,143	78,000	17,236	-	-	117,017
Loans to customers	9,207,615	12,333,437	13,067,791	22,931,868	2,939,685	-	60,480,396
Available-for-sale financial assets	-	5,040,377	-	713,778	2,129,074	-	7,883,229
Held-to-maturity investments	-	-	69,235	244,637	130,456	-	444,328
Current income tax prepayments	-	613,969	-	-	-	-	613,969
Property and equipment	-	-	-	-	-	677,280	677,280
Other assets	114,106	325,943	18,794	-	12,351	-	471,194
Total Assets	22,321,146	18,324,869	14,455,278	23,907,519	5,211,566	677,280	84,897,658
LIABILITIES							
Financial instruments at fair value through profit or loss	52,358	25,520	122,364	139,229	-	-	339,471
Deposits and balances from banks and other financial institutions	7,814,425	1,096,323	3,131,735	3,349,307	615,182	-	16,006,972
Current accounts and deposits from customers	14,919,829	9,297,774	6,523,068	818,863	-	-	31,559,534
Debt securities in issue	22,701	-	4,010,965	13,815,383	-	-	17,849,049
Other borrowed funds	3,970,573	-	-	-	-	-	3,970,573
Deferred tax liability	-	-	-	-	-	80,244	80,244
Other liabilities	197,749	106,804	60,944	-	168,547	-	534,044
Total Liabilities	26,977,635	10,526,421	13,849,076	18,122,782	783,729	80,244	70,339,887
Net position as at 31 December 2010	(4,656,489)	7,798,448	606,202	5,784,737	4,427,837	597,036	14,557,771
Net position as at 31 December 2009	(2,764,389)	669,373	(6,797,758)	17,408,663	3,527,477	571,182	12,614,548

The following table shows Management's estimation of the Group liquidity position as at 31 December 2010. In contrast to contractual maturity table presented above, in the table below Current accounts and demand deposits from customer are evenly distributed during one year from 31 December 2010 on the basis of Management's belief that in spite of current customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group, indicates that these deposits provide a stable source of funding. Trading securities included in financial instruments at fair value through profit or loss are shown in the category "Less than 1 month" and available-for-sale financial instruments are shown in the category "3 months to 1 year" based on the fact that the Group's Management believes that all of the trading securities and available-for-sale financial instruments could be sold in the normal course of business.

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 months to 1 year RUB'000	1 to 5 year RUB'000	More than 5 years RUB'000	No maturity RUB'000	Total RUB'000
Cash	1,165,966	-	-	-	-	-	1,165,966
Due from the Central Bank of the Russian Federation	1,036,131	-	-	-	-	-	1,036,131
Placements with banks and other financial institutions	10,786,690	-	1,221,458	-	-	-	12,008,148
Financial instruments at fair value through profit or loss	88,638	11,143	-	17,236	-	-	117,017
Loans to customers	9,207,615	12,333,437	13,067,791	22,931,868	2,939,685	-	60,480,396
Available-for-sale financial assets	-	5,040,377	2,842,852	-	-	-	7,883,229
Held-to-maturity investments	-	-	69,235	244,637	130,456	-	444,328
Current income tax prepayments	-	613,969	-	-	-	-	613,969
Property and equipment	-	-	-	-	-	677,280	677,280
Other assets	114,106	325,943	18,794	-	12,351	-	471,194
Total Assets	22,399,146	18,324,869	17,220,130	23,193,741	3,082,492	677,280	84,897,658

CREDIT EUROPE BANK LTD.
Notes to, and forming part of, the Consolidated Financial Statements
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	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	More than 5 years	No maturity	Total
LIABILITIES							
Financial instruments at fair value through profit or loss	52,358	25,520	122,364	139,229	-	-	339,471
Deposits and balances from banks and other financial institutions	7,814,425	1,096,323	3,131,735	3,349,307	615,182	-	16,006,972
Current accounts and deposits from customers	10,142,149	10,166,585	10,431,937	818,863	-	-	31,559,534
Debt securities in issue	22,701	-	4,010,965	13,815,383	-	-	17,849,049
Other borrowed funds	3,970,573	-	-	-	-	-	3,970,573
Deferred tax liability	-	-	-	-	-	80,244	80,244
Other liabilities	197,749	106,804	60,944	-	168,547	-	534,044
Total Liabilities	22,199,955	11,395,232	17,757,945	18,122,782	783,729	80,244	70,339,887
Net position as at 31 December 2010	199,191	6,929,637	(537,815)	5,070,959	2,298,763	597,036	14,557,771
Cumulative position as at 31 December 2010	199,191	7,128,828	6,591,013	11,661,972	13,960,735	14,557,771	
Net position as at 31 December 2009	718,542	54,876	3,294,569	5,501,359	2,474,020	571,182	12,614,548
Cumulative position as at 31 December 2009	718,542	773,418	4,067,987	9,569,346	12,043,366	12,614,548	

37 Currency analysis

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

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS					
Cash	1,014,330	113,754	32,285	5,597	1,165,966
Due from the Central Bank of the Russian Federation	1,036,131	-	-	-	1,036,131
Placements with banks and other financial institutions	225,814	7,880,087	3,896,500	5,747	12,008,148
Financial instruments at fair value through profit or loss	39,016	78,001	-	-	117,017
Loans to customers	37,116,297	15,262,304	8,101,795	-	60,480,396
Available-for-sale financial assets	893,416	855,858	6,133,955	-	7,883,229
Held-to-maturity investments	25,100	419,228	-	-	444,328
Current income tax prepayments	613,969	-	-	-	613,969
Property and equipment	677,280	-	-	-	677,280
Other assets	425,381	41,736	4,009	68	471,194
Total Assets	42,066,734	24,650,968	18,168,544	11,412	84,897,658
LIABILITIES					
Financial instruments at fair value through profit or loss	339,471	-	-	-	339,471
Deposits and balances from banks and other financial institutions	1,667,007	6,892,346	6,050,151	1,397,468	16,006,972
Current accounts and deposits from customers	11,257,404	10,392,088	7,511,536	2,398,506	31,559,534
Debt securities in issue	4,033,666	13,815,383	-	-	17,849,049
Other borrowed funds	3,970,573	-	-	-	3,970,573
Deferred tax liability	80,244	-	-	-	80,244
Other liabilities	503,967	19,122	10,955	-	534,044
Total Liabilities	21,852,332	31,118,939	13,572,642	3,795,974	70,339,887
Net on balance sheet position as at 31 December 2010	20,214,402	(6,467,971)	4,595,902	(3,784,562)	14,557,771
Net off balance sheet position as at 31 December 2010	(5,063,280)	5,922,250	(4,699,560)	3,840,590	-
Net on and off balance sheet positions as at 31 December 2010	15,151,122	(545,721)	(103,658)	56,028	14,557,771
Net on and off balance sheet positions as at 31 December 2009	13,487,720	(636,441)	(243,789)	7,058	12,614,548