

CREDIT EUROPE BANK LTD.

Consolidated Financial Statements

For the year ended 31 December 2009

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Independent Auditors' Report

To the Board of Directors
Credit Europe Bank Ltd.

Report on the Consolidated Financial Statements

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 2009, and the consolidated income statement, consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

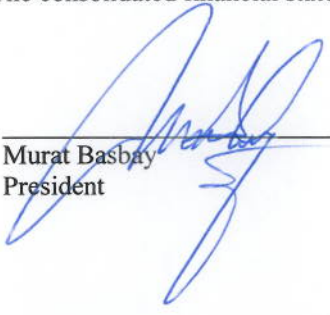
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23 March 2010

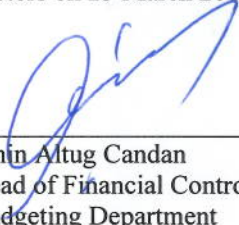
CREDIT EUROPE BANK LTD.
Consolidated Income Statement for the year ended 31 December 2009

	Notes	2009 RUB'000	2008 RUB'000
Interest income	4	9,217,596	9,448,309
Interest expense	4	(3,444,452)	(3,073,717)
Net interest income		5,773,144	6,374,592
Fee and commission income	5	1,116,210	1,136,660
Fee and commission expense	6	(334,128)	(393,730)
Net fee and commission income		782,082	742,930
Net gain/(loss) on financial instruments at fair value through profit or loss	7	935,396	(30,852)
Net foreign exchange income	8	289,141	351,789
Penalties on overdue loans		452,092	384,507
Other income		93,045	192,048
		1,769,674	897,492
Impairment losses	9	(3,083,633)	(2,751,190)
General administrative expenses	10	(3,327,709)	(3,685,444)
Operating expenses		(6,411,342)	(6,436,634)
Income before taxes		1,913,558	1,578,380
Income tax expense	11	(385,798)	(379,811)
Net income		1,527,760	1,198,569

The consolidated financial statements were approved by the Board of Directors on 23 March 2010.



 Murat Basbay
 President



 Emin Altug Candan
 Head of Financial Control and
 Budgeting Department

CREDIT EUROPE BANK LTD.
Consolidated Statement of Financial Position as at 31 December 2009

	Notes	2009 RUB'000	2008 RUB'000
ASSETS			
Cash		935,902	954,635
Due from the Central Bank of the Russian Federation	12	580,318	6,490,791
Placements with banks and other financial institutions	13	11,608,508	1,845,511
Financial instruments at fair value through profit or loss			
- Held by the Group	14	160,597	2,875,688
- Pledged under sale and repurchase agreements	14	59,479	-
Loans to customers	15	47,925,256	53,649,756
Available-for-sale assets			
- Held by the Group	16	1,754,448	-
- Pledged under sale and repurchase agreements	16	4,021,725	-
Held-to-maturity investments	17	970,730	416,294
Current income tax prepayments		384,367	-
Property and equipment	18	599,793	759,533
Other assets	19	406,052	435,804
Total Assets		69,407,175	67,428,012
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	14	75,476	551,152
Deposits and balances from banks and other financial institutions	20	10,578,969	21,191,022
Current accounts and deposits from customers	21	21,808,245	8,791,616
Debt securities in issue	22	19,299,076	11,451,715
Other borrowed funds	23	4,652,167	13,405,521
Deferred tax liability	24	28,611	146,740
Current income tax liability		-	46,167
Other liabilities		350,083	328,311
Total Liabilities		56,792,627	55,912,244
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 assets		22,558	-
Hedge reserve		-	451,538
Retained earnings		3,597,646	2,069,886
Total Shareholders' Equity		12,614,548	11,515,768
Total Liabilities and Shareholders' Equity		69,407,175	67,428,012
Commitments and Contingencies	29-31		

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 2009

	Notes	2009 RUB'000	2008 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		1,913,558	1,578,380
Adjustments for:			
Net interest income		(5,773,144)	(6,374,592)
Net impairment losses		3,083,633	2,751,190
Unrealized loss/(gain) on financial instruments at fair value through profit or loss		1,912,898	(2,097,720)
Depreciation		239,091	214,193
Net loss on disposal of property and equipment		30,343	21,527
Other items		107,153	155,958
Loss from revaluation of financial assets and liabilities		4,731	1,571,307
		1,518,263	(2,179,757)
(Increase)/decrease in operating assets			
Minimum reserve deposit		(262,175)	399,815
Placements with banks and other financial institutions		-	207,421
Financial instruments at fair value through profit or loss		(18,090)	815,411
Loans to customers		2,540,491	(8,007,293)
Other assets		(14,005)	(81,680)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		(10,338,819)	(2,116,905)
Current accounts and deposits from customers		13,228,276	944,778
Other liabilities		(62,086)	112,540
Net cash from operating activities before interest and income tax paid		6,591,855	(9,905,670)
Interest received		8,956,511	8,754,433
Interest paid		(3,515,326)	(2,856,892)
Income tax paid		(837,689)	(329,424)
Cash flows from operating activities		11,195,351	(4,337,553)
CASH FLOWS FROM INVESTING ACTIVITIES			
Available-for-sale assets		(5,628,364)	200,937
Held-to-maturity investments		(557,089)	(276,127)
Net purchases of property and equipment		(109,694)	(352,567)
Cash flows from investing activities		(6,295,147)	(427,757)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (repayments)/proceeds from other borrowed funds		(8,641,058)	13,241,058
Net proceeds/(repayments) from debt securities in issue		7,267,668	(5,633,344)
Net repayments of subordinated debt		-	(926,619)
Proceeds from issuance of share capital		-	2,664,900
Cash flows from financing activities		(1,373,390)	9,345,995
Net increase in cash and cash equivalents		3,526,814	4,580,685
Effect of changes in exchange rates on cash and cash equivalents		44,802	36,306
Cash and cash equivalents at the beginning of the year		9,247,808	4,630,817
Cash and cash equivalents at the end of the year	33	12,819,424	9,247,808

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 Shareholders' Equity for the year ended 31 December 2009

	Share capital RUB'000	Share premium RUB'000	Additional paid-in capital RUB'000	Revaluation reserve for available- for-sale assets RUB'000	Hedge reserve RUB'000	Retained earnings RUB'000	Total RUB'000
Balance as at 1 January 2008	5,884,889	158,631	285,924	(3,861)	-	871,317	7,196,900
Total comprehensive income							
Net income for the year	-	-	-	-	-	1,198,569	1,198,569
Other comprehensive income							
Net realized losses on available-for-sale assets transferred to profit or loss on disposal, net of deferred tax of RUB 1,218 thousand	-	-	-	3,861	-	-	3,861
Net unrealized gain on derivatives hedging variability of cash flow, net of deferred tax of RUB 112,884 thousand	-	-	-	-	451,538	-	451,538
Total other comprehensive income	-	-	-	3,861	451,538	-	455,399
Total comprehensive income	-	-	-	3,861	451,538	1,198,569	1,653,968
Shares issued	2,664,900	-	-	-	-	-	2,664,900
Balance as at 31 December 2008	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 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	-	-	-	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

The consolidated statement of changes in shareholders' 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 2009

	2009	2008
	RUB '000	RUB '000
Net income for the year	1,527,760	1,198,569
Other comprehensive income		
Revaluation reserve for assets available-for-sale:		
- Net realized losses on available-for-sale assets transferred to profit or loss on disposal, net of deferred tax of RUB 1,218 thousand	-	3,861
- Net change in fair value of available-for-sale assets, net of deferred tax of RUB 5,640 thousand	22,558	-
Cash flow hedge:		
- Net unrealized gain on derivatives hedging variability of cash flow, net of deferred tax of RUB 112,884 thousand	-	451,538
- 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)/income, net of tax	(428,980)	455,399
Total comprehensive income	1,098,780	1,653,968

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 106 locations (including 73 branches, 15 in-store branches, 4 regional sales offices and 14 representative offices) (2008 – 112 locations (including 85 branches, 19 in-store branches, 5 regional sales offices and 3 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 2,869 (2008 – 4,359).

The principal subsidiaries of the Bank are as follows:

Name	Country of incorporation	Ownership %	
		2009	2008
CEB Russia Capital S.A.	Luxembourg	100%	100%
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 has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying 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 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. Changes in accounting policies are described at the end of this Note.

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

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.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

Inflation 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.

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 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 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. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in 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

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. 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 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 directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated 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. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

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

Hedge accounting

The Group uses cross-currency swaps and forwards to hedge the foreign currency risk arising from its issuance of debt securities 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 hedge 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 statement of financial position and the counterparty liability included in amounts payable under repo transactions. 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. 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 statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

All impairment losses in respect of loans and receivables are recognized in 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 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.

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 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.

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 provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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 direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Changes in accounting policies

The presentation of net interest income on derivatives was changed in 2009 to better present the substance of the underlying transactions. For consistency of presentation, prior year figures have been reclassified. The effect of this change in presentation is as follows:

	2009 RUB '000	2008 RUB '000
Reclassification of net interest income on derivatives from net gain/(loss) on financial instruments at fair value through profit or loss to net interest income		
Interest income	317,866	91,349
Net gain/(loss) on financial instruments at fair value through profit or loss	(317,866)	(91,349)

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets was added into consolidated financial statements. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Group adopted IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

Various *Improvements to IFRS* have been dealt with on a standard-by-standard basis.

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 2009, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

- IAS 27 *Consolidated and Separate Financial Statements* (effective after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.
- IFRS 3 *Business Combinations* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure minority interest using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) 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.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments.
- 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 IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 January 2010) clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2010) clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements.

Various *Improvements to IFRS* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

4 Net interest income

	2009 RUB'000	2008 RUB'000
Interest income		
Loans to individuals	5,892,268	6,159,663
Loans to corporate and SME customers	2,525,390	3,023,404
Available-for-sale assets	343,986	7,293
Derivatives	317,866	91,349
Held-to-maturity investments	76,860	14,990
Placements with banks and other financial institutions	33,037	94,007
Financial instruments at fair value through profit or loss	28,189	57,603
	9,217,596	9,448,309
Interest expense		
Debt securities in issue	1,090,537	1,320,989
Other borrowed funds	1,066,893	235,240
Deposits and balances from banks and other financial institutions	892,004	1,147,215
Current accounts and deposits from customers	395,018	324,700
Subordinated debt	-	45,573
	3,444,452	3,073,717

5 Fee and commission income

	2009 RUB'000	2008 RUB'000
Credit card fees	139,669	76,722
Transaction processing fees	131,633	130,149
Cash withdrawal fees	129,233	153,362
Commissions from insurance companies	127,578	167,111
Interbank operation fees	106,886	66,238
Annual credit card maintenance fees	102,803	81,220
Early redemption fees	81,812	77,249
Documentary services fees	79,092	71,915
Cash deposit fees	43,524	44,552
Foreign exchange fees	39,677	97,890
Annual account maintenance fees	37,457	62,120
Factoring commissions	21,049	668
Fees from retailers	12,719	60,000
Intermediary services fees	3,347	7,556
Other	59,731	39,908
	1,116,210	1,136,660

6 Fee and commission expense

	2009 RUB'000	2008 RUB'000
Credit card fees	113,384	90,960
Collection fees	94,191	76,104
Fees to retailers	41,772	134,376
Transaction fees	34,919	18,658
Insurance related fees	34,118	39,779
Fees for documentary services	7,470	9,102
Fees for banknote transactions	7,274	6,027
Other	1,000	18,724
	334,128	393,730

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

	2009 RUB'000	2008 RUB'000
Debt instruments	935,396	(30,852)

8 Net foreign exchange income

	2009 RUB'000	2008 RUB'000
Loss from revaluation of financial assets and liabilities	(4,731)	(1,571,307)
Gain on spot transactions and derivatives	293,872	1,923,096
	289,141	351,789

9 Impairment losses

	2009 RUB'000	2008 RUB'000
Loans to customers	3,030,039	2,751,190
Other assets	53,594	-
	3,083,633	2,751,190

10 General administrative expenses

	2009 RUB'000	2008 RUB'000
Employee compensation	1,572,675	1,703,589
Occupancy	490,728	492,536
Payroll related taxes	248,383	334,130
Depreciation	239,091	214,193
Taxes other than on income	186,255	216,508
Communications and information services	153,859	178,863
Repairs and maintenance	127,612	116,049
Office supplies	62,125	74,376
Security	56,795	64,455
Professional services	51,401	51,703
Travel expenses	40,012	73,604
Advertising and marketing	14,643	68,295
Fees for participation in retail deposits insurance program	9,816	12,571
Other	74,314	84,572
	3,327,709	3,685,444

11 Income tax expense

	2009 RUB'000	2008 RUB'000
Current tax expense		
Current year	407,155	452,507
Overprovided in prior years	(10,472)	(4,800)
	396,683	447,707
Deferred tax expense		
Origination and reversal of temporary differences	(10,885)	(67,896)
Total income tax expense in the consolidated income statement	385,798	379,811

The applicable tax rate for current tax is 20% (2008: 24%). The Group applied 20% deferred tax rate (2008: 20%).

Reconciliation of effective tax rate:

	2009 RUB'000	(%)	2008 RUB'000	(%)
Income before tax	1,913,558		1,578,380	
Income tax at the applicable tax rate	382,712	20.00%	378,811	24.00%
Non-deductible costs	13,558	0.71%	18,146	1.14%
Effect of change in tax rate	-	-	(12,346)	(0.78%)
Overprovided in prior years	(10,472)	(0.55)%	(4,800)	(0.30)%
	385,798	20.16%	379,811	24.06%

12 Due from the Central Bank of the Russian Federation

	2009 RUB'000	2008 RUB'000
Minimum reserve deposit	305,304	43,129
Nostro accounts	275,014	6,447,662
	580,318	6,490,791

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

	2009 RUB'000	2008 RUB'000
<i>Not impaired or past due</i>		
Nostro accounts		
Small and medium sized Russian banks and financial institutions	505,108	161,781
Largest 30 Russian banks	147,286	218,031
OECD banks	79,709	246,548
Russian subsidiaries of OECD banks	3,017	1,273
Total nostro accounts	735,120	627,633
 Loans and deposits		
OECD banks	10,873,342	105,974
Largest 30 Russian banks	46	475
Russian subsidiaries of OECD banks	-	1,111,426
Small and medium sized Russian banks and financial institutions	-	3
Total loans and deposits	10,873,388	1,217,878
	11,608,508	1,845,511

Concentration of placements with banks and other financial institutions

As at 31 December 2009, the Group had one counterparty, whose balances exceeded 10% of total placements with banks and other financial institutions (2008: four). The gross value of these balances as at 31 December 2009 and 2008 were RUB 10,803,895 thousand and RUB 1,510,642 thousand, respectively.

14 Financial instruments at fair value through profit or loss

	2009 RUB'000	2008 RUB'000
Assets		
Held by the Group		
<i>Debt and other fixed-income instruments - trading</i>		
Russian corporate bonds	58,274	97,946
<i>Derivative financial instruments</i>		
Foreign currency contracts	102,323	2,777,742
	160,597	2,875,688
 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	39,093	494,617
Interest rate swaps	36,383	56,535
	75,476	551,152

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2009 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, along with the amounts payable and receivable on the matured but unsettled 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	
	2009 RUB'000	2008 RUB'000	2009	2008
Buy USD sell RUB				
Less than three months	417,672	6,036,203	29.8653	24.5577
Between three months and one year	-	6,783,934	-	27.0493
Buy USD sell EUR				
Less than three months	1,461,209	603,739	0.6944	0.6730
Between three months and one year	-	147,896	-	0.6839
Buy EUR sell USD				
Less than three months	157,283	459,129	1.4389	1.4861
Between three months and one year	-	132,297	-	1.4531
Buy RUB sell USD				
Less than three months	4,811,189	8,923,130	0.0327	0.0341
Between three months and one year	136,880	881,167	0.0292	0.0347
Buy GBP sell USD				
Less than three months	-	127,848	-	1.4519
Buy EUR sell RUB				
Less than three months	-	2,619	-	36.2900
Buy RUB sell EUR				
Less than three months	-	2,297	-	0.0275

The table below shows the fair values of financial instruments designated for hedging during 2008, recorded as assets or liabilities, together with their notional amounts:

RUB'000	2008		
	Fair Value		
	Notional principal	Assets	Liability
Cross-currency swaps	7,345,100	1,683,891	-

The Group used as at 31 December 2008 cross-currency swaps to hedge the foreign currency risk arising from the issuance of debt securities issued denominated in foreign currency. The hedged cash flows occurred and affected the consolidated income statement in 2009. 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 2008 was RUB 451,538 thousand, net of tax RUB 112,884 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 2009 RUB'000		31 December 2008 RUB'000		1 July 2008 RUB'000
	Carrying value	Fair value	Carrying value	Fair value	Carrying and fair value
Securities held for trading reclassified to held-to-maturity investments	117,072	115,091	111,108	25,511	87,472
	117,072	115,091	111,108	25,511	87,472

Included in the table above are amounts related to financial instruments held by the Group as at 31 December 2009.

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

15 Loans to customers

	2009 RUB'000	2008 RUB'000
Commercial loans		
Loans to large corporates	22,070,695	22,316,491
Loans to small and medium size companies	3,150,969	3,535,824
Total commercial loans	25,221,664	25,852,315
Loans to individuals		
Auto loans	11,499,656	13,170,444
Cash loans	5,874,507	7,660,699
Credit cards	3,732,158	3,301,315
Instant loans	3,148,681	4,493,595
Mortgage loans	2,192,873	2,225,337
Other	24,711	44,782
Total loans to individuals	26,472,586	30,896,172
Gross loans to customers	51,694,250	56,748,487
Impairment allowance	(3,768,994)	(3,098,731)
Net loans to customers	47,925,256	53,649,756

Movements in the loan impairment allowance for the years ended 31 December 2009 and 2008 are as follows:

	2009 RUB'000	2008 RUB'000
Balance at the beginning of the year	3,098,731	1,466,616
Net charge for the year	3,030,039	2,751,190
Write-offs	(2,359,776)	(1,119,075)
Balance at the end of the year	3,768,994	3,098,731

As at 31 December 2009, interest accrued on impaired loans amounted to RUB 41,267 thousand (2008: RUB 119,942 thousand).

Credit quality of commercial loan portfolio

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 following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	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	20,312,038	(83,788)	20,228,250	0.41
Watch list loans	305,163	(6,772)	298,391	2.22
	20,617,201	(90,560)	20,526,641	0.44
Impaired loans:				
- impaired, but not overdue	1,524,839	(144,505)	1,380,334	9.48
- overdue less than 90 days	151,286	(147,167)	4,119	97.28
- overdue more than 90 days and less than 1 year	23,165	(23,165)	-	100.00
Total impaired loans	1,699,290	(314,837)	1,384,453	18.53
Total loans to large corporates	22,316,491	(405,397)	21,911,094	1.82
Loans to small and medium size companies				
Loans for which no impairment has been identified	3,190,431	(17,273)	3,173,158	0.54
Impaired loans:				
- overdue less than 90 days	244,205	(60,095)	184,110	24.61
- overdue more than 90 days and less than 1 year	101,188	(85,902)	15,286	84.89
Total impaired loans	345,393	(145,997)	199,396	42.27
Total loans to small and medium size companies	3,535,824	(163,270)	3,372,554	4.62
Total commercial loans	25,852,315	(568,667)	25,283,648	2.20

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 effect 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 2009 would be RUB 243,553 thousand (2008: RUB 252,836 thousand) lower/higher.

During the year ended 31 December 2009, the Group renegotiated commercial loans that would otherwise be past due of RUB 831,035 thousand (2008: RUB 64,677 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 2009 and 2008:

	2009 RUB'000	% of loan portfolio	2008 RUB'000	% of loan portfolio
Mortgage	6,704,874	27.53	6,937,777	27.44
Inventories	623,327	2.56	1,112,440	4.40
Equipment	349,322	1.43	310,363	1.23
Motor vehicles	117,432	0.48	799,025	3.16
Bank guarantees	88,706	0.36	-	-
Pledge of shares	20	-	61,984	0.25
Other	21,093	0.09	452,313	1.78
Surety	6,879,834	28.25	8,376,437	33.13
No collateral	9,570,672	39.30	7,233,309	28.61
Total	24,355,280	100.00	25,283,648	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 2009:

	Gross loans RUB'000	Impairment RUB'000	Net loans RUB'000	Fair value of collateral RUB'000
Inventories	159,841	(48,431)	111,410	159,841
Mortgage	66,011	(2,829)	63,182	66,011
Equipment	26,825	(18,958)	7,867	26,825
Motor vehicles	23,338	(13,596)	9,742	23,338
Total	276,015	(83,814)	192,201	276,015

The following tables provide the analysis of the impaired commercial loan portfolio by fair value of collateral as at 31 December 2008:

	Gross loans RUB'000	Impairment RUB'000	Net loans RUB'000	Fair value of collateral RUB'000
Inventories	101,495	(91,644)	9,851	101,495
Equipment	51,589	(51,037)	552	51,589
Mortgage	11,940	(4,529)	7,411	11,940
Motor vehicles	2,660	(1,009)	1,651	2,660
No collateral	885,812	(3,809)	882,003	-
Total	1,053,496	(152,028)	901,468	167,684

The remaining impaired commercial loans with a gross value of RUB 687,050 thousand are secured by sureties (2008: RUB 991,187 thousand)

During the year ended 31 December 2009 the Group obtained assets with a carrying amount of RUB 45,853 thousand by taking control of collateral accepted as security for loans to legal entities. (2008: None).

Analysis of movements in the impairment allowance

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

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2008 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	14,385	47,000	61,385
Loans written off during the year as uncollectible	(14,385)	(45,133)	(59,518)
Loan impairment losses during the year	405,397	161,403	566,800
Loan impairment allowance as at 31 December 2008	405,397	163,270	568,667

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
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
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
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 following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2008:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	10,917,369	(43,510)	10,873,859	0.40
- Overdue less than 30 days	642,892	(39,141)	603,751	6.09
- Overdue 30-89 days	393,327	(96,323)	297,004	24.49
- Overdue 90-179 days	198,568	(104,256)	94,312	52.50
- Overdue 180-360 days	271,661	(169,105)	102,556	62.25
- Overdue more than 360 days	746,627	(487,773)	258,854	65.33
Total auto loans	13,170,444	(940,108)	12,230,336	7.14
Cash loans				
- Not past due	6,186,983	(69,421)	6,117,562	1.12
- Overdue less than 30 days	547,432	(52,802)	494,630	9.65
- Overdue 30-89 days	364,716	(135,140)	229,576	37.05
- Overdue 90-179 days	195,177	(151,429)	43,748	77.59
- Overdue 180-360 days	362,297	(316,815)	45,482	87.45
- Overdue more than 360 days	4,094	(4,094)	-	100.00
Total cash loans	7,660,699	(729,701)	6,930,998	9.53
Instant loans				
- Not past due	3,792,174	(74,623)	3,717,551	1.97
- Overdue less than 30 days	199,317	(24,566)	174,751	12.33
- Overdue 30-89 days	136,155	(61,994)	74,161	45.53
- Overdue 90-179 days	112,736	(85,826)	26,910	76.13
- Overdue 180-360 days	251,932	(209,230)	42,702	83.05
- Overdue more than 360 days	1,281	(1,281)	-	100.00
Total instant loans	4,493,595	(457,520)	4,036,075	10.18
Credit cards				
- Not past due	2,727,035	(40,087)	2,686,948	1.47
- Overdue less than 30 days	197,527	(37,580)	159,947	19.03
- Overdue 30-89 days	132,510	(77,463)	55,047	58.46
- Overdue 90-179 days	93,332	(76,619)	16,713	82.09
- Overdue 180-360 days	150,911	(141,880)	9,031	94.02
Total credit cards	3,301,315	(373,629)	2,927,686	11.32
Mortgage loans				
- Not past due	2,070,709	(5,812)	2,064,897	0.28
- Overdue less than 30 days	112,425	(6,933)	105,492	6.17
- Overdue 30-89 days	13,930	(4,363)	9,567	31.32
- Overdue 90-179 days	20,930	(7,807)	13,123	37.30
- Overdue 180-360 days	7,343	(3,065)	4,278	41.74
Total mortgage loans	2,225,337	(27,980)	2,197,357	1.26
Other loans to individuals				
- Not past due	37,588	(305)	37,283	0.81
- Overdue less than 30 days	3,224	(67)	3,157	2.08
- Overdue 30-89 days	1,076	(97)	979	9.01
- Overdue 90-179 days	1,093	(241)	852	22.05
- Overdue 180-360 days	1,752	(367)	1,385	20.95
- Overdue more than 360 days	49	(49)	-	100.00
Total other loans to individuals	44,782	(1,126)	43,656	2.51
Total loans to individuals	30,896,172	(2,530,064)	28,366,108	8.19

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions as at 31 December 2009 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 2009 the Group sold similar types of loans to individuals overdue more than 360 days at higher percentages from their gross amounts than ones used as 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 64% and 57% 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 effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment on retail loans as at 31 December 2009 would be RUB 235,700 thousand (2008: RUB 283,661 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 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 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

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 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	451,903	483,090	88,971	377,702	417	3,148	1,405,231
Loans written off during the year as uncollectible	-	(533,091)	(141,016)	(382,311)	-	(3,139)	(1,059,557)
Loan impairment losses during the year	488,205	779,702	425,674	462,129	27,563	1,117	2,184,390
Loan impairment allowance as at 31 December 2008	940,108	729,701	373,629	457,520	27,980	1,126	2,530,064

During the year ended 31 December 2009 the Group renegotiated loans to individuals that would otherwise be past due of RUB 484,432 thousand (2008: RUB 44,572 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:

	2009 RUB'000	2008 RUB'000
Commercial customers		
Real Estate	5,229,826	6,210,817
Petrochemistry & Metallurgy	2,693,239	2,140,918
Tourism	2,668,185	2,793,823
Energy	1,817,423	1,335,704
Alcohol & Tobacco	1,663,693	226,902
Automotive	1,359,822	1,820,636
Electronics & Home Appliances	1,140,219	161,121
Retail	952,708	479,033
Private Banking	939,212	768,175
Construction	772,400	2,241,226
Food & Beverage Services	622,991	229,041
Financial Institutions	566,542	1,371,478
Textile	428,577	321,789
Media	404,050	565,150
Construction Materials	290,739	358,680
Transportation	3,360	244,837
Machinery	-	576,132
Forestry Products	-	52,607
Other	517,709	418,422
	22,070,695	22,316,491
 Impairment allowance	 (518,401)	 (405,397)
	21,552,294	21,911,094

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 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 assets

	2009 RUB'000	2008 RUB'000
Held by the Group		
Debt and other fixed-income instruments		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	6,771	-
Other regional authorities and municipal bonds	156,095	-
Total government and municipal bonds	162,866	-
Corporate bonds	1,591,582	-
	1,754,448	-
Pledged under sale and repurchase agreements		
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	-
Russian corporate bonds	281,905	-
	4,021,725	-

17 Held-to-maturity investments

	2009 RUB'000	2008 RUB'000
Russian corporate bonds	970,730	416,294
	970,730	416,294

18 Property and equipment

RUB'000

	Equipment	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

RUB'000

	Equipment	Vehicles	Computer software	Leasehold improvements	Total
Cost					
At 1 January 2008	682,237	29,443	74,688	197,935	984,303
Additions	266,744	1,835	34,600	49,388	352,567
Disposals	(12,015)	(7,923)	(1,372)	(8,557)	(29,867)
At 31 December 2008	936,966	23,355	107,916	238,766	1,307,003
Depreciation					
At 1 January 2008	(218,989)	(16,505)	(15,191)	(90,932)	(341,617)
Depreciation charge	(122,099)	(7,847)	(15,712)	(68,535)	(214,193)
Disposals	2,580	5,760	-	-	8,340
At 31 December 2008	(338,508)	(18,592)	(30,903)	(159,467)	(547,470)
Carrying value					
At 31 December 2008	598,458	4,763	77,013	79,299	759,533
At 31 December 2007	463,248	12,938	59,497	107,003	642,686

19 Other assets

	2009 RUB'000	2008 RUB'000
Advances given	152,116	192,224
ATM settlements	102,778	61,837
Assets held for sale	94,144	-
Accounts receivable	30,721	22,589
Amounts blocked as collateral for plastic cards settlements	23,867	23,120
Deferred merchant fees	22,000	56,443
Materials and supplies	20,497	54,421
Settlements for plastic cards transactions	7,241	3,316
Taxes receivable	-	11,712
Other	39,782	43,642
	493,146	469,304
Impairment allowance	(87,094)	(33,500)
	406,052	435,804

Analysis of movements in the impairment allowance

	2009 RUB'000	2008 RUB'000
Balance at the beginning of the year	33,500	33,500
Net charge for the year	53,594	-
Balance at the end of the year	87,094	33,500

20 Deposits and balances from banks and other financial institutions

	2009 RUB'000	2008 RUB'000
Vostro accounts	2,552	210,160
Term deposits	6,615,068	20,980,862
Repurchase Agreements	3,961,349	-
	10,578,969	21,191,022

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2009 and 2008, 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 2009 and 2008 were RUB 4,166,217 thousand and RUB 20,807,986 thousand, respectively.

Securities pledged

As at 31 December 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

	2009 RUB'000	2008 RUB'000
Current accounts and demand deposits		
- Retail	1,297,160	1,479,944
- Corporate	2,365,470	3,286,119
Term deposits		
- Retail	5,686,989	1,310,286
- Corporate	12,458,626	2,715,267
	21,808,245	8,791,616

As at 31 December 2009, retail term deposits include RUB 4,376,492 thousand (2008: RUB 218,653 thousand) and corporate term deposits include RUB 6,445,651 thousand (2008: none) representing a deposit 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 2009, the Group maintained customer deposit balances of RUB 35,897 thousand (2008: RUB 134,834 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

	2009 RUB'000	2008 RUB'000
Loan participation notes	11,663,328	7,451,230
Russian bonds denominated in RUB	7,635,748	4,000,485
	19,299,076	11,451,715

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 mature 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. During the second half 2009 the Group repurchased part of these issued loan participation notes with nominal amount of USD 20,000,000 at their market value. As a result of this transaction the Group recognized a gain of RUB 6,284 thousand.

In February 2007, the Group issued RUB 3,500,000 thousand of bonds with a coupon rate of 7.94%. These bonds mature 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

	2009 RUB'000	2008 RUB'000
Deposits from the CBR and state owned corporation	4,652,167	13,405,521
	4,652,167	13,405,521

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 State Corporation "Fund for assistance of housing and communal services reform" of RUB 501,995 thousand with interest rates 10.4% and maturing to 16 June 2010.

As at 31 December 2008, other borrowed funds included borrowings from the CBR of RUB 11,520,393 thousand with interest rates ranging from 10.05% to 15.25% and maturing from 11 February 2009 to 3 June 2009 and deposits from State Corporation "Fund for assistance of housing and communal services reform" of RUB 1,885,128 thousand with interest rates ranging from 12% to 13% and maturing from 21 January 2009 to 4 February 2009.

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 2009 and 2008.

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

	Assets		Liabilities		Net	
RUB'000	2009	2008	2009	2008	2009	2008
Financial instruments at fair value through profit or loss	12,957	-		(154,651)	12,957	(154,651)
Loans to customers	-	55,920	(87,365)	-	(87,365)	55,920
Available-for-sale assets	32,603	-	-	-	32,603	-
Other assets	40,320	-	-	(22,065)	40,320	(22,065)
Property and equipment		-	(38,850)	(49,452)	(38,850)	(49,452)
Debt securities in issue	-	-	(3,168)	(2,256)	(3,168)	(2,256)
Other liabilities	14,892	25,764	-	-	14,892	25,764
Total deferred liabilities	100,772	81,684	(129,383)	(228,424)	(28,611)	(146,740)

The tax rate applicable for deferred taxes was 20% (2008: 20%).

Movement in temporary differences during the year ended 31 December 2009

RUB'000	Balance 1 January 2009	Recognised in income	Recognised in equity	Balance 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 assets	-	38,243	(5,640)	32,603
Other assets	(22,065)	62,385	-	40,320
Property and equipment	(49,452)	10,602	-	(38,850)
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)

25 Shareholders' equity

Issued capital

The authorised, issued and outstanding share capital comprises 1,470 thousand ordinary shares (2008: 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 meetings of the Group.

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

	2009	2008
Credit Europe Bank N.V.	96.28%	95.94%
Credit Europe Group N.V.	1.68%	1.68%
Others	2.04%	2.38%
	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. In accordance with the legislation of the Russian Federation, as at the reporting date, reserves available for distribution amounted to RUB 2,555,264 thousand (2008: None).

Additional paid-in capital

Also included in shareholder's equity, as at 31 December 2009, 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 – includes 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 – includes 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 profit before income tax as included in the internal management reports that are reviewed by the CEO. Segment profit 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:

	2009 RUB'000	2008 RUB'000
Assets		
Treasury	18,283,870	565,711
Commercial banking	25,489,212	34,276,689
Retail banking	24,757,675	32,091,646
Unallocated assets	876,418	493,966
Total assets	69,407,175	67,428,012
Liabilities		
Treasury	8,125,070	654,315
Commercial banking	27,712,253	19,256,507
Retail banking	20,514,887	35,713,933
Unallocated liabilities	440,417	287,489
Total liabilities	56,792,627	55,912,244

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	799,937	2,278,160	6,139,499	9,217,596
Fee and commission income	13,692	229,234	873,284	1,116,210
Net foreign exchange income	(90,285)	231,487	147,939	289,141
Net gain on financial instruments at fair value through profit or loss	935,396	-	-	935,396
Other income	13,238	25,583	506,316	545,137
Net revenue from other segments	(610,536)	968,917	(358,381)	-
Revenue	1,061,442	3,733,381	7,308,657	12,103,480
Impairment losses	-	(531,325)	(2,552,308)	(3,083,633)
Interest expense	(432,367)	(1,763,260)	(1,248,825)	(3,444,452)
Fee and commission expense	(48,571)	(18,690)	(266,867)	(334,128)
General administrative expenses	(64,212)	(499,365)	(2,764,132)	(3,327,709)
Segment result	516,292	920,741	476,525	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	(4,332)	(51,650)	(183,109)	(239,091)

Segment information for the main reportable segments of the Group for the year ended 31 December 2008 is set out below:

RUB'000	Treasury	Commercial banking	Retail Banking	Total
External interest income	257,235	2,719,637	6,471,437	9,448,309
Fee and commission income	120	308,022	828,518	1,136,660
Net foreign exchange income	36,514	168,541	146,734	351,789
Net loss on financial instruments at fair value through profit or loss	16,485	(20,880)	(26,457)	(30,852)
Other income	187	16,566	559,802	576,555
Net revenue from other segments	71,386	54,408	(125,794)	-
Revenue	381,927	3,246,294	7,854,240	11,482,461
Impairment losses	-	(485,633)	(2,265,557)	(2,751,190)
Interest expense	(310,442)	(1,193,265)	(1,570,010)	(3,073,717)
Fee and commission expense	(4,366)	(56,620)	(332,744)	(393,730)
General administrative expenses	(41,337)	(668,192)	(2,975,915)	(3,685,444)
Segment result	25,782	842,584	710,014	1,578,380
Income tax expense				(379,811)
Net income after taxes				1,198,569
Other segment items				
Additions of property and equipment	5,392	69,080	278,095	352,567
Depreciation	(3,276)	(41,968)	(168,949)	(214,193)

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, re-pricing, 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 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 approved by the Supervisory Board and systematically reports at 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 that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. 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 both for portfolio and borrower level. On 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 Collateral Management Function and 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. The Corporate Credits Department each prepares monthly Corporate Portfolio Risk Report which is reviewed by the Corporate Credit Committee and submitted to the members of the Supervisory Board and to the Parent Bank for consolidation purposes.

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 spectra of retail credit products such as multi purpose 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 inadequate 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 local normatives 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 2009 and 31 December 2008.

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 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 Managing 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 unrecognized 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 2009 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 month	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 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 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)
Other borrowed funds	(2,022,621)	-	(1,055,106)	(1,796,819)	-	(4,874,546)	(4,652,167)
Debt securities in issue	-	(3,879,148)	(7,410,082)	(384,148)	(9,533,223)	(21,206,601)	(19,299,076)
Other 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	6,194,768

The position of the Group as at 31 December 2008 was as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	288,829	3,185,545	9,001,467	5,279	10,536,094	23,017,214	21,191,022
Current accounts and deposits from customers	7,696,179	688,249	286,870	235,420	21,439	8,928,157	8,791,616
Debt securities in issue	-	-	455,441	455,441	12,435,983	13,346,865	11,451,715
Other borrowed funds	500,716	10,500,750	3,245,818	-	-	14,247,284	13,405,521
Other liabilities	109,369	149,220	32,231	-	37,491	328,311	328,311
Derivative liabilities							
- Inflow	(11,400,243)	(4,757,158)	(5,082,751)	(2,862,544)	-	(24,102,696)	(2,777,742)
- Outflow	10,953,773	4,229,266	4,666,375	2,759,719	-	22,609,133	551,152
Total	8,148,623	13,995,872	12,605,451	593,315	23,031,007	58,374,268	52,941,595
Credit related commitments	6,338,847	53,336	1,147,078	914,569	211,522	8,665,352	8,665,352

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

Market Risk

Market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements 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

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. Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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 2009 and 31 December 2008 is as follows:

	2009 RUB'000	2008 RUB'000
100 bp parallel increase	(17,216)	(61,062)
100 bp parallel decrease	71,723	52,434

Interest rate risk, attributable to financial instruments at fair value through 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 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 through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2009		2008	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(2,807)	(137,559)	(4,983)	-
100 bp parallel fall	2,938	144,641	5,438	-

Currency risk

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. For further information on the Group's exposure to currency risk at year end refer to Notes 14 and 37.

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 2009 and 2008 and a simplified scenario of a 5% change in rates of major currencies to RUB is as follows:

	2009 RUB'000	2008 RUB'000
5% appreciation of USD against RUB	(25,458)	(986)
5% depreciation of USD against RUB	25,458	986
5% appreciation of EUR against RUB	(9,752)	2,073
5% depreciation of EUR against RUB	9,752	(2,073)

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 of 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 2009, this minimum level is 10%. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2009 and 31 December 2008.

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 2009 and 2008:

	2009 RUB’000	2008 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	3,597,646	2,069,886
Intangible assets	(96,408)	(77,013)
Total tier 1 capital	12,495,582	10,987,217
Tier 2 capital		
Hedge Reserve	-	451,538
Revaluation reserve for available-for-sale assets	22,558	-
Total tier 2 capital	22,558	451,538
Total capital	12,518,140	11,438,755
Risk-weighted assets		
Banking book	62,429,181	61,512,869
Trading book	964,715	142,424
Total risk weighted assets	63,393,896	61,655,293
Total capital expressed as a percentage of risk-weighted assets (“total capital ratio”)	19.75%	18.55%
Total tier 1 capital expressed as a percentage of risk-weighted assets (“tier 1 capital ratio”)	19.71%	17.82%

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.

	2009 RUB'000	2008 RUB'000
Contracted amount		
Loan and credit line commitments	3,375,368	4,808,931
Guarantees and letters of credit	1,991,973	2,691,846
Credit card commitments	807,472	1,141,970
Undrawn overdraft facilities	19,955	22,605

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:

	2009 RUB'000	2008 RUB'000
Less than one year	45,539	46,355
	45,539	46,355

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 490,728 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2008: RUB 492,536 thousand).

31 Contingencies

Litigation

The Group's management declared that there are no significant actual, pending or threatened claims against the Group.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised 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):

	2009 RUB'000	2008 RUB'000
Key management personnel	214,355	184,715

The outstanding balances and average interest rates as at 31 December 2009 and 2008 with the members of the key management personnel are as follows:

	2009 RUB'000	Average Interest Rate	2008 RUB'000	Average Interest Rate
Consolidated Statement of Financial Position				
Assets				
Loans to customers	35,481	12.30%	22,340	12.30%
Liabilities				
Deposits from customers	20,054	6.88%	26,087	6.07%

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

	2009 RUB'000	2008 RUB'000
Consolidated Income statement		
Interest income	2,265	2,674
Interest expense	(1,644)	(967)

Transactions with other related 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.

The outstanding balances and the related average interest rates as at 31 December 2008 and related consolidated income statement amounts of transactions for the year ended 31 December 2008 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	210,596	-	195	-	210,791
Financial instruments at fair value through profit or loss	478,955	-	-	-	478,955
Loans to customers (gross amount)	-	-	1,351,439	10.29%	1,351,439
Other assets	-	-	3,794	-	3,794
Liabilities					
Financial instruments at fair value through profit or loss	446,999	-	-	-	446,999
Deposits and balances from banks and other financial institutions	20,807,986	5.25%	153	-	20,808,139
Debt securities issued	5,879,312	8.49%	-	-	5,879,312
Current accounts and deposits from customers*	218,653	7.63%	631,250	-	849,903
Other liabilities	-	-	267	-	267
Off balance sheet items					
Guarantees issued	-	-	81,844	-	81,844
Consolidated Income statement					
Interest income	22,817	-	131,239	-	154,056
Interest expense	(1,327,104)	-	(144,297)	-	(1,471,401)
Fee and commission income	-	-	99	-	99
Net foreign exchange income/(loss)	(2,958,292)	-	-	-	(2,958,292)
Other income	-	-	1,622	-	1,622

* - Included in current accounts and deposits from customers is RUB 218,653 thousand, which represents deposits from one related party bank 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:

	2009 RUB'000	2008 RUB'000
Cash	935,902	954,635
Due from the Central Bank – nostro accounts	275,014	6,447,662
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	11,608,508	1,845,511
	12,819,424	9,247,808

34 Fair value of financial instruments

The estimated fair value of the Group's financial assets and liabilities, as required to be disclosed by IFRS 7 "Financial Instruments: Disclosures", is as follows:

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.

	2009 RUB'000 <u>Fair value</u>	2009 RUB'000 <u>Carrying value</u>	2008 RUB'000 <u>Fair value</u>	2008 RUB'000 <u>Carrying value</u>
ASSETS				
Placements with banks and other financial institutions	11,607,203	11,608,508	1,840,115	1,845,511
Financial instruments at fair value through profit or loss	220,076	220,076	2,875,688	2,875,688
Loans to customers	49,144,117	47,925,256	51,934,599	53,649,756
Available-for-sale assets	5,776,173	5,776,173	-	-
Held-to-maturity investments	1,051,749	970,730	317,522	416,294
LIABILITIES				
Financial instruments at fair value through profit or loss	75,476	75,476	551,152	551,152
Deposits and balances from banks and other financial institutions	10,436,834	10,578,969	19,473,115	21,191,022
Current accounts and deposits from customers	21,585,534	21,808,245	8,757,153	8,791,616
Debt securities in issue	19,230,083	19,299,076	10,397,492	11,451,715
Other borrowed funds	4,477,198	4,652,167	12,934,748	13,405,521

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices RUB'000	Valuation techniques based on market observable inputs RUB'000	Total RUB'000
Financial assets			
Securities held for trading	117,753	-	117,753
Derivative financial instruments	-	102,323	102,323
Available-for-sale assets	5,776,173	-	5,776,173
Financial liabilities			
Derivative financial instruments	-	75,476	75,476

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2008:

	Quoted market prices RUB'000	Valuation techniques based on market observable inputs RUB'000	Total RUB'000
Financial assets			
Securities held for trading	97,946	-	97,946
Derivative financial instruments	-	2,777,742	2,777,742
Financial liabilities			
Derivative financial instruments	-	551,152	551,152

As at 31 December 2009 and 31 December 2008, 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 2009 and 2008 and their corresponding average effective interest rates as at that date.

	Value RUB'000	2009 Average Effective Interest Rate	Value RUB'000	2008 Average Effective Interest Rate
Interest Bearing Assets				
Placements with banks and other financial institutions				
<i>Loans and deposits</i>				
- RUB	270,046	5.00%	230,099	6.43%
- USD	9,084,751	0.26%	987,779	0.05%
- EUR	1,518,591	0.25%	-	-
Financial instruments at fair value through profit or loss				
- RUB	220,076	15.38%	-	-
- USD	-	-	97,946	6.67%
Loans to customers				
- RUB	26,860,757	26.20%	30,710,281	26.47%
- USD	17,600,442	10.62%	18,943,465	11.50%
- EUR	3,464,057	6.14%	3,996,010	8.89%
Available-for-sale assets				
- RUB	5,728,828	11.00%	-	-
- USD	47,345	13.30%	-	-
Held-to-maturity investments				
- RUB	278,112	16.68%	254,445	12.29%
- USD	692,618	8.30%	161,849	13.86%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- RUB	3,893,726	9.27%	30,008	10.00%
- USD	2,723,894	3.24%	18,394,995	5.06%
- EUR	-	-	2,555,859	6.50%
<i>Repurchase agreements</i>				
- RUB	3,961,349	6.36%	-	-
Current accounts and deposits from customers				
<i>Term deposits</i>				
- RUB	4,054,262	8.29%	885,643	7.97%
- USD	10,155,728	4.17%	1,981,551	3.21%
- EUR	3,935,625	4.14%	1,158,359	4.07%
Debt securities in issue				
- RUB	7,635,748	9.95%	4,000,485	9.20%
- USD	11,663,328	8.35%	7,451,230	7.80%
Other borrowed funds				
- RUB	4,652,167	11.83%	13,405,521	12.77%

36 Maturity analysis

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

	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	935,902	-	-	-	-	-	935,902
Due from the Central Bank of the Russian Federation	580,318	-	-	-	-	-	580,318
Placements with banks and other financial institutions	11,608,508	-	-	-	-	-	11,608,508
Financial instruments at fair value through profit or loss	82,813	8,892	10,618	117,753	-	-	220,076
Loans to customers	4,807,598	7,432,825	11,945,162	21,458,581	2,281,090	-	47,925,256
Available-for-sale assets	-	-	-	4,722,716	1,053,457	-	5,776,173
Held-to-maturity investments	-	35,768	426,191	275,553	233,218	-	970,730
Current income tax prepayments	-	384,367	-	-	-	-	384,367
Property and equipment	-	-	-	-	-	599,793	599,793
Other assets	98,292	246,353	7,053	30,971	23,383	-	406,052
Total assets	18,113,431	8,108,205	12,389,024	26,605,574	3,591,148	599,793	69,407,175
Liabilities							
Financial instruments at fair value through profit or loss	30,201	8,892	-	11,944	24,439	-	75,476
Deposits and balances from banks and other financial institutions	6,222,324	874,561	3,376,084	106,000	-	-	10,578,969
Current accounts and deposits from customers	13,413,222	1,951,711	5,962,490	480,822	-	-	21,808,245
Debt securities in issue	-	3,634,096	7,066,835	8,598,145	-	-	19,299,076
Other borrowed funds	2,007,512	-	2,644,655	-	-	-	4,652,167
Deferred tax liability	-	-	-	-	-	28,611	28,611
Other liabilities	81,438	92,695	136,718	-	39,232	-	350,083
Total liabilities	21,754,697	6,561,955	19,186,782	9,196,911	63,671	28,611	56,792,627
Net position as at 31 December 2009	(3,641,266)	1,546,250	(6,797,758)	17,408,663	3,527,477	571,182	12,614,548
Net position as at 31 December 2008	5,829,568	(4,078,972)	997,304	4,210,132	3,920,257	637,479	11,515,768

The following table shows management's estimation of the Group liquidity position as at 31 December 2009. In contrast to contractual maturity table presented above, in the table below Current customer accounts and demand deposits are evenly distributed during one year from 31 December 2009 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 "between 3 months to 1 year" based on the fact that the Group's management believes that all of the trading securities within one month and available-for-sale financial instruments within one year could be liquidated in the normal course of business. Issued loan participation notes with a carrying amount of RUB 7 billion which mature in April 2010, included in "Debt Securities Issued", are shown in category "1 to 5 years" based on the fact that management is currently contemplating an issuance of new loan participation notes in the near future. Management estimates that a short term requirement for additional funding will arise between the maturity of the existing loan participation notes and the issuance of new ones where this requirement will be met through obtaining funding from the Group's parent company or through other available funding sources.

	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	935,902	-	-	-	-	-	935,902
Due from the Central Bank of the Russian Federation	580,318	-	-	-	-	-	580,318
Placements with banks and other financial institutions	11,608,508	-	-	-	-	-	11,608,508
Financial instruments at fair value through profit or loss	200,566	8,892	10,618	-	-	-	220,076
Loans to customers	4,807,598	7,432,825	11,945,162	21,458,581	2,281,090	-	47,925,256
Available-for-sale assets	-	-	5,776,173	-	-	-	5,776,173
Held-to-maturity investments	-	35,768	426,191	275,553	233,218	-	970,730
Current income tax prepayments	-	384,367	-	-	-	-	384,367
Property and equipment	-	-	-	-	-	599,793	599,793
Other assets	98,292	246,353	7,053	30,971	23,383	-	406,052
Total assets	18,231,184	8,108,205	18,165,197	21,765,105	2,537,691	599,793	69,407,175

	<u>Less than 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 year</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
Liabilities							
Financial instruments at fair value through profit or loss	30,201	8,892	-	11,944	24,439	-	75,476
Deposits and balances from banks and other financial institutions	6,222,324	874,561	3,376,084	106,000	-	-	10,578,969
Current accounts and deposits from customers	10,048,043	2,566,209	8,713,171	480,822	-	-	21,808,245
Debt securities in issue	-	3,634,096	-	15,664,980	-	-	19,299,076
Other borrowed funds	2,007,512	-	2,644,655	-	-	-	4,652,167
Deferred tax liability	-	-	-	-	-	28,611	28,611
Other liabilities	81,438	92,695	136,718	-	39,232	-	350,083
Total liabilities	18,389,518	7,176,453	14,870,628	16,263,746	63,671	28,611	56,792,627
Net position as at 31 December 2009	(158,334)	931,752	3,294,569	5,501,359	2,474,020	571,182	12,614,548
Cumulative position as at 31 December 2009	(158,334)	773,418	4,067,987	9,569,346	12,043,366	12,614,548	
Net position as at 31 December 2008	10,087,577	(4,852,003)	(2,487,674)	4,210,132	3,920,257	637,479	11,515,768
Cumulative position as at 31 December 2008	10,087,577	5,235,574	2,747,900	6,958,032	10,878,289	11,515,768	

37 Currency analysis

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

	RUB	USD	EUR	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Assets					
Cash	790,415	105,244	35,677	4,566	935,902
Due from the Central Bank of the Russian Federation	580,318	-	-	-	580,318
Placements with banks and other financial institutions	797,325	9,196,289	1,612,361	2,533	11,608,508
Financial instruments at fair value through profit or loss	220,076	-	-	-	220,076
Loans to customers	26,860,757	17,600,442	3,464,057	-	47,925,256
Available-for-sale assets	5,728,828	47,345	-	-	5,776,173
Held-to-maturity investments	278,112	692,618	-	-	970,730
Current income tax prepayments	384,367	-	-	-	384,367
Property and equipment	599,793	-	-	-	599,793
Other assets	371,308	32,460	2,284	-	406,052
Total assets	36,611,299	27,674,398	5,114,379	7,099	69,407,175
Liabilities					
Financial instruments at fair value through profit or loss	75,476	-	-	-	75,476
Deposits and balances from banks and other financial institutions	7,855,075	2,723,894	-	-	10,578,969
Current accounts and deposits from customers	7,086,580	10,668,681	4,052,943	41	21,808,245
Debt securities in issue	7,635,748	11,663,328	-	-	19,299,076
Other borrowed funds	4,652,167	-	-	-	4,652,167
Deferred tax liability	28,611	-	-	-	28,611
Other liabilities	320,319	28,465	1,299	-	350,083
Total liabilities	27,653,976	25,084,368	4,054,242	41	56,792,627
Net on balance sheet position as at 31 December 2009	8,957,323	2,590,030	1,060,137	7,058	12,614,548
Net off balance sheet position as at 31 December 2009	4,530,397	(3,226,471)	(1,303,926)	-	-
Net on and off balance sheet positions as at 31 December 2009	13,487,720	(636,441)	(243,789)	7,058	12,614,548
Net on and off balance sheet positions as at 31 December 2008	11,484,037	(25,948)	54,548	3,131	11,515,768