

ZENIT BANKING GROUP

Consolidated Financial Statements
For the year ended 31 December 2010

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ZENIT BANKING GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Bank ZENIT (Open Joint-Stock Company) and its subsidiaries (hereinafter referred to as "ZENIT Banking Group" or the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows and for the year then ended, and a summary of significant accounting policies and other explanatory notes, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:


- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of The Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting and fraud and other irregularities.

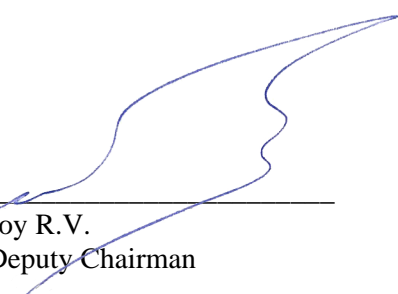
The consolidated financial statements for the year ended 31 December 2010 were approved on 1 April 2011 by the Management Board.

On behalf of the Management Board:


Shpigun K.O.
Chairman of the Management Board



1 April 2011
Moscow


Gorovoy R.V.
First Deputy Chairman

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Bank ZENIT (Open Joint-Stock Company):

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bank ZENIT (Open Joint Stock Company) and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, changes in 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 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards.

Deloitte & Touche

1 April 2011
Moscow

ZENIT Banking Group
Consolidated Statement of Comprehensive Income
(Thousands of Russian Roubles)

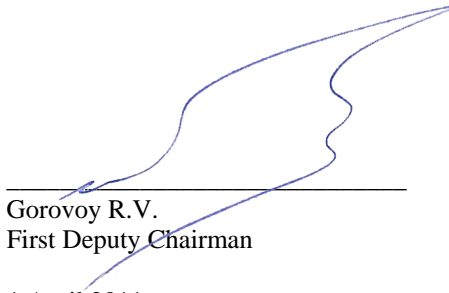
	Year ended 31 December		
	Note	2010	2009
Net Profit		3,661,928	2,089,828
Other comprehensive income			
Exchange differences on translation of foreign operations		(451)	346
Fair value adjustment on available-for-sale financial assets recognised in the statement of income (net of deferred income tax of RUR 354,425 thousand for the year ended 31 December 2010 and net of deferred income tax of RUR 56,367 thousand for the year ended 31 December 2009)		(1,417,698)	(225,468)
Fair value adjustment on available-for-sale financial assets impaired in the statement of income (net of deferred income tax of RUR 1,165 thousand for the year ended 31 December 2010 and net of deferred income tax of RUR 169,340 thousand for the year ended 31 December 2009)		4,659	677,358
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 302,970 thousand for the year ended 31 December 2010 and net of deferred income tax of RUR 373,497 thousand for the year ended 31 December 2009)		1,211,880	1,493,986
Revaluation of property, plant and equipment (net of deferred income tax of RUR 22,604 thousand for the year ended 31 December 2010 and net of deferred income tax of RUR 11,822 thousand for the year ended 31 December 2009)		90,414	47,288
Other comprehensive (loss)/income, net of tax		(111,196)	1,993,510
Total comprehensive income		3,550,732	4,083,338
Total comprehensive income attributable to:			
Equity holders of the parent		3,544,580	4,050,204
Non-controlling interest		6,152	33,134

Signed on behalf of the Management Board


Shpigun K.O.
Chairman of the Management Board



1 April 2011
Moscow


Gorovoy R.V.
First Deputy Chairman


1 April 2011
Moscow

The notes on pages 9-86 form an integral part of these consolidated financial statements.

ZENIT Banking Group
Consolidated Statement of Financial Position
(Thousands of Russian Roubles)

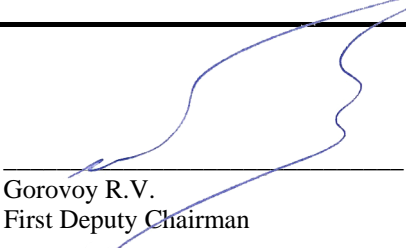
		31 December	
	Note	2010	2009
Assets			
Cash and cash equivalents	13	30,936,454	30,986,124
Mandatory reserve deposits with the Central Bank of the Russian Federation (CBRF)		1,087,250	949,216
Due from banks	14	8,618,382	30,063,790
Financial assets at fair value through profit or loss	15, 35	12,122,902	3,909,046
Available-for-sale financial assets	16, 35	11,414,482	12,247,564
Investments in associates		1,162,726	-
Loans to customers	18, 35	126,995,907	101,121,877
Property, plant and equipment	19	3,730,088	3,649,700
Investment property	20	212,771	201,779
Goodwill		156,248	156,248
Other assets	27	540,467	598,121
Current income tax asset		101,727	283,574
Deferred income tax asset	11	387,953	763,095
Non-current assets held for sale	21	2,328,547	1,110,646
Total assets		199,795,904	186,040,780
Liabilities			
Due to banks and CBRF	22	16,247,210	25,367,556
Customer accounts	23, 35	116,153,700	104,659,285
Debt securities issued	24, 35	15,832,779	14,230,870
RUR-denominated bonds issued	25	17,384,398	10,020,406
Other liabilities	27	815,122	745,604
Current income tax liability		4,002	24,408
Deferred income tax liability	11	101,759	149,453
Subordinated debt	26, 35	11,087,699	11,119,858
Total liabilities		177,626,669	166,317,440
Equity			
Share capital	28	12,698,104	12,698,104
Treasury shares	28	(699,900)	(699,900)
Share premium	28	1,545,000	1,545,000
Cumulative translation reserve		(105)	346
Revaluation reserve for available-for-sale financial assets		20,791	221,950
Property, plant and equipment revaluation reserve		137,702	47,288
Retained earnings	29	8,400,755	5,833,089
Equity attributable to shareholders of the Bank		22,102,347	19,645,877
Non-controlling interest		66,888	77,463
Total equity		22,169,235	19,723,340
Total liabilities and equity		199,795,904	186,040,780

Signed on behalf of the Management Board


Shpigun K.O.
Chairman of the Management Board

1 April 2011
Moscow




Gorovoy R.V.
First Deputy Chairman

1 April 2011
Moscow

The notes on pages 9-86 form an integral part of these consolidated financial statements.

ZENIT Banking Group
Consolidated Statement of Changes in Equity
(Thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Cumulative translation reserve	Revaluation reserve for available-for-sale financial assets	Property and equipment revaluation reserve	Retained earnings	Equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
31 December 2008	12,698,104	-	1,545,000	-	(1,723,926)	-	4,176,395	16,695,573	69,177	16,764,750
Net profit	-	-	-	-	-	-	2,056,694	2,056,694	33,134	2,089,828
Dividends for the year 2008 (Note 28)	-	-	-	-	-	-	(400,000)	(400,000)	(686)	(400,686)
Purchase of treasury shares	-	(699,900)	-	-	-	-	-	(699,900)	-	(699,900)
Translation movement	-	-	-	346	-	-	-	346	-	346
Fair value adjustment on available-for-sale financial assets recognised in the statement of income (net of deferred income tax of RUR 56,367 thousand)	-	-	-	-	(225,468)	-	-	(225,468)	-	(225,468)
Impairment of available-for-sale financial assets recognised in the statement of income (net of deferred income tax of RUR 169,340 thousand)	-	-	-	-	677,358	-	-	677,358	-	677,358
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 373,497 thousand)	-	-	-	-	1,493,986	-	-	1,493,986	-	1,493,986
Revaluation of property, plant and equipment (net of deferred income tax of RUR 11,822 thousand)	-	-	-	-	-	47,288	-	47,288	-	47,288
Acquisition of additional shares in subsidiary	-	-	-	-	-	-	-	-	(24,162)	(24,162)
31 December 2009	12,698,104	(699,900)	1,545,000	346	221,950	47,288	5,833,089	19,645,877	77,463	19,723,340
Net profit	-	-	-	-	-	-	3,655,776	3,655,776	6,152	3,661,928
Dividends for the year 2009 (Note 28)	-	-	-	-	-	-	(1,088,110)	(1,088,110)	(5,227)	(1,093,337)
Translation movement	-	-	-	(451)	-	-	-	(451)	-	(451)
Fair value adjustment on available-for-sale financial assets recognised in the statement of income (net of deferred income tax of RUR 354,425 thousand)	-	-	-	-	(1,417,698)	-	-	(1,417,698)	-	(1,417,698)
Impairment of available-for-sale financial assets recognised in the statement of income (net of deferred income tax of RUR 1,165 thousand)	-	-	-	-	4,659	-	-	4,659	-	4,659
Fair value adjustment on available-for-sale financial assets (net of deferred income tax of RUR 302,970 thousand)	-	-	-	-	1,211,880	-	-	1,211,880	-	1,211,880
Revaluation of property, plant and equipment (net of deferred income tax of RUR 22,604 thousand)	-	-	-	-	-	90,414	-	90,414	-	90,414
Acquisition of additional shares in subsidiary	-	-	-	-	-	-	-	-	(11,500)	(11,500)
31 December 2010	12,698,104	(699,900)	1,545,000	(105)	20,791	137,702	8,400,755	22,102,347	66,888	22,169,235

Signed on behalf of the Management

Shpigun K.O.
Chairman of the Management Board
1 April 2011
Moscow



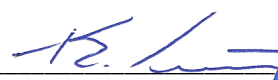
Gorovoy R.V.
First Deputy Chairman
1 April 2011
Moscow

The notes on pages 9-86 form an integral part of these consolidated financial statements

ZENIT Banking Group
Consolidated Statement of Cash Flows
(Thousands of Russian Roubles)

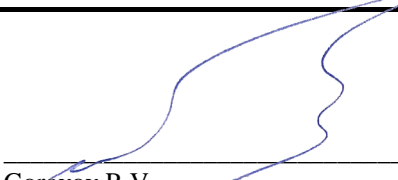
	Note	2010	2009
Cash flows from operating activities			
Interest received		15,141,068	17,722,465
Interest paid		(11,050,524)	(11,313,038)
Cash received on dealing in foreign currencies		635,947	2,016,883
Cash paid on dealing in financial assets at fair value through profit or loss		(322,713)	(568,501)
Fees and commissions received		3,634,261	3,665,909
Fees and commissions paid		(377,834)	(432,252)
Other operating income received		269,980	362,998
Operating expenses paid		(5,610,874)	(4,708,716)
Income tax paid		(1,004,451)	(554,342)
Operating activities before changes in operating assets and liabilities		1,314,860	6,191,406
Net cash (decrease) from operating assets and liabilities			
Mandatory reserve deposits with the Central Bank of the Russian Federation		(138,034)	(739,961)
Due from banks		21,261,965	(18,312,368)
Financial assets at fair value through profit or loss		(7,924,427)	(241,537)
Loans to customers		(26,875,307)	6,960,121
Other assets		(527,911)	39,788
Due to banks		(8,611,763)	(14,911,923)
Customer accounts		12,909,855	6,702,072
Debt securities issued		1,488,527	209,284
Other liabilities		115,438	(312,665)
Net cash used in operating activities		(6,986,797)	(14,415,783)
Cash flows from investing activities			
Acquisition of associate	17	(1,171,997)	-
Subsequent acquisition of shares in subsidiary		(10,769)	(30,695)
Purchase of property, plant and equipment		(242,726)	(238,942)
Purchase of available-for-sale financial assets		(29,436,634)	(20,114,448)
Proceeds from sales of available-for-sale financial assets		31,435,760	24,222,549
Proceeds from sale of equipment		184,442	26,350
Proceeds from sale of non-current assets held for sale		206,338	100,521
Net cash from used in investing activities		964,414	3,965,335
Cash flows from financing activities			
Issuance of shares by subsidiary		32	-
Re-issuance/issuance of RUR-denominated bonds		10,000,000	3,000,000
Redemption of Eurobonds and RUR-denominated bonds		(2,253,912)	(8,840,938)
Dividends paid		(1,093,337)	(400,686)
Subordinated debt		(48,069)	4,146,414
Purchase of treasury shares		-	(699,900)
Net cash from/(used in) financing activities		6,604,714	(2,795,110)
Effect of exchange rate changes on cash and cash equivalents		(632,053)	1,024,074
Net (decrease) in cash and cash equivalents		(49,722)	(12,221,484)
Cash and cash equivalents, beginning		30,985,569	43,207,053
Cash and cash equivalents, ending	13	30,935,847	30,985,569

Signed on behalf of the Management Board


Shpigun K.O.
Chairman of the Management Board

1 April 2011
Moscow




Gorovoy R.V.
First Deputy Chairman

1 April 2011
Moscow

The notes on pages 9-86 form an integral part of these consolidated financial statements.

ZENIT Banking Group
Notes to the Consolidated Financial Statements
(Thousands of Russian Roubles)

1. Principal Activities

These consolidated financial statements include the financial statements of Bank ZENIT (Open Joint-Stock Company) (the “Bank”, or “ZENIT”) and its subsidiaries. ZENIT and its subsidiaries are hereinafter, collectively referred to as the “Group”.

ZENIT, the parent company and principal operating entity of the Group, was registered in the Russian Federation to carry out banking activities in 1995. The Bank provides all services permitted by the legislation of the Russian Federation in accordance with a full banking license issued by the Central Bank of the Russian Federation (the “CBRF”) in 1996 and other licences issued by respective regulatory bodies. The Bank is an open joint-stock company.

The Bank's registered office is located in Moscow at Bannyi Pereulok 9. As of 31 December 2010 ZENIT has 87 points of sale including head office, branches, sub-branches and mini-offices throughout the Russian Federation (2009: 83). The Group also includes the following consolidated banking subsidiaries, incorporated in the Russian Federation:

Name	Date of acquisition	31 December 2010		31 December 2009	
		% ownership interest and voting power	Number of points of sale	% ownership interest and voting power	Number of points of sale
Bank Devon-Credit	2 December 2005	97.3%	33	97.3%	34
Lipetskcombank	29 June 2007	99.4%	22	99.0%	22
Bank ZENIT-Sochi	15 January 2007	99.5%	7	99.5%	5
SPIRITBANK	8 December 2008	100.0%	8	96.4%	7

As of 31 December 2010, the Group has an integrated ATM network consisting of 754 ATMs (2009: 677). The Group has a wide correspondent network both in Russia and abroad and is involved in co-operation with more than 100 international institutions in Europe, America and Asia.

Other consolidated subsidiaries, which collectively represent less than one per cent of the Group’s total assets and net profit, are LLP “Regionalnoe Razvitie”, OJSC “Pushnoi Dom” and Zenit Investment Service Inc.

The Bank has 100% ownership in LLP “Regionalnoe Razvitie” 99.7% in OJSC “Pushnoi Dom”. Both subsidiaries are incorporated in the Russian Federation and engaged in the real estate business. The Bank has 100% ownership in Zenit Investment Service Inc, incorporated in the British Virgin Islands.

The ultimate controlling parties of the Group as of 31 December 2010 and 2009 are as follows:

Shareholder	Controlled by:	31 December 2010	
		% of voting rights	% of effective ownership
Tatneft Oil AG	OJSC Tatneft	24.56%	25.13%
Nabertherm Limited, Clytia Enterprises Limited, SGICY Holdings Limited, Rosemead Enterprises Limited	Mr. Alexey A. Sokolov, Mr. Arkady V. Sokolov, Mr. Andrey V. Nyrkov, Ms. Tatyana P. Shishkina	19.94%	20.41%
Silener Management Limited	Mr. Vladimir S. Lisin	14.42%	14.76%
Bursonco Limited	Mr. Maxim V. Dyomin	6.11%	6.25%
Viewcom Finance Limited	Mr. Alexandr I. Proshechkin	6.80%	6.96%
Gatehill Limited	Ms. Tatyana P. Shishkina	7.04%	7.20%
Janisaco Enterprises Limited	Mr. Iskandar G. Garifullin, Mr. Evgeny A. Tihturov	3.36%	3.44%
Meliboea Trading Limited	Mr. Igor G. Avanesyan	2.44%	2.49%
RUVCLimited, LLP “Sintez Grupp”	Members of the Management Board and the Board of Directors	10.46%	10.70%
Other		4.87%	2.66%
Total		100.00%	100.00%

ZENIT Banking Group
Notes to the Consolidated Financial Statements
(Thousands of Russian Roubles)

Shareholder	Incorporation/citizenship	31 December 2009	
		% of voting right	% of effective ownership
International PetroChemical Growth Fund Limited	United Kingdom	41.92%	42.89%
OJSC Tatneft	Russian Federation	24.56%	25.13%
Mr. Vladimir S. Lisin	Russian Federation	14.42%	14.76%
Mr. Marat R. Safin	Russian Federation	6.80%	6.96%
Individuals – members of the Management Board and the Board of Directors	Russian Federation	3.01%	3.08%
Other		9.29%	7.18%
Total		100.00%	100.00%

2. Basis of Presentation

Accounting basis. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, property, plant and equipment and investment property.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (“RAS”), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions. The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 31.

Functional currency. The functional currency of the Bank, Bank Devon-Credit, Lipetskcombank, Bank ZENIT-Sochi, SPIRITBANK, LLP “Regionalnoe Razvitiye” and OJSC “Pushnoy Dom” is the Russian Rouble (“RUR”) as the RUR is used by the shareholders, the managers and the regulators in measuring these entities’ performance. In addition, the RUR, being the national currency of the Russian Federation, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group members incorporated in the Russian Federation. The reporting currency of Zenit Investment Service Inc is US Dollar. The results and financial position of Zenit Investment Service inc. are translated into the Russian Roubles using the following procedures:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement presented are translated at exchange rates at the dates of the transactions or average for the period;
- Cash flows for each period are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity.

These consolidated financial statements are presented in thousands of Russian Roubles.

3. Significant Accounting Policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Significant Accounting Policies (continued)

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities *and liabilities or assets related to employee benefit arrangements* are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- *Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree* are measured in accordance with IFRS 2 *Share-based Payment at the acquisition date*; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. Significant Accounting Policies (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to January 1, 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill. Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- (a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities of acquired company and the measurement of the cost of the combination; and
- (b) Any excess remaining after such reassessment is recognized immediately in consolidated profit or loss statement.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. Significant Accounting Policies (continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Recognition and measurement of financial instruments. The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial instruments are recognised using settlement date accounting and between the trade date and the settlement date regular way purchases that will be subsequently measured at fair value are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of financial assets and liabilities are disclosed in the respective accounting policies set out below.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Cash and cash equivalents. Cash and cash equivalents include cash on hand, cash balances with the CBRF (other than mandatory reserve deposits) and balances with other banks maturing within one working day from the balance sheet date and free from any encumbrances. Short-term placements with other banks, beyond overnight deposits, are included in Due from banks.

Mandatory reserve deposits with the CBRF. Mandatory reserve deposits with the CBRF represent non-interest bearing funds placed with the CBRF that are not available to finance the Group's day-to-day operations and, therefore, are not considered part of cash and cash equivalents. The amount to be deposited with the CBRF is calculated in accordance with the CBRF's regulation and depends on the volume of funds attracted by the Group from its customers and banks.

Due from banks. Deposits with banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks are initially recognized at fair value. These balances are subsequently re-measured at amortized cost at the effective interest method and are carried net of any allowance for impairment.

3. Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss consist of financial assets held-for-trading and financial assets designated at fair values through profit or loss.

Financial assets at fair value through profit or loss, which consist of financial assets held-for-trading include (i) securities which were acquired for generating profit from short-term fluctuations in price or dealer's margin or (ii) portfolio of identified financial instruments that are managed together and for which there is evidence of a recent or actual pattern of short-term profit-taking or (iii) a derivative.

The Group designates financial assets at fair value through profit or loss where either (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (ii) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses the last bid price if quoted on an exchange or, if traded over-the-counter, at the last bid price to determine fair value for financial assets at fair value through profit or loss. The fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held (except the cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosure").

Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest income on securities. Dividends received are included in other operating income in the consolidated statement of income.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Derivative liabilities are included within other liabilities, if insignificant. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated statement of income. The Group also enters into derivative instruments to manage liquidity and foreign exchange risk. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

3. Significant Accounting Policies (continued)

Repurchase agreements. Repurchase agreements are used by the Group as an element of its treasury management and trading business and are treated as secured financing transactions.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.

Financial assets sold under repurchase agreements are included into financial assets at fair value through profit or loss and funds received under these agreements are accounted for as amounts Due to banks or Customer accounts as appropriate. Financial assets purchased under agreements to resell (“reverse repurchase”) are recorded as amounts Due from banks or Loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Available-for-sale financial assets. Available-for-sale financial assets include investment securities which management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Available-for-sale financial assets are initially recognised in accordance with the accounting policy for financial instruments and subsequently re-measured to fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the period in which they arise. Gain or loss on disposal of available-for-sale financial assets is recorded in the consolidated statement of income. Coupon and interest earned on available-for-sale financial assets are reflected in the consolidated statement of income as interest income. Dividends received are included in other operating income in the consolidated statement of income.

When there is objective evidence that such financial assets have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognised in the consolidated statement of income for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are credited to the consolidated statement of income for the period. Impairment losses on equity instruments are not reversed.

Loans to customers. Loans to customers are financial assets that are non-derivative financial instruments with fixed or identifiable cash flows that do not have a quoted market price except for assets that are classified into other financial instruments categories.

Loans granted by the Group with fixed maturities are initially recognized at fair value, including respective transaction costs, directly attributable to the acquisition and production of the financial assets. Loans are subsequently measured at amortised cost using the effective interest rate method. Loans to customers are carried net of allowance for impairment losses.

3. Significant Accounting Policies (continued)

Allowance for impairment losses. The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant. For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments, or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the statement of financial position are reduced by the amount of the impairment. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include (i) information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, (ii) levels of and trends in delinquencies for similar financial assets, (iii) national and local economic trends and conditions, and (iv) the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

The Group accounts for impairment losses on financial assets at amortised cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

3. Significant Accounting Policies (continued)

Write offs. When a financial asset is not collectable, after management has exercised all possibilities available to the Group and after the Group repossessed and sold all available collateral, it is written off against the related allowance for impairment. Such financial assets are written off after all necessary legal procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Derecognition of financial assets and liabilities.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

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

Finance leases. Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

3. Significant Accounting Policies (continued)

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment. Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

	Years
Property	25-50
Computers and equipment	5
Furniture and fixtures	2-5
Motor vehicles	4

Plant and equipment is carried at cost less accumulated depreciation and impairment charges.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and, where carrying values exceed this estimated recoverable amount, assets are written down. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Impairment is recognised when it occurs and is disclosed in the consolidated statement of income separately.

Assets under construction are carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as property, plant and equipment at their carrying value at the date of reclassification. Assets under construction are not depreciated until the asset is available for use.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount. Repairs and maintenance costs are included in other operating expenses when the expenditure is incurred.

Property held for use in supply of services, or for administrative purposes, is stated in the consolidated statement of financial position at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

3. Significant Accounting Policies (continued)

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Investment property. Investment property, comprising office and commercial buildings, is held for long-term rental yields or appreciation in value and is not occupied by the Group. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at the revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less subsequent accumulated impairment losses. Revaluation is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Taxation. Charge for income taxes in the consolidated statement of income for the year comprises current income tax and changes in deferred tax. The current income tax is based on taxable profit for the year that is calculated in accordance with the legislation enacted in the Russian Federation for the reporting period. Taxable profit differs from net income reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is calculated for temporary differences arising at the balance sheet date between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the temporary differences carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant Accounting Policies (continued)

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred income tax is charged or credited to the consolidated statement of income except when it relates to items charged or credited directly to equity, in which case the deferred tax is also accounted for within equity.

The Group members are also required to pay various other taxes, which are assessed on their activities. These taxes are included as a component of operating expenses in the consolidated statement of income.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument

Due to banks, customer accounts and subordinated debt. Amounts due to banks, customer accounts and subordinated debt are initially recognised in accordance with the accounting policy for financial instruments and subsequently re-measured at amortized cost. Any difference between net proceeds and the redemption value of these amounts due is recognised in the consolidated statement of income over the life of related financial liability using the effective interest method.

Debt securities, eurobonds and RUR-denominated bonds issued. Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers. Eurobonds and RUR-denominated bonds represent securities issued by the Bank that are traded and quoted at the open market. Promissory notes, more commonly known as "veksels", carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities, eurobonds and RUR-denominated bonds issued are accounted for according to the same principles used for amounts due to banks, customer accounts and subordinated debt. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount and the amount paid is recognized as a gain or loss on redemption of debt.

3. Significant Accounting Policies (continued)

Financial guarantee contracts issued and letters of credit. Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

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

Contingencies. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital and share premium. Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is either charged to share premium (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group’s statement of financial position include:

- Cumulative translation reserve;
- Revaluation reserve for available-for-sale financial assets;
- Property, plant and equipment revaluation reserve.

Dividends. Dividends are not accounted for until they have been legally ratified, as appropriate. Dividends are recognized in equity as a reduction in the period in which they are declared. Dividends declared after the balance sheet date are treated as a subsequent event under IAS 10 “Events After the Balance Sheet Date” and disclosed accordingly.

3. Significant Accounting Policies (continued)

Income and expense recognition.

Recognition of interest income and expense. Interest income and expense are recognised on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognised as an adjustment to the loans effective yield. Other income and expense are recognised on accrual basis.

Once a financial asset or group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income and expense. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Pension costs. The Group members incorporated in the Russian Federation make pension contributions to the State pension fund. The state pension system provides for the calculation of certain payments covering pension, social and obligatory medical insurance by the Group members as a percentage of current total disbursements to staff.

These contributions are recorded within social costs in the period when the related salaries are accrued. Upon retirement, all retirement benefits are made available to employees by pension funds selected by each individual employee.

The Group provided its employees with post-employment benefits in the form of defined contribution plans. It makes monthly contributions to a non-governmental pension fund for its employees, who in turn will receive a future benefit. The contributions to the defined contribution plan are included in staff costs on accrual basis.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Offset of financial assets and liabilities. Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Group does not offset the transferred asset and the associated liability.

Accounting for the effects of hyperinflation. In accordance with IAS 29, economy of Russian Federation was treated as hyperinflationary till the end of 2002. Since 1 January 2003 economy of Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, was used to form the beginning balances as at 1 January 2003.

3. Significant Accounting Policies (continued)

Fiduciary activities. The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets and liabilities held by the Group in its own name, but on behalf of third parties, are not reported on the consolidated statement of financial position. The Group accepts the operational risk on these activities, but its customers bear the credit and market risks associated with such operations.

Foreign currency translation. Monetary assets and liabilities denominated in foreign currency are translated into RUR at the official exchange rate of the CBRF at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated statement of income as foreign exchange translation gains less losses (translation differences). Differences between the contractual exchange rate of a certain transaction and the CBRF exchange rate in the date of the transaction are included in gains less losses from dealing in foreign currencies (dealing). As of 31 December 2010, the principal rate of exchange used for translating foreign currency balances was US Dollar 1.00 = RUR 30.4769 (31 December 2009: US Dollar 1.00 = RUR 30.2442).

Segment reporting. In accordance with IFRS 8 “Operating Segments” the Group defined as the operating segments its key business lines. Qualitative and quantitative information on operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance. The Group measures information about reportable segments in accordance with IFRS.

Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity’s revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group’s revenue is included in reportable segments.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group’s consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group’s financial condition.

3. Significant Accounting Policies (continued)

Allowance for impairment of loans

The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a significant impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of Financial Instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement (the consolidated statement of comprehensive income) on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the consolidated statement of financial position as well as its profit/(loss) could be material.

3. Significant Accounting Policies (continued)

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

Property, plant and equipment

Certain property (land and buildings) is measured at revalued amounts. The date of the latest appraisal was 31 December 2010. The next revaluation is preliminary scheduled as of 31 December 2011. The carrying value of revalued property amounted to RUR 2,646,491 thousand at 31 December 2010 and RUR 2,349,871 as of 31 December 2009.

Investment property carried at revalued amounts

Property included in the Investment property is measured at fair value. The date of the latest appraisal was December 31, 2010. The next revaluation is preliminary scheduled as at December 31, 2011. The carrying value of revalued property amounted to RUR 212,771 thousand and RUR 201,779 thousand as at December 31, 2010 and 2009, respectively.

Deferred tax assets

The management of the Group is confident that no provision against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to RUR 387,953 thousand and RUR 763,095 thousand as at 31 December 2010 and 2009, respectively.

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

3. Significant Accounting Policies (continued)

New and revised IFRSs affecting presentation and disclosure only

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Disclosures in these consolidated financial statements have been modified to reflect the above clarification.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

New and revised IFRSs affecting the reported financial performance and/or financial position

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

The impact of the application of IFRS 3(2008) is as follows.

- IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.
- IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

3. Significant Accounting Policies (continued)

- IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

IAS 28 (as revised in 2008) Investments in Associates

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

As part of *Improvements to IFRSs* issued in 2010, IAS 28(2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively. The Group has applied the amendments to IAS 28(2008) as part of *Improvements to IFRSs* issued in 2010 in advance of their effective dates (annual periods beginning on or after July 1, 2010).

3. Significant Accounting Policies (continued)

Standards and interpretations in issue and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

Financial instruments: Classification and Measurement (Exposure draft) – In July 2009 IASB issued an exposure draft (ED) that is a part of IASB’s project to replace IAS 39: Recognition and Measurement. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognised financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortised cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortised cost, unless designated as at fair value through profit or loss (FVTPL). Those financial instruments measured at fair value will either be classified as FVTPL or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income (FVTOCI). All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39. The ED does not permit reclassifications out of or into amortised cost, FVTPL or FVTOCI after initial recognition. The effective date of these changes is not yet determined but the IASB expects to finalize the new classification and management model in time to allow entities to voluntarily adopt the new model for 2009 year-end financial statements.

IFRS 9 “Financial Instruments” – On 12 November 2009, the IASB issued IFRS 9 “Financial Instruments”, which significantly overhauls the accounting requirements for the financial instruments under IFRS. IFRS 9 is mandatory for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 9 requires that a financial asset be classified into one of three categories for measurement and income recognition: (1) Amortised cost, (2) Fair value through profit or loss (FVTPL) and (3) Fair value through comprehensive income. The standard requires reclassification between amortised cost and FVTPL (or vice versa) if a financial asset no longer meets the criteria for its original classification. IFRS 9 replaces the existing classification and measurement requirements in IAS 39 for financial assets. It changes the manner in which entities classify and measure investments in debt and equity securities, loan assets, trade receivables, and derivative financial assets by requiring entities to classify financial assets as being measured at either amortised cost or fair value depending on the entity’s business model and the contractual cash flow characteristics of the asset. The Group is currently evaluating the requirements of IFRS 9.

The IASB has revised IAS 24 “Related Party Disclosures” on 4 November 2009 to provide a partial exemption from the disclosure requirements for government-related entities and to clarify the definition of a related party. The revised standard also clarifies that disclosure is required of any commitments of a related party or do something if a particular event occurs or does not occur in the future, including executory contracts (recognized and unrecognized). The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Management of the Group is currently assessing the possible impacts of change to IAS 24.

3. Significant Accounting Policies (continued)

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets</i>	Effective for annual periods beginning on or after July 1, 2011
IFRS 9 (as amended in 2010)	<i>Financial Instruments</i>	Effective for annual periods beginning on or after January 1, 2013
IAS 24 (revised in 2009)	<i>Related Party Disclosures</i>	Effective for annual periods beginning on or after January 1, 2011
Amendments to IAS 32	<i>Classification of Rights Issues</i>	Effective for annual periods beginning on or after February 1, 2010
Amendments to IFRIC 14	<i>Prepayments of a Minimum Funding Requirement</i>	Effective for annual periods beginning on or after January 1, 2011
<i>Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1)</i>		Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. Significant Accounting Policies (continued)

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected (see Note XX). However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. Interest Income and Expense

	Year ended 31 December	
	2010	2009
Interest income		
<i>Interest income on assets recorded at amortized cost:</i>		
Loans to customers	15,256,519	16,465,014
Due from banks	592,574	976,740
Correspondent accounts	35,715	52,600
Total interest income on financial assets recorded at amortized cost	15,884,808	17,494,354
<i>Interest income on assets at fair value through profit or loss</i>		
Financial assets held-for-trading	783,592	185,594
Financial assets designated at fair value through profit or loss	-	31,771
Total interest income on assets at fair value through profit or loss	783,592	217,365
<i>Interest income on available-for-sale financial assets</i>	1,103,064	1,801,918
Total interest income	17,771,464	19,513,637
Interest expense		
<i>Interest expense on liabilities recorded at amortized cost:</i>		
Term deposits of individuals	(3,473,528)	(2,708,642)
Term deposits of legal entities	(2,703,800)	(2,699,840)
RUR-denominated bonds issued	(1,463,952)	(1,130,392)
Term placements of banks	(1,116,147)	(3,150,330)
Debt securities issued	(1,087,511)	(967,542)
Subordinated debt	(938,378)	(833,749)
Eurobonds issued	-	(424,965)
Total interest expense on liabilities recorded at amortized cost	(10,783,316)	(11,915,460)
Total interest expense	(10,783,316)	(11,915,460)
Net interest income	6,988,148	7,598,177

Interest income on loans to customers for the years ended 31 December 2010 and 2009 includes interest income on loans to customers with objective evidence of impairment in amount of RUR 1,398,027 thousand (2009: RUR 888,422 thousand). As of 31 December 2010 and 2009 appropriate allowance for impairment losses was created for these amounts.

5. Allowance for Impairment Losses and Other Provisions

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans to legal entities	Loans to individuals	Total loans to customers	Total
Allowance for loan impairment at 31 December 2008	(4,356,738)	(465,159)	(4,821,897)	(4,821,897)
Charge of loan impairment allowance	(3,546,570)	(202,601)	(3,749,171)	(3,749,171)
Write off of assets	334,025	1,216	335,241	335,241
Allowance for loan impairment at 31 December 2009	(7,569,283)	(666,544)	(8,235,827)	(8,235,827)
Charge of loan impairment allowance	(1,767,662)	(88,591)	(1,856,253)	(1,856,253)
Write off of assets	287,464	6,344	293,808	293,808
Allowance for loan impairment at 31 December 2010	(9,049,481)	(748,791)	(9,798,272)	(9,798,272)

Movements in the allowance for impairment of credit related commitments are as follows:

	Guarantees and other commitments
Allowance for impairment at 31 December 2008	(150,939)
Recovery of credit related commitments impairment during the year	138,682
Allowance for impairment at 31 December 2009	(12,257)
Recovery of credit related commitments impairment during the year	6,006
Allowance for impairment at 31 December 2010	(6,251)

Allowance for credit related commitments was included in other liabilities as disclosed in Note 26 of these consolidated financial statements. The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

	Contingent liabilities
Allowance for impairment at 31 December 2008	-
Charge of contingent liabilities impairment during the year	(82,612)
Allowance for impairment at 31 December 2009	(82,612)
Write-off of allowance	82,612
Allowance for impairment at 31 December 2010	-

Contingent liabilities are disclosed in Note 31 of these consolidated financial statements.

6. Net (Loss)/Gain on Financial Assets at Fair Value through Profit or Loss

Net (loss)/gain on financial assets at fair value through profit or loss comprises:

	Year ended 31 December	
	2010	2009
(Loss)/gain on trading operations	(322,713)	141,881
Net fair value adjustment	269,788	583,991
Total net (loss)/gain on operations with financial assets held-for-trading	(52,925)	725,872
Loss on trading operations	-	(710,382)
Net fair value adjustment	-	190,595
Total net loss on operations with financial assets designated at fair value through profit or loss	-	(519,787)
Total net (loss)/ gain on operations with financial assets at fair value through profit or loss	(52,925)	206,085

7. Net Realized Gain from Available-for-Sale Financial Assets

The increase of net realised gain from available-for-sale financial assets in 2010 was caused mainly due to gain from sale of equity securities including participating shares of investment funds and corporate shares in amount of RUR 1,475,228 thousand.

8. Fee and Commission Income and Expense

	Year ended 31 December	
	2010	2009
Operations with foreign currencies	1,239,556	1,212,473
Settlement transactions	1,176,669	1,118,923
Cash transactions	503,665	522,291
Guarantees issued	357,872	492,529
Investment banking	162,850	130,783
Asset management	38,494	31,222
Transactions with securities	32,594	25,152
Other	152,508	146,555
Total fee and commission income	3,664,208	3,679,928
Settlement transactions	(213,924)	(209,379)
Transactions with securities	(54,213)	(58,187)
Commission on guarantees received	(28,300)	(28,619)
Cash transactions	(19,082)	(23,754)
Operations with foreign currencies	(6,789)	(11,811)
Other	(61,456)	(96,071)
Total fee and commission expense	(383,764)	(427,821)
Net fee and commission income	3,280,444	3,252,107

During 2010 the Group received and paid fees and commission (other than amounts included in determining the effective interest rate) arising from financial assets and financial liabilities that are not at fair value through profit or loss in the amount of RUR 3,099,005 thousand and RUR 189,096 thousand, respectively (2009: RUR 3,180,696 thousand and RUR 229,972 thousand).

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9. Other Operating Income

	Year ended 31 December	
	2010	2009
Net income from dealing in precious metals	163,478	26,689
Penalties	154,886	172,155
Rent	112,862	36,852
Repayment of loans purchased from subsidiaries issued by the subsidiaries prior to the acquisition dates	94,239	95,385
Dividends received	22,658	9,786
Other	47,591	171,505
Total other operating income	595,713	512,372

10. Operating Expenses

	Year ended 31 December	
	2010	2009
Salaries	(2,808,394)	(2,476,621)
Rent	(577,119)	(563,584)
Administrative	(474,241)	(342,105)
Occupancy and maintenance	(427,447)	(379,468)
Social security costs	(369,599)	(317,253)
Operating taxes	(341,600)	(261,632)
Depreciation	(187,677)	(204,554)
Charitable contributions	(123,923)	(122,151)
Advertising and marketing	(113,008)	(91,850)
Insurance	(73,716)	(62,536)
Telecommunications	(57,462)	(58,799)
Fixed payment to a non-government pension fund	(56,653)	-
Other	(128,015)	(71,112)
Total operating expenses	(5,738,854)	(4,951,665)

11. Income Taxes

Income tax expense comprises of the following:

	Year ended 31 December	
	2010	2009
Current tax charge	(1,165,892)	(896,620)
Deferred taxation movement due to:		
Origination and reversal of temporary differences	(355,135)	138,524
Income tax expense	(1,521,027)	(758,096)

The income tax rate applicable to the majority of the Group's income in 2010 and in 2009 is 20%.

11. Income Taxes (continued)

Reconciliation between the expected and the actual income tax expense is provided below.

	Year ended 31 December	
	2010	2009
Profit before income tax expense	5,182,955	2,847,924
Theoretical tax charge at the applicable statutory rate	(1,036,592)	(569,585)
Non-deductible administrative expenses	(141,896)	(94,905)
Net tax effect from securities operations	(211,237)	(66,513)
Income taxes at different rates	13,536	6,665
Other items	(144,838)	(33,758)
Income tax expense	(1,521,027)	(758,096)

Differences between the carrying value of assets and liabilities for IFRS and taxation purposes give rise to temporary differences. Certain items are presented on a gross basis as they relate to different entities and cannot be offset for income tax purposes. The tax effect of these temporary differences as of 31 December 2010 and 2010 financial statements as follows:

	31 December 2010	31 December 2009
Tax effect of deductible temporary differences		
Financial assets at fair value through profit or loss	2,605	2,113
Available-for-sale financial assets:	138,891	474,570
- revaluation recognized in profit or loss	135,854	467,279
- revaluation recognized in equity	3,037	7,291
Loans to customers	9,203	189,598
Property, plant and equipment, revaluation recognized in profit or loss	119,131	85,763
Investment property	-	4,866
Non-current assets held for sale	60,253	4,787
Other liabilities	148,711	120,251
Net deferred income tax asset at the statutory rate	478,794	881,948
Deferred tax asset not recognised	-	-
Net deferred income tax asset	478,794	881,948
Including deferred income tax asset of subsidiaries	53,899	47,039
Tax effect of taxable temporary differences		
Financial assets at fair value through profit or loss	(307)	(436)
Available-for-sale financial assets, revaluation recognized in equity	(8,235)	(62,779)
Loans to customers	(10,889)	(90,389)
Property, plant and equipment	(155,291)	(102,627)
- revaluation recognized in profit or loss	(120,866)	(90,805)
- revaluation recognized in equity	(34,425)	(11,822)
Investment property	(2,198)	-
Other assets	(5,491)	(12,075)
Gross deferred income tax liability	(182,411)	(268,306)
Including deferred income tax liability of subsidiaries	(155,659)	(196,492)
Total deferred income tax asset	387,953	763,095
Total deferred income tax liability	(101,759)	(149,453)

11. Income Taxes (continued)

	2010	2009
Beginning of the period:		
Deferred income tax asset	763,095	978,088
Deferred income tax liability	(149,453)	(4,678)
Change in deferred tax assets and liabilities charged to equity	27,687	(498,292)
Increase in income tax liability for the period charged to consolidated profit and loss statement	(355,135)	138,524
End of the period:		
Deferred income tax asset	387,953	763,095
Deferred income tax liability	(101,759)	(149,453)

12. Earnings per Share

	2010	2009
Profit:		
Profit attributable to ordinary shareholders of the Bank	3,655,776	2,056,694
Weighted average number of ordinary shares for basic and diluted earnings per share	11,283,625,876	11,475,538,931
Earnings per share – basic and diluted (Russian Roubles)	0.324	0.179

13. Cash and Cash Equivalents

	31 December 2010	31 December 2009
Cash balances with the CBRF (other than mandatory reserve deposits)	10,537,314	9,921,062
Cash on hand	6,892,125	6,971,845
Correspondent accounts and overnight deposits with other banks:		
- The Russian Federation	1,984,525	2,386,497
- Other countries	11,522,490	11,706,720
Total cash and cash equivalents	30,936,454	30,986,124

As of 31 December 2010, the Group placed RUR 10,628,213 thousand with four banks located in countries that are members of the Organisation for Economic Co-operation and Development (the “OECD”), which individually exceed 5% of the Group’s equity (2009: RUR 10,691,080 thousand with four OECD banks) and no Russian financial institution, which individually exceeds 5% of the Group’s equity (2009: no Russian financial institutions).

Cash and cash equivalents include RUR 607 thousand (2009: RUR 555 thousand) of accrued interest which has not been included in cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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14. Due from Banks

	31 December 2010	31 December 2009
Current deposits	8,618,382	30,063,790
Total due from banks	8,618,382	30,063,790

As of 31 December 2010, current deposits include RUR 1,839,775 thousand placed with one OECD bank, which individually exceeded 5% of the Group's equity (2009: RUR 7,289,793 thousand placed with two OECD bank).

As of 31 December 2010, current deposits include RUR 4,800,633 placed with the CBRF (2009: RUR 20,115,590 placed with the CBRF).

As of 31 December 2010 current deposits include RUR 408,064 thousand that represent deposits issued to Russian banks under reverse repurchase agreements (2009: RUR 1,299,424 thousand). These loans are collateralized by securities, primarily corporate bonds, with market values of RUR 467,020 thousand (2009: RUR 1,709,118 thousand). In accordance with the contractual terms and conditions, loans under reverse repurchase agreements outstanding as of 31 December 2010 were repaid in January 2011.

As at 31 December 2010 included in due from banks are deposits of RUR 2,025,092 thousand (2009: RUR 7,017,010 thousand), transferred to foreign banks as collateral for irrevocable commitments under import letters of credit.

15. Financial Assets at Fair Value through Profit or Loss

	31 December 2010			31 December 2009		
	Held for Trading	Designated at Fair Value through profit or loss	Total	Held for Trading	Designated at Fair Value through profit or loss	Total
RUR denominated securities						
Corporate bonds	5,120,245	-	5,120,245	1,094,351	-	1,094,351
CBRF Bonds	4,261,130	-	4,261,130	1,517,063	-	1,517,063
Promissory notes	264,623	-	264,623	-	-	-
Corporate shares	152,185	-	152,185	21,608	-	21,608
Local authorities bonds	103,676	-	103,676	219,374	-	219,374
US Dollar and other currencies denominated securities						
Corporate Eurobonds	2,114,405	-	2,114,405	816,910	-	816,910
Russian Federation Eurobonds	106,057	-	106,057	227,860	-	227,860
Derivatives	581	-	581	11,880	-	11,880
Total financial assets at fair value through profit or loss	12,122,902	-	12,122,902	3,909,046	-	3,909,046

15. Financial Assets at Fair Value through Profit or Loss (continued)

Corporate bonds held as of 31 December 2010 and 2009 consist of RUR-denominated bonds issued by Russian banks and companies. These bonds mature from March 2011 to September 2020 (2009: April 2010 to November 2019). The annual coupon rates on these securities range from 6.5% to 15.0% (2009: 8.4% to 18.0%), and yields to maturity vary from 3.8% to 11.1% (2009: 9.1% to 25.2%).

CBRF Bonds as of 31 December 2010 and 2009, are RUR-denominated securities issued by the CBRF issued at a discount to face value. These bonds mature in March 2011 (2009: March 2010 to June 2010) and yield to maturity amounts to 3.7% (2009: 7.0% to 7.5%).

Promissory notes held as of 31 December 2010 are RUR-denominated promissory notes of Russian banks. These promissory notes are purchased at a discount to nominal value and mature in June 2012. Average yield to maturity on these promissory notes is 8.8%.

Corporate shares held as of 31 December 2010 and 2009 include quoted shares of Russian companies.

Local authorities bonds held as of 31 December 2010 and 2009 consist of RUR-denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from December 2011 to June 2014 (2009: November 2010 to September 2016). The annual coupon rates range from 12.0% to 15.0%, and their yields to maturity vary from 6.9% to 7.4% (2009: 9.2% to 9.7%).

Corporate Eurobonds held as of 31 December 2010 and 2009 are securities denominated in USD, issued by Russian and Kazakh companies and financial institutions. These securities mature from June 2011 to February 2020 (2009: October 2010 to July 2035). The annual coupon rates range from 6.0% to 12.0% (2009: 6.3% to 10.3%) and their yields to maturity vary from 4.0% to 8.4% (2009: 3.7% to 10.1%).

Russian Federation Eurobonds held as of 31 December 2010 and 2009, are USD-denominated bearer securities. These bonds mature in to June 2028 (2009: March 2010 to March 2030). The annual coupon rate amounts to 12.8% (2009: 7.5% to 8.3%) and yield to maturity amounts to 5.9% (2009: 0.6% to 5.4%).

Derivatives. The Group engages in transactions with forward contracts, options and futures with foreign currency, securities and precious metals. Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparts on standard contractual terms and conditions.

The table below includes derivative contracts with maturity dates subsequent to 31 December 2010. The majority of these contracts were executed during December 2010 and mature in January 2011.

	Nominal amount	Domestic Net fair value		Nominal amount	Foreign Net fair value	
		Asset	Liability		Asset	Liability
Precious metals						
- sale of precious metals	-	-	-	4,305	7	-
- purchase of precious metals	-	-	-	1,334,364	574	(184)
Options						
- purchase of call option on RTS Ind.	89,304	-	-	-	-	-
Futures						
- purchase of RTS Ind.	372,694	-	-	-	-	-
- sale of precious metals	1,256,519	-	-	-	-	-
Total	1,718,517	-	-	1,338,669	581	(184)

15. Financial Assets at Fair Value through Profit or Loss (continued)

The table below includes derivative contracts with maturity dates subsequent to 31 December 2009. These contracts were executed during December 2009 and mature in January 2010.

	Nominal amount	Domestic Net fair value		Nominal amount	Foreign Net fair value	
		Asset	Liability		Asset	Liability
Precious metals						
- purchase of precious metals	-	-	-	783,775	7,666	(259)
Foreign currency						
- sale of foreign currency	101,956	140	(14)	-	-	-
- purchase of foreign currency	432,750	3,825	(12)	-	-	-
Securities						
- sale of securities	2	-	-	12,825	249	(15)
- purchase of securities	2	-	-	13,168	-	(266)
Futures						
- sale of precious metals	675,230	-	-	-	-	-
Total	1,209,940	3,965	(26)	809,768	7,915	(540)

The unrealised (loss)/gain in the tables above reflect the fair value adjustment of derivatives as of 31 December 2010 and 2009.

16. Available-for-Sale Financial Assets

	31 December 2010	31 December 2009
US Dollar and other currency denominated securities		
Corporate eurobonds	2,102,028	1,911,147
Participating shares of investment funds	28,329	1,220,749
RUR denominated securities		
Corporate bonds	8,065,985	7,845,319
Corporate shares	665,013	352,531
Federal loan bonds	550,679	388,875
Participating shares of investment funds	2,448	2,333
Local authorities bonds	-	526,610
Total available-for-sale securities	11,414,482	12,247,564

Corporate Eurobonds held as of 31 December 2010 and 2009 are securities denominated in USD, euro and JPY, issued by Russian, Kazakh and Ukrainian companies and financial institutions. These securities mature from November 2010 to July 2025 (2009: March 2010 to January 2018). They bear annual coupon rates ranging from 7.2% to 13.0% (2009: 3.1% to 13.5%) and their average yields to maturity vary from 4.1% to 13.4% (2009: 6.9% to 23.1%).

Investment funds whose participating shares were purchased by the Group represent funds operating with different types of securities.

16. Available-for-Sale Financial Assets (continued)

Corporate bonds held as of 31 December 2010 and 2009 consist of RUR-denominated bonds issued by Russian banks and companies. These bonds mature from January 2011 to October 2020 (2009: January 2010 to September 2020). The annual coupon rates on these securities range from 6.5% to 16.8% (2009: 7.3% to 19.0%), and yields to maturity vary from 4.9% to 105.9% (2009: 6.8% to 163.0%).

Corporate shares held as of 31 December 2010 and 2009 include quoted shares of Russian companies.

Federal loan bonds held as of 31 December 2010 and 2009 are RUR-denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as "OFZ". Bonds are issued with a premium to face value and mature from July 2011 to November 2019 (2009: August 2016 to November 2021). The annual coupon rates on these securities vary from 6.0% to 11.9% (2009: 6.3% to 10.1%), and yield to maturity vary from 4.5% to 8.3% (2009: 6.3% to 10.1%).

GDR held as of 31 December 2010 consist of Global Depository Receipts on shares of Russian companies and Kazakhstan banks.

Local authorities bonds held as of 31 December 2009 consist of RUR-denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from March 2010 to December 2010. The annual coupon rates on these securities range from 8.0% to 10.0%, and yields to maturity vary from 7.0% to 19.4%

As of 31 December 2010 the Group made an analysis of credit risk and history of payments for debt securities available-for-sale. The Group recognized impairment loss for equity securities in the amount of RUR 73,469 thousand and recovery for debt securities in the amount of RUR 67,645 thousand (2009: impairment loss of RUR 64,897 thousand and impairment loss of RUR 781,801 thousand, respectively).

17. Investments in Associates

In December 2010 the Group purchased 35.5% shares of Cheltenham Investments Limited for RUR 1,162,726.

Summarized financial information in respect of the Group's associates carried as an equity method investees is set out below:

	December 31, 2010	December 31, 2009
Total assets	3,687,929	-
Total liabilities	997,155	-
Net assets	2,690,773	-
Group's share of net assets of associate	955,224	-

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18. Loans to Customers

	31 December 2010	31 December 2009
Loans to legal entities:		
Commercial loans	78,164,354	63,193,667
Project finance	48,437,015	35,025,949
Reverse sale and repurchase agreements	643,112	467,759
Total loans to legal entities	127,244,481	98,687,375
Loans to individuals:		
Consumer loans	5,777,507	6,806,143
Mortgage loans	3,165,376	3,052,421
Car loans	284,789	458,976
Plastic cards overdrafts	209,781	188,399
Reverse sale and repurchase agreements	112,245	164,390
Total loans to individuals	9,549,698	10,670,329
Loans to customers before impairment	136,794,179	109,357,704
Allowance for loan impairment	(9,798,272)	(8,235,827)
Total loans to customers	126,995,907	101,121,877

Movements in allowances for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in Note 5.

As at 31 December 2010 and 2009 the Group granted loans to 24 and 25 customers totalling RUR 41,767,729 thousand and RUR 38,612,332 thousand, respectively, which individually exceeded 5% of the Group's equity.

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Manufacturing	29,764,340	22	17,734,132	16
Machine building	15,477,074	11	8,098,838	7
Manufacturing (Other)	6,477,521	5	6,651,378	6
Metallurgy	6,257,160	5	2,232,751	2
Chemical industry	1,552,585	1	751,165	1
Construction and development	29,317,848	21	22,477,197	21
Construction (Residential)	20,981,114	15	15,052,323	14
Construction (Non-Residential)	8,336,734	6	7,424,874	7
Trade	26,700,077	19	24,311,339	22
Food trade	9,861,642	7	7,810,762	7
Trade (other)	5,769,403	4	5,914,731	5
Car trade and service	4,380,073	3	4,033,992	4
Oil trade	2,243,183	2	1,443,798	1
Liquors and tobacco trade	1,995,187	1	2,677,970	2
Home appliances trade	1,717,381	1	1,735,268	2
Metal trade	733,208	1	694,818	1
Services	13,172,470	10	8,348,042	8
Individuals	9,549,698	7	10,670,329	10
Food	8,491,198	6	5,228,599	5
Finance	7,724,942	6	6,534,234	6
Agricultural	5,409,054	4	4,666,650	4
Oil and gas	2,504,673	2	2,874,986	3
Other	4,159,879	3	6,512,196	5
Total	136,794,179	100	109,357,704	100

18. Loans to Customers (continued)

Loans to customers consist of RUR 111,988,179 thousand (2009: RUR 90,791,425 thousand) loans secured by real estate, equipment, goods in turnover, motor vehicles, securities and other types of collateral and RUR 24,806,000 thousand (2009: RUR 18,566,279 thousand) unsecured loans.

Included in loans to customers as of 31 December 2010 and 2009 is RUR 755,357 thousand (2009: RUR 632,149 thousand), which represents loans issued to customers under reverse repurchase agreements. These loans are collateralized by securities, primarily shares and bonds issued by Russian companies, with fair value of RUR 958,196 thousand as of 31 December 2010 (2009: RUR 797,240 thousand). In accordance with contractual terms and conditions loans under reverse repurchase agreements outstanding as of 31 December 2010 mature in January 2011 (2009 January 2010).

As at 31 December 2009 loans to customers amounted to RUR 500,565 thousand were placed as collateral with the CBRF on its loan facilities as disclosed in Note 21.

During 2010 the Group held property with carrying amount of RUR 1,424,239 thousand (2009: RUR 1,211,167 thousand) by taking possession of collateral it held as security of loans to customers. The possessed property in the amount of RUR 225,623 thousand has been converted into cash during 2010 year with loss of RUR 19,285 thousand.(2009: RUR 100,521 thousand with loss of RUR 2,885 thousand) Such property is disclosed in Note 20.

19. Property, Plant and Equipment

	Property	Computers and equipment	Furniture and fixtures	Motor vehicles	Assets under construction	Total
Book value						
31 December 2008	2,802,097	496,304	151,973	57,857	1,017,248	4,525,479
Additions	9,006	65,356	6,859	11,885	145,836	238,942
Disposals	(9,894)	(12,149)	(1,933)	(7,607)	(235,545)	(267,128)
Transfers	17,726	22,799	1,246	-	(41,771)	-
Elimination of accumulated depreciation of revaluated assets	(172,898)	-	-	-	-	(172,898)
Revaluation	(296,166)	-	-	-	-	(296,166)
31 December 2009	2,349,871	572,310	158,145	62,135	885,768	4,028,229
Additions	32,636	106,298	15,723	39,588	48,481	242,726
Disposals	(2,681)	(13,844)	(980)	(24,638)	(172,153)	(214,296)
Transfers	101,917	24,157	3,373	-	(129,447)	-
Elimination of accumulated depreciation of revaluated assets	(45,033)	-	-	-	-	(45,033)
Revaluation	209,781	-	-	-	-	209,781
31 December 2010	2,646,491	688,921	176,261	77,085	632,649	4,221,407
Accumulated depreciation						
31 December 2008	(109,674)	(192,164)	(38,034)	(14,588)	-	(354,460)
Charge	(63,632)	(108,780)	(22,149)	(9,993)	-	(204,554)
Disposals	408	4,200	745	2,234	-	7,587
Elimination of accumulated depreciation of revaluated assets	172,898	-	-	-	-	172,898
31 December 2009	-	(296,744)	(59,438)	(22,347)	-	(378,529)
Charge	(45,044)	(98,324)	(23,770)	(20,539)	-	(187,677)
Disposals	11	5,935	899	23,009	-	29,854
Elimination of accumulated depreciation of revaluated assets	45,033	-	-	-	-	45,033
31 December 2010	-	(389,133)	(82,309)	(19,877)	-	(491,319)
Net book value						
31 December 2009	2,349,871	275,566	98,707	39,788	885,768	3,649,700
31 December 2010	2,646,491	299,788	93,952	57,208	632,649	3,730,088

19. Property, Plant and Equipment (continued)

As at 31 December 2010 the property owned by the Group carried at revalued amounts based on an independent appraiser's report. Carrying value of this property totalled RUR 2,646,491 thousand (2009: RUR 2,349,871 thousand).

If the property were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, its carrying value would be RUR 2,732,876 thousand as at 31 December 2010 (2009: RUR 2,646,037 thousand).

In 2009 the Group has changed accounting policies in respect for Property, plant and equipment, choosing revaluation accounting model for property held for use in supply of services, or for administrative purposes. Management believes revaluation accounting model provides more relevant information about financial position and financial performance of the Group

Property owned by the Group was revalued by independent appraisers as at 31 December 2010. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

20. Investment Property

	Investment property
31 December 2008	-
Additions	226,109
Fair value movement	(24,330)
31 December 2009	201,779
Additions	-
Fair value movement	10,992
31 December 2010	212,771

Included into other income is investment property rental income for the year ended December 31, 2010 totalled RUR 41,812 thousand (2009: RUR 5,440 thousand).

Operating expenses arising from the investment property that generated rental income during the year ended December 31, 2010 totalled RUR 4,719 thousand (2009: RUR 1,876 thousand).

The fair value of the Group's investment property at December 31, 2010 and 2009 has been arrived at on the basis of a valuation carried out at that date by independent appraiser. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

21. Non-current Assets Held For Sale

Book value

31 December 2008	-
Additions	1,248,360
Disposals	(113,777)
Revaluation	(23,937)
31 December 2009	1,110,646
Additions	1,720,884
Disposals	(225,623)
Revaluation	(277,360)
31 December 2010	2,328,547

As at 31 December 2010 and 2009 non-current assets held for sale include real estate which the Group received during the year 2010 and 2009 by taking possession of collateral held as security for loans which had been defaulted on by borrowers. The carrying amount of non-current assets held for sale will be recovered through a sale transaction. The Group's management approved a sales plan and the Group has started the process of active marketing of non-current assets held for sale in order to sell them within 12 months starting from the date of their classification into this category. Due to the recent improvement in Russian real estate market the Group is selecting the most advantageous offers. The property in the amount of RUR 225,623 thousand has been converted into cash during 2010 year with loss of RUR 19,285 thousand (2009: RUR 100,521 thousand with loss RUR 2,885 thousand). The possessed property has been revalued at fair value with impairment totalled to RUR 277,360 thousand (2009: RUR 23,937 thousand).

22. Due to Banks and CBRF

	31 December 2010	31 December 2009
Term deposits from other banks	9,774,694	7,609,247
Syndicated loans	3,039,129	-
Term deposits from the CBRF	2,390,964	16,640,172
Correspondent accounts and overnight deposits of other banks	1,042,423	1,118,137
Total due to banks and CBRF	16,247,210	25,367,556

Included in amounts due to banks as of 31 December 2010 are RUR 2,379,003 thousand of correspondent accounts and term deposits from one Russian bank, which individually exceeded 5% of the Group's equity (2009: RUR 3,032,215 thousand of correspondent accounts and term deposits from one OECD bank).

During 2009 the Bank repaid two syndicated loans received from the syndicates of several foreign financial institutions in total amount of RUR 11,156,301 thousand, or USD 223 million and EUR 96 million.

During 2010 the Bank received one loan from the syndicate of several foreign financial institutions (2009: no loans). Syndicated loan facility bears interest of LIBOR plus 3.5%. Effective interest rate amounted to 4.9%. Loan matures in November 2011.

During 2010 the Group received two term deposits from the CBRF (2009: twenty-five deposits from the CBRF). These term deposits mature from March 2011 to May 2011 (2009: January 2010 to December 2010). The interest rates on these term deposits range from 7.3% to 8.5% (2009: 7.5% to 12.6%).

As at 31 December 2009 term deposits from the CBR in amount of RUR 383,892 were collateralized by loans to customers amounted to RUR 500,565 thousand, as disclosed in Note 17.

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23. Customer Accounts

	31 December 2010	31 December 2009
State and public organisations		
- Current/settlement accounts	975,325	797,440
- Term deposits	852,347	453,468
Other legal entities		
- Current/settlement accounts	27,901,955	30,040,298
- Term deposits	33,609,610	33,733,498
Individuals		
- Current/demand accounts	6,869,409	5,459,699
- Term deposits	45,945,054	34,174,882
Total customer accounts	116,153,700	104,659,285

Risk concentrations by customer industry within customer accounts are as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Individuals	52,814,463	45	39,634,581	38
Oil and gas	17,104,822	15	18,910,838	18
Finance	11,971,848	10	11,553,448	11
Manufacturing	8,707,935	8	11,946,892	11
Trade	4,574,411	4	5,976,126	6
Local authorities	3,178,725	3	67,735	-
Construction	3,371,248	3	5,256,915	5
Energy	2,462,392	2	947,465	1
Services	1,570,007	2	2,144,962	2
Transport	570,850	0	1,219,284	1
Other	9,826,999	8	7,001,039	7
Total customer accounts	116,153,700	100	104,659,285	100

As at 31 December 2010 included in customer accounts are deposits of RUR 2,521,440 thousand (2009: RUR 7,341,087 thousand), held as collateral for irrevocable commitments under import letters of credit.

As of 31 December 2010 the Group has term deposits and current accounts placed by a single customer totalling RUR 9,569,168 thousand (2009: placed by a single customer totalling RUR 12,793,510 thousand).

As of 31 December 2010 the Group has term deposits and current accounts placed by eight customers each of which exceeds 5% of total equity of the Group totalling RUR 21,437,005 thousand (2009: term deposits and current accounts placed by six customers totalling RUR 28,701,541 thousand).

24. Debt Securities Issued

	31 December 2010	31 December 2009
Promissory notes	15,820,778	14,229,609
Certificates of deposit	12,001	1,261
Total debt securities issued	15,832,779	14,230,870

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US Dollars and Euros with effective interest rates from 0.5% to 13.0%, from 0.1% to 7.5% and from 0.1% to 7.0% respectively (2009: Russian Roubles, US Dollars and Euros with effective interest rates from 2.5% to 14.1%, from 2.5% to 10.5% and from 2.5% to 10.1% respectively). Maturity dates of these promissory notes vary from January 2011 to June 2012 (2009: from January 2010 to September 2011).

As at 31 December 2010 non-interest-bearing promissory notes of the aggregate nominal value of RUR 341,608 thousand (2009: RUR 494,093 thousand) were issued by the Group for settlement purposes and mature primarily on demand.

25. RUR-denominated Bonds Issued

	31 December 2010	31 December 2009
RUR-denominated bonds issued	17,384,398	10,020,406
Total RUR-denominated bonds issued	17,384,398	10,020,406

The Group had the following RUR-denominated bonds outstanding as at 31 December 2010:

Nominal (thousands of Roubles)	Effective rate, %	Issue date	Maturity date	Outstanding as at 31 December 2010
3,000,000	8.1%	15 November 2006	9 November 2011	2,782,233
5,000,000	7.5%	10 June 2008	4 June 2013	2,416,158
3,000,000	8.0%	7 July 2009	1 July 2014	2,642,412
5,000,000	7.8%	7 April 2010	7 April 2013	5,030,223
5,000,000	7.9%	22 September 2010	22 September 2013	4,513,373
Total RUR-denominated bonds				17,384,398

In April 2010 the Group redeemed its RUR-denominated bonds in total nominal value of RUR 3,000,000 thousand. In February 2009 the Group redeemed its RUR-denominated bonds in total nominal value of RUR 2,000,000 thousand.

The Group had the following RUR-denominated bonds outstanding as at 31 December 2009:

Nominal (thousands of Roubles)	Effective rate, %	Issue date	Maturity date	Outstanding as at 31 December 2009
3,000,000	16.0%	15 November 2006	9 November 2011	2,796,034
3,000,000	16.0%	4 April 2007	6 April 2010	725,291
5,000,000	10.9%	10 June 2008	4 June 2013	3,730,588
3,000,000	15.0%	7 July 2009	1 July 2014	2,768,493
Total RUR-denominated bonds				10,020,406

26. Subordinated debt

	31 December 2010	31 December 2009
Subordinated loans in RUR	8,855,887	8,905,009
Subordinated loans in US Dollars	2,231 812	2,214,849
Total subordinated debt	11,087,699	11,119,858

The Group received 9 subordinated loans from its shareholders totalling RUR 8,282,258 thousand as of 31 December 2010 (2009: 9 subordinated loans of RUR 8,270,001 thousand), respectively. Subordinated loans in RUR bear interest at rates ranging from 7.5% to 12.0% (2009: from 7.5% to 12.0%) and mature from May 2011 to June 2019 (2009: December 2010 to June 2019). Subordinated loans in US Dollars bear interest at rates ranging from 4.8% to 8.0% as of 31 December 2010 (2009: 4.8% to 8.0%) and mature from September 2012 to June 2016 (2009: September 2012 to June 2016).

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

27. Other Assets and Other Liabilities

	31 December 2010			31 December 2009		
	Financial	Non-financial	Total	Financial	Non-financial	Total
Trade debtors and prepayments	35,030	170,175	205,205	2,127	230,636	232,763
Plastic card settlements	117,753	-	117,753	58,427	-	58,427
Prepaid taxes, other than income tax	-	105,396	105,396	-	78,430	78,430
Precious metals	-	30,689	30,689	-	98,522	98,522
Other	46,816	34,608	81,424	99,544	30,435	58,427
Total other assets	199,599	340,868	540,467	160,098	438,023	598,121
Expenses and costs accrued	-	570,695	570,695	-	467,129	467,129
Trade creditors	37,959	12,748	50,707	17,658	17,449	35,107
Taxation payable, other than income tax	-	49,338	49,338	-	55,671	55,671
Amounts due to Deposits' Insurance Agency	-	18,694	18,694	-	35,547	35,547
Provision for contingent liability	-	-	-	-	82,612	82,612
Provision for credit related commitments	6,251	-	6,251	12,257	-	12,257
Other	99,332	20,105	119,437	52,131	5,150	57,281
Total other liabilities	143,542	671,580	815,122	82,046	663,558	745,604

28. Share Capital and Share Premium

Share capital issued and fully paid comprises:

	Number of shares	Nominal value	Treasury shares
Ordinary shares			
31 December 2008	11,545,000,000	11,545,000,000	-
Purchase of treasury shares	-	-	(261,374,124)
31 December 2009	11,545,000,000	11,545,000,000	(261,374,124)
31 December 2010	11,545,000,000	11,545,000,000	(261,374,124)

At 31 December 2010 and 2009, authorised share capital of the Group consists of 12,000,000,000 ordinary shares. Ordinary shares have a nominal value of 1 RUR per share with equal rights and carry one vote each.

In September 2009 Zenit Investment Services Inc. acquired 261,374,124 shares of Bank ZENIT from a shareholder of the Bank.

As at December 31, 2010 and 2009, share premium totalling RUR 1,545,000 thousand represents an excess of contributions received over the nominal value of shares issued.

29. Retained Earnings

The Bank's retained earnings distributable among shareholders are limited to the amount of its reserves as disclosed in statutory accounts of the Bank. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

30. Dividends and Distributions

The Group members' reports under Russian Accounting Rules which are the basis for the profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian Accounting Rules.

In June 2010 the Bank paid dividends for the year 2009 of RUR 390,944 thousand. In November 2010 the Bank paid dividends for 9 months of the year 2010 of RUR 697,166 thousand. In December 2010 Bank ZENIT Sochi paid dividends to minority shareholders for 9 months of the year 2010 of RUR 189 thousand. In December 2010 Lipetskombak paid dividends to minority shareholders for 9 months of the year 2010 of RUR 720 thousand. In December 2010 Devon-Credit paid dividends to minority shareholders for 9 months of the year 2010 of RUR 4,318 thousand

In May 2009 the Bank paid dividends for the year 2008 of RUR 400,000 thousand. In June 2009 Bank ZENIT Sochi paid dividends to minority shareholders for the year 2008 of RUR 50 thousand. In December 2009 Bank ZENIT Sochi paid dividends to minority shareholders for 9 months the year 2009 of RUR 76 thousand. In December 2009 Lipetskombank paid dividends to minority shareholders for 9 months of the year 2009 of RUR 560 thousand.

ZENIT Banking Group
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31. Geographical Analysis

The geographical analysis of the Group's assets and liabilities as of 31 December 2010, is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Financial assets				
Cash and cash equivalents	19,413,964	11,513,028	9,462	30,936,454
Mandatory reserve deposits with the CBRF	1,087,250	-	-	1,087,250
Due from banks	6,086,091	2,532,291	-	8,618,382
Financial assets at fair value through profit or loss	11,852,891	16,739	253,272	12,122,902
Available-for-sale financial assets	10,578,267	290,861	545,354	11,414,482
Investment in associates	-	-	1,162,726	1,162,726
Loans to customers	117,167,057	-	9,828,850	126,995,907
Other financial assets	198,755	546	298	199,599
Total financial assets	166,384,275	14,353,465	11,799,962	192,537,702
Non-financial assets				
Property, plant and equipment	3,730,088	-	-	3,730,088
Investment property	212,771	-	-	212,771
Goodwill	156,248	-	-	156,248
Other non-financial assets	340,835	30	3	340,868
Current income tax asset	101,727	-	-	101,727
Deferred income tax asset	387,953	-	-	387,953
Non-current assets held for sale	2,328,547	-	-	2,328,547
Total non-financial assets	7,258,169	30	3	7,258,202
Total assets	173,642,444	14,353,495	11,799,965	199,795,904
Liabilities				
Financial liabilities				
Due to banks	8,024,269	8,208,613	14,328	16,247,210
Customer accounts	112,529,730	1,702,608	1,921,362	116,153,700
Debt securities issued	5,700,265	3,048	10,129,466	15,832,779
Eurobonds and RUR-denominated bonds issued	17,384,398	-	-	17,384,398
Other financial liabilities	137,915	4,778	849	143,542
Subordinated debt	9,898,197	610,440	579,062	11,087,699
Total financial liabilities	153,674,774	10,529,487	12,645,067	176,849,328
Non-financial liabilities				
Current income tax liability	4,002	-	-	4,002
Deferred income tax liability	101,759	-	-	101,759
Other non-financial liabilities	671,580	-	-	671,580
Total non-financial liabilities	777,341	-	-	777,341
Total liabilities	154,452,115	10,529,487	12,645,067	177,626,669
Net position as at 31 December 2010	19,190,329	3,824,008	(845,102)	
Credit related commitments as at 31 December 2010	36,099,959	123,740	158,509	

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31. Geographical Analysis (continued)

Cash and Cash equivalents with OECD counterparties include balances of RUR 1,245,444 with 3 member banks of VTB Group, registered in OECD countries.

The geographical analysis of the Group's assets and liabilities as of 31 December 2009, is set out below:

	Russia	OECD	Non-OECD	Total
Assets				
Financial assets				
Cash and cash equivalents	19,279,404	11,705,127	1,593	30,986,124
Mandatory reserve deposits with the CBRF	949,216	-	-	949,216
Due from banks	22,813,625	7,250,165	-	30,063,790
Financial assets at fair value through profit or loss	3,901,131	7,915	-	3,909,046
Available-for-sale financial assets	10,694,158	1,220,749	332,657	12,247,564
Loans to customers	88,997,906	914,030	11,209,941	101,121,877
Other financial assets	128,840	31,091	167	160,098
Total financial assets	146,764,280	21,129,077	11,544,358	179,437,715
Non-financial assets				
Property, plant and equipment	3,649,700	-	-	3,649,700
Investment property	201,779	-	-	201,779
Goodwill	156,248	-	-	156,248
Other non-financial assets	437,930	93	-	438,023
Current income tax asset	283,574	-	-	283,574
Deferred income tax asset	763,095	-	-	763,095
Non-current assets held for sale	1,110,646	-	-	1,110,646
Total non-financial assets	6,602,972	93	-	6,603,065
Total assets	153,367,252	21,129,170	11,544,358	186,040,780
Liabilities				
Financial liabilities				
Due to banks	18,337,055	7,019,830	10,671	25,367,556
Customer accounts	102,064,895	1,000,732	1,593,658	104,659,285
Debt securities issued	3,618,676	1,111,039	9,501,155	14,230,870
Eurobonds and RUR-denominated bonds issued	10,020,406	-	-	10,020,406
Other financial liabilities	75,194	5,841	1,011	82,046
Subordinated debt	8,492,395	605,857	2,021,606	11,119,858
Total financial liabilities	142,608,621	9,743,299	13,128,101	165,480,021
Non-financial liabilities				
Current income tax liability	24,408	-	-	24,408
Deferred income tax liability	149,453	-	-	149,453
Other non-financial liabilities	662,767	791	-	663,558
Total non-financial liabilities	836,628	791	-	837,419
Total liabilities	143,445,249	9,744,090	13,128,101	166,317,440
Net position as at 31 December 2009	9,922,003	11,385,080	(1,583,743)	
Credit related commitments as at 31 December 2009	36,808,176	536,879	838,018	

Cash and Cash equivalents with OECD counterparties include balances of RUR 3,146,461 with 3 member banks of VTB Group, registered in OECD countries.

32. Risk Management Policies

Risk Management plays a fundamental role in the banking industry and is an essential element of the Group's activity. The Group's risk management network and the management structure are directed at the control and management of major risks, inherent in the Group's business.

The Group's risk management policy is based on the concept of admissible risk within certain profitability parameters assumed for the entire entity and each business line and it is structured in order to achieve unconditional satisfaction of regulatory requirements.

ZENIT is the risk coordinating, methodological and supervisory center of the Group. In particular, ZENIT's risk management department is responsible for the overall risk management and compliance functions, development of the methodology for risk identification and measurement as well as for ensuring that common principles and methods of identifying, measuring, managing and reporting on risks are implemented and function effectively within entire Group. Although ZENIT's banking subsidiaries perform on-going risk management procedures independently, they use unified risk management policies including methods and procedures aligned with those of ZENIT.

The Group identifies credit, liquidity and market risks. Market risk, in its turn, consists of currency, interest rate and other prices risks.

Risk identification and classification is performed through the system of exposure distribution by risk types which are assessed and monitored within the decision-making, operating and control processes. New products are examined for risks and the risk assessment structure is formulated at the preliminary stage of the decision-making process.

The quantitative risk assessment includes an assessment of probable losses and unforeseen losses and is performed by the calculation of historical loss parameters; using stress-testing, Value at Risk (VaR) and, where appropriate, conditional VaR (CVaR) method; as well as by using standardized and advanced methodologies, introduced by the new Basle Accord ("Basel II"). Assessment models and related assumptions are revised on a regular basis in order to achieve calculation adequacy.

In order to control risks the Group uses risk avoidance strategies, including the establishment of limits on counterparties, products, positions, countries, business lines and others. If it seems reasonable, loss limits and call-level limits are approved. Limits are controlled by the back-offices and risk management departments.

The principles of risk management

(i) Independence

- Existence of an independent risk management function in the form of (a) risk management departments, (b) units responsible for transaction registration and control of terms and conditions approved in relation to respective transactions, and (c) divisions dealing with collateral assessment and control;
- Separation of risk assessment and control units from units initiating transactions within the organizational structure and management systems; and
- An independent internal audit of risk management procedures.

(ii) Full scope of all risks

- Covering all significant risks on all transactions and portfolios by risk control and management procedures; and
- Assessment of economic capital and its restrictions.

32. Risk Management Policies (continued)

(iii) Reliability

- Use of methods and means providing high reliability and accuracy of risk assessment, i.e. minimization of operational risks associated with the methodology;
- Comparison of expected results calculated by transaction initiators (forecast profitability) with estimation of unforeseen losses prepared by risk management departments at the decision-making level; and
- Use of stress-testing.

(iv) Frequency and timing

- Providing the management with regular reports reflecting risks and their dynamics with a frequency allowing to avoid delay in management decisions; and
- Independent monitoring of all kinds of risks on a daily basis.

(v) Conformity to best risk management practices

- Use of best risk management practices of both foreign and domestic banks concerning risk management strategy, organization, policies and procedures throughout the Group.

The risk management system

The risk management system and responsibility is diversified and includes the Board of Directors, Management Boards, internal management committees and supporting units, including departments responsible for risk assessment, control and monitoring procedures.

The Board of Directors considers risk analysis while approving financial plans and assessing business and financial assumptions underlying these plans.

Management Boards are responsible for (i) approving general terms and conditions of the Group's operations including, but not limited to, loan issuance and taking trading and investment positions, (ii) establishing internal management committees, (iii) setting-up internal risk management procedures and regulations and (iv) monitoring risk mitigation measures to make sure that risk management procedures function effectively and the Group members operate within established risk parameters.

Internal management committees approve limits, terms and conditions in respect of specific transactions. They also review reports on dynamics and the quality of banking and trading portfolios as well as reports on risks. Internal management committees include an Assets and Liabilities Management Committee ("ALCO") and other credit committees. ALCO is responsible for liquidity management, asset quality and funding as well as for monitoring actual results versus plans on attraction and allocation of resources. Other credit committees are engaged in consideration and approval of credit-related specific transactions and their responsibility depends on certain business lines or regions and is limited by maximum exposure allowed to one or a group of related borrowers.

Risk management departments are responsible for ensuring the implementation of unified principles and methods for risk identification and measurement as well as for managing and reporting on all kinds of risk. Risk management departments perform an independent analysis of credit and market risks on lending transactions and trading positions submitted for approval, develop limits on specific transactions and on aggregated risks (i.e. group of borrowers, product, country, industry/sector and other concentration limits), perform several portfolio analyses, control actual positions versus established limits and prepare reports to ALCO and Management Boards.

32. Risk Management Policies (continued)

Treasury departments perform on-going monitoring and control over liquidity, currency and interest rate risks and report to ALCO.

The business, operational and other supporting units of the Group participate in risk management within their functional duties stipulated by internal regulations and report to Management Boards.

The Internal Audit Departments audit business, operational, supporting and risk management units to ensure their compliance with internal policies and procedures. Their reports to the Board of Directors include findings identified during the audit and proposals on remedial actions necessary.

The main risk management policies, processes and procedures used by the Group and details of methods developed to measure risks are provided below.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group is generally exposed to credit risk through its financial assets and contingent liabilities. The Group's maximum exposure to credit risk, ignoring the fair value of any collateral, is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2010:

	31 December 2010				
	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral after offset and Pledged	Net exposure collateral
Cash and cash equivalents (excluding cash on hand)	24,044,329	-	24,044,329	-	24,044,329
Mandatory reserve deposits with CBRF	1,087,250	-	1,087,250	-	1,087,250
Due from banks	8,618,382	-	8,618,382	-	8,618,382
Financial assets at fair value through profit or loss	11,970,717	-	11,970,717	-	11,970,717
Available-for-sale financial assets	10,747,021	-	10,747,021	-	10,747,021
Loans to customers	127,271,317	-	127,271,317	(111,988,179)	15,283,138
Loan commitments	25,593,521	-	25,593,521	(1,410,884)	24,182,637
Guarantees issued	9,415,552	-	9,415,552	(3,873,288)	5,542,264
Import letters of credit	2,224,523	-	2,224,523	(844,053)	1,380,470

32. Risk Management Policies (continued)

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2009:

	31 December 2009				
	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral after offset and Pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	24,014,279	-	24,014,279	-	24,014,279
Mandatory reserve deposits with CBRF	949,216	-	949,216	-	949,216
Due from banks	30,063,790	-	30,063,790	-	30,063,790
Financial assets at fair value through profit or loss	3,887,438	-	3,887,438	-	3,887,438
Available-for-sale financial assets	10,671,951	-	10,671,951	-	10,671,951
Loans to customers	101,121,877	-	101,121,877	(90,791,425)	10,330,452
Loan commitments	15,021,194	-	15,021,194	(953,418)	14,067,776
Guarantees issued	21,248,623	-	21,248,623	(5,767,273)	15,481,350
Import letters of credit	2,322,560	-	2,322,560	(1,219,335)	1,103,225

In accordance with the Group's collateral policies and procedures the Group may securitize its loans by multi-collateral, i.e. to take different types of collateral in order to secure the same loan. In these cases the value of collateral taken by the Group may exceed amounts lent to the customer. Therefore, maximum credit risk exposure on such loans is limited to the amount of loan balances outstanding at reporting dates.

For risk management purposes, credit risk arising from positions held-for-trading and other financial instruments at fair value through profit and loss is managed and reported as a market (other prices) risk.

In order to optimize the decision-making process on taking credit risk the Group established several credit committees with different levels of responsibilities. ZENIT's credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

	Maximum exposure allowed to be approved
Assets and Liabilities Management Committee	Above 250,000
Credit committee	250,000
Credit committee on small and medium business borrowers	50,000
Credit committee on retail lending	14,000

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees. The Group implements a continuous monitoring system of risk factors on substandard loans.

Internal instructions to assess potential borrowers are developed and applied for each segment of lending activities including lending to legal entities, individuals, small and medium-size enterprises and certain others.

32. Risk Management Policies (continued)

The decision making process within the Group is designed to ensure a thorough risk assessment is performed before any credit risk is taken and on all transactions submitted for approval. Therefore, an initiator of the transaction prepares a resume with a description of the suggested project, ensures (where appropriate) that an independent assessment of the collateral and its quality is performed and forwards all transaction related documentation to the risk management department, which is responsible for the independent risk assessment of the project itself, the transaction structure and the assessment of the adequacy of limits, terms and conditions associated with the transaction. The risk management department formulates its own conclusion on the project which is submitted for approval along with all other transaction related documents.

The core procedure to assess credit risk associated with corporate lending is the analysis of corporate borrowers' financial statements for the latest available four quarters, their market position, business developments, organizational and functional structure, business cycle and cash flows, transparency of shareholders (owners) as well as reputational risks of the borrowers themselves and those of the Group that may arise as a result of the suggested project.

Underwriting procedures with respect to individual borrowers are built to minimize internal costs in order to maximize financial results taking into account potential risks. These procedures are based on certain rating techniques such as scoring methods that allow the minimization of credit risks both on a separate loan and on a portfolio basis. The rating accounts for the financial position of an individual borrower as well as the specifics of each credit product. However, the portion of loans to individuals issued purely using scoring models is still insignificant.

The majority of loans to individuals are approved by specialized credit committees which include transaction initiators and representatives of units responsible for risk assessment, control and monitoring. Such underwriting procedures allow a flexible combination of formalized techniques and non-formalized knowledge of experts which is adequate for the current retail lending operations and provide a good basis for further development of retail business.

The Group securitizes its credit risk exposure by taking guarantees and collateral.

If a guarantee is taken the Group assesses a guarantor's financial stability and business profile in a similar manner to the assessment of a borrower described above.

The assessment of collateral is performed internally by special divisions responsible for collateral assessment and control. They use several methodologies developed for each type of collateral. Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

32. Risk Management Policies (continued)

The following table details the type and carrying value of collateral over loans to customers:

	Securities	Real estate	Motor vehicles	Equipment	Goods in turnover	Non liquid property	Total
31 December 2010							
Loans to legal entities, including:							
Commercial loans	1,547,621	40,372,318	759,270	14,576,587	22,568,794	1,727,666	81,552,256
Project finance	785,000	37,726,508	135,758	6,601,721	184,698	8,106	45,441,791
Reverse sale and repurchase agreements	800,636	-	-	-	-	-	800,636
Loans to individuals, including:							
Consumer loans	220,214	4,687,677	95,425	843,062	14,692	12,112	5,873,182
Mortgage loans	404,682	3,844,244	760	32,196	-	-	4,281,882
Car loans	-	-	669,963	-	-	-	669,963
Reverse sale and repurchase agreements	157,560	-	-	-	-	-	157,560
Total	3,915,713	86,630,747	1,661,176	22,053,566	22,768,184	1,747,884	138,777,270
31 December 2009							
Loans to legal entities, including:							
Commercial loans	1,853,591	37,117,579	423,347	11,667,423	16,016,097	829,489	67,907,526
Project finance	1,698,991	28,567,821	169,603	7,285,241	253,190	12,122	37,986,968
Reverse sale and repurchase agreements	585,674	-	-	-	-	-	585,674
Loans to individuals, including:							
Consumer loans	66,273	3,978,796	106,828	913,074	8,421	21,039	5,094,431
Mortgage loans	453,510	3,911,088	3,680	17,202	-	-	4,385,480
Car loans	-	-	971,323	-	-	-	971,323
Reverse sale and repurchase agreements	211,566	-	-	-	-	-	211,566
Total	4,869,605	73,575,284	1,674,781	19,882,940	16,277,708	862,650	117,142,968

Collateral is not generally held over amounts due to banks, except where securities are held as a part of reverse re-purchase and sale transactions.

The Group measures and monitors credit risk on corporate portfolios by individual corporate exposure and estimates quantitative parameters of credit risk such as expected and unexpected losses on credit exposures. These calculations are based on internal ratings of creditworthiness assigned to each corporate borrower. The internal rating system was set up in 1999 and it has been regularly updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability. While the revision of a recovery number in classes of corporate borrowers is performed, the historical data on losses is taken into consideration. In the final calculations of expected losses on loans, liquid and reliable collateral is considered. The calculation of unforeseen losses on credit exposures is based on the advanced approach in respect with the calculation of credit risks stipulated in the new Basel II.

32. Risk Management Policies (continued)

The Group uses the following rating categories for the analysis of credit quality of loans to customers:

- Rating I – standard quality transaction; low probability of default on the transaction due to stable financial position of the borrower allowing generation of cash flows sufficient for meeting requirements of analyzed transaction;
- Rating II – stable quality transaction; average probability of default due to acceptable quality of the borrower's cash flows, however, the borrower's financial position and its performance against business plans require closer monitoring;
- Rating III – middle and low quality transaction; middle and high probability of default because of non-stable financial position of the borrower, or the lack of or poor quality of collateral; and
- Rating IV – non-recoverable loans which may be collected through legal procedures, claims to guarantors or realization of collateral but expected results of these collection procedures are uncertain.

The Group does not enter into transactions with an initial rating of III or IV.

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32. Risk Management Policies (continued)

The table below shows credit quality by class of loans to legal entities as of 31 December 2010:

	Commercial loans			Project finance			REPO agreements			Total		
	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total
Loans without individual indicators of impairment and not past due	69,234,076	(1,845,291)	67,388,785	45,563,162	(1,357,122)	44,206,040	627,160	-	627,160	115,424,398	(3,202,413)	112,221,985
Rating I	53,163,171	(701,030)	52,462,141	21,862,590	(502,546)	21,360,044	627,160	-	627,160	75,652,921	(1,203,576)	74,449,345
Rating II	16,070,905	(1,144,261)	14,926,644	23,700,572	(854,576)	22,845,996	-	-	-	39,771,477	(1,998,837)	37,772,640
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Loans without individual indicators of impairment and past due	56,525	(5,621)	50,904	-	-	-	-	-	-	56,525	(5,621)	50,904
overdue less than 30 days	56,525	(5,621)	50,904	-	-	-	-	-	-	56,525	(5,621)	50,904
Rating I	623	(31)	592	-	-	-	-	-	-	623	(31)	592
Rating II	55,902	(5,590)	50,312	-	-	-	-	-	-	55,902	(5,590)	50,312
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Total loans without individual indicators of impairment	69,290,601	(1,850,912)	67,439,689	45,563,162	(1,357,122)	44,206,040	627,160	-	627,160	115,480,923	(3,208,034)	112,272,889
Loans with individual indicators of impairment not past due	8,873,753	(4,702,434)	4,171,319	2,873,853	(1,123,061)	1,750,792	15,952	(15,952)	-	11,763,558	(5,841,447)	5,922,111
Rating I	3,624,203	(944,245)	2,679,958	2,634,929	(964,243)	1,670,686	-	-	-	6,259,132	(1,908,488)	4,350,644
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	3,070,878	(600,973)	2,469,905	1,797,441	(329,526)	1,467,915	-	-	-	4,868,319	(930,499)	3,937,820
Rating IV	553,325	(343,272)	210,053	837,488	(634,717)	202,771	-	-	-	1,390,813	(977,989)	412,824
overdue less than 30 days	1,066	(508)	558	548	(18)	530	-	-	-	1,614	(526)	1,088
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	90	-	90	548	(18)	530	-	-	-	638	(18)	620
Rating IV	976	(508)	468	-	-	-	-	-	-	976	(508)	468
overdue more than 30 days and less than 90 days	768,383	(735,787)	32,596	1,975	(239)	1,736	-	-	-	770,358	(736,026)	34,332
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	396	(13)	383	-	-	-	396	(13)	383
Rating IV	768,383	(735,787)	32,596	1,579	(226)	1,353	-	-	-	769,962	(736,013)	33,949
overdue more than 90 days and less than 180 days	147,387	(113,477)	33,910	12,507	(4,178)	8,329	-	-	-	159,894	(117,655)	42,239
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	507	(13)	494	-	-	-	507	(13)	494
Rating IV	147,387	(113,477)	33,910	12,000	(4,165)	7,835	-	-	-	159,387	(117,642)	41,745
overdue more than 180 days and less than 360 days	47,255	(47,255)	-	-	-	-	-	-	-	47,255	(47,255)	-
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	47,255	(47,255)	-	-	-	-	-	-	-	47,255	(47,255)	-
overdue more than 360 days	4,285,459	(2,861,162)	1,424,297	223,894	(154,383)	69,511	15,952	(15,952)	-	4,525,305	(3,031,497)	1,493,808
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	33,363	(14,687)	18,676	1,098	(25)	1,073	-	-	-	34,461	(14,712)	19,749
Rating IV	4,252,096	(2,846,475)	1,405,621	222,796	(154,358)	68,438	15,952	(15,952)	-	4,490,844	(3,016,785)	1,474,059
Total loans to legal entities	78,164,354	(6,553,346)	71,611,008	48,437,015	(2,480,183)	45,956,832	643,112	(15,952)	627,160	127,244,481	(9,049,481)	118,195,000

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32. Risk Management Policies (continued)

The table below shows credit quality by class of loans to legal entities as of 31 December 2009:

	Commercial loans			Project finance			REPO agreements			Total		
	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total	Gross loans	Allowance	Total
Loans without individual indicators of impairment and not past due	52,973,169	(1,534,358)	51,438,811	31,470,992	(765,699)	30,705,293	451,807	-	451,807	84,895,968	(2,300,057)	82,595,911
Rating I	32,419,830	(128,688)	32,291,142	17,528,464	(219,394)	17,309,070	451,807	-	451,807	50,400,101	(348,082)	50,052,019
Rating II	20,553,339	(1,405,670)	19,147,669	13,942,528	(546,305)	13,396,223	-	-	-	34,495,867	(1,951,975)	32,543,892
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Loans without individual indicators of impairment and past due	35,227	(13,039)	22,188	19,213	(49)	19,164	-	-	-	54,440	(13,088)	41,352
overdue less than 30 days	14,062	(33)	14,029	1,977	(7)	1,970	-	-	-	16,039	(40)	15,999
Rating I	76	-	76	-	-	-	-	-	-	76	-	76
Rating II	13,986	(33)	13,953	1,977	(7)	1,970	-	-	-	15,963	(40)	15,923
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
overdue more than 30 days and less than 90 days	21,165	(13,006)	8,159	17,236	(42)	17,194	-	-	-	38,401	(13,048)	25,353
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	21,165	(13,006)	8,159	17,236	(42)	17,194	-	-	-	38,401	(13,048)	25,353
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	-	-	-	-	-	-	-	-	-	-	-	-
Total loans without individual indicators of impairment	53,008,396	(1,547,397)	51,460,999	31,490,205	(765,748)	30,724,457	451,807	-	451,807	84,950,408	(2,313,145)	82,637,263
Loans with individual indicators of impairment	10,185,271	(4,433,887)	5,751,384	3,535,744	(806,299)	2,729,445	15,952	(15,952)	-	13,736,967	(5,256,138)	8,480,829
not past due	5,765,215	(1,885,944)	3,879,271	1,143,394	(411,055)	732,339	-	-	-	6,908,609	(2,296,999)	4,611,610
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	3,629,601	(849,896)	2,779,705	424,553	(42,903)	381,650	-	-	-	4,054,154	(892,799)	3,161,355
Rating IV	2,135,614	(1,036,048)	1,099,566	718,841	(368,152)	350,689	-	-	-	2,854,455	(1,404,200)	1,450,255
overdue less than 30 days	208,597	(142,718)	65,879	6,489	(4,766)	1,723	-	-	-	215,086	(147,484)	67,602
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	30,610	(8,752)	21,858	-	-	-	-	-	-	30,610	(8,752)	21,858
Rating IV	177,987	(133,966)	44,021	6,489	(4,766)	1,723	-	-	-	184,476	(138,732)	45,744
overdue more than 30 days and less than 90 days	784,762	(234,193)	550,569	2,195,500	(213,718)	1,981,782	-	-	-	2,980,262	(447,911)	2,532,351
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	597,855	(117,921)	479,934	2,185,700	(204,186)	1,981,514	-	-	-	2,783,555	(322,107)	2,461,448
Rating IV	186,907	(116,272)	70,635	9,800	(9,532)	268	-	-	-	196,707	(125,804)	70,903
overdue more than 90 days and less than 180 days	1,076,709	(524,098)	552,611	56,429	(56,026)	403	-	-	-	1,133,138	(580,124)	553,014
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	10,679	(8,376)	2,303	-	-	-	-	-	-	10,679	(8,376)	2,303
Rating IV	1,066,030	(515,722)	550,308	56,429	(56,026)	403	-	-	-	1,122,459	(571,748)	550,711
overdue more than 180 days and less than 360 days	160,579	(146,581)	13,998	-	-	-	-	-	-	160,579	(146,581)	13,998
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	-	-	-	-	-	-	-	-	-	-	-	-
Rating IV	160,579	(146,581)	13,998	-	-	-	-	-	-	160,579	(146,581)	13,998
overdue more than 360 days	2,189,409	(1,500,353)	689,056	133,932	(120,734)	13,198	15,952	(15,952)	-	2,339,293	(1,637,039)	702,254
Rating I	-	-	-	-	-	-	-	-	-	-	-	-
Rating II	-	-	-	-	-	-	-	-	-	-	-	-
Rating III	7,749	(2,113)	5,636	-	-	-	-	-	-	7,749	(2,113)	5,636
Rating IV	2,181,660	(1,498,240)	683,420	133,932	(120,734)	13,198	15,952	(15,952)	-	2,331,544	(1,634,926)	696,618
Total loans to legal entities	63,193,667	(5,981,284)	57,212,383	35,025,949	(1,572,047)	33,453,902	467,759	(15,952)	451,807	98,687,375	(7,569,283)	91,118,092

32. Risk Management Policies (continued)

Credit risk associated with loans to individuals is measured and monitored primarily on a portfolio basis. Preliminary evaluations are made during the underwriting process when the Group calculates overall risks from expected and unexpected losses by portfolios and checks whether they are in line with relative limits. Scoring models provide the assessment of the probability of default and loss given default and they are calibrated based on the Group's proprietary statistical data. The Group validates scoring models on a regular basis but at least once every six months. Limits are set up by product and by region on a basis of historical losses and expert opinions. The Group uses computerised procedures for subsequent monitoring of retail lending portfolios and identification of substandard loans.

The following table provides information on loans to individuals as of 31 December 2010

	Gross loans	Allowance	Total	Allowance ,%
Consumer loans	5,777,507	(304,708)	5,472,799	5.3
not past due	4,971,174	(46,364)	4,924,810	0.9
overdue less than 30 days	41,075	(2,919)	38,156	7.1
overdue more than 30 days and less than 90 days	70,385	(10,612)	59,773	15.1
overdue more than 90 days and less than 180 days	48,895	(12,568)	36,327	25.7
overdue more than 180 days and less than 360 days	28,335	(8,096)	20,239	28.6
overdue more than 360 day	617,643	(224,149)	393,494	36.3
Mortgage loans	3,165,376	(379,825)	2,785,551	12.0
not past due	2,644,064	(4,096)	2,639,968	0.2
overdue less than 30 days	25,325	(7,488)	17,837	29.6
overdue more than 30 days and less than 90 days	29,748	(7,841)	21,907	26.4
overdue more than 90 days and less than 180 days	50,117	(25,364)	24,753	50.6
overdue more than 180 days and less than 360 days	58,933	(39,736)	19,197	67.4
overdue more than 360 day	357,189	(295,300)	61,889	82.7
Car loans	284,789	(42,875)	241,914	15.1
not past due	214,208	(406)	213,802	0.2
overdue less than 30 days	4,268	(448)	3,820	10.5
overdue more than 30 days and less than 90 days	2,249	(678)	1,571	30.1
overdue more than 90 days and less than 180 days	1,452	(428)	1,024	29.5
overdue more than 180 days and less than 360 days	4,101	(2,303)	1,798	56.2
overdue more than 360 day	58,511	(38,612)	19,899	66.0
Plastic card overdraft	209,781	(21,383)	188,398	10.2
not past due	168,416	(2,403)	166,013	1.4
overdue less than 30 days	7,500	(1,225)	6,275	16.3
overdue more than 30 days and less than 90 days	9,915	(3,601)	6,314	36.3
overdue more than 90 days and less than 180 days	1,162	(524)	638	45.1
overdue more than 180 days and less than 360 days	2,432	(799)	1,633	32.9
overdue more than 360 day	20,356	(12,831)	7,525	63.0
Reverse sale and repurchase agreements	112,245	-	112,245	0.0
not past due	112,245	-	112,245	-
overdue less than 30 days	-	-	-	-
overdue more than 30 days and less than 90 days	-	-	-	-
overdue more than 90 days and less than 180 days	-	-	-	-
overdue more than 180 days and less than 360 days	-	-	-	-
overdue more than 360 day	-	-	-	-
Total	9,549,698	(748,791)	8,800,907	7.8

32. Risk Management Policies (continued)

The following table provides information on loans to individuals as of 31 December 2009

	Gross loans	Allowance	Total	Allowance , %
Consumer loans	6,806,143	(296,135)	6,510,008	4.4
not past due	5,905,469	(54,066)	5,851,403	0.9
overdue less than 30 days	50,689	(3,263)	47,426	6.4
overdue more than 30 days and less than 90 days	67,165	(9,777)	57,388	14.6
overdue more than 90 days and less than 180 days	161,285	(29,465)	131,820	18.3
overdue more than 180 days and less than 360 days	139,401	(37,422)	101,979	26.8
overdue more than 360 day	482,134	(162,142)	319,992	33.6
Mortgage loans	3,052,421	(270,776)	2,781,645	8.9
not past due	2,575,857	(23,245)	2,552,612	0.9
overdue less than 30 days	178,664	(23,096)	155,568	12.9
overdue more than 30 days and less than 90 days	18,099	(3,991)	14,108	22.1
overdue more than 90 days and less than 180 days	42,298	(15,885)	26,413	37.6
overdue more than 180 days and less than 360 days	59,503	(39,310)	20,193	66.1
overdue more than 360 day	178,000	(165,249)	12,751	92.8
Car loans	458,976	(69,988)	388,988	15.2
not past due	356,447	(5,662)	350,785	1.6
overdue less than 30 days	8,899	(1,348)	7,551	15.1
overdue more than 30 days and less than 90 days	9,151	(2,813)	6,338	30.7
overdue more than 90 days and less than 180 days	12,769	(6,631)	6,138	51.9
overdue more than 180 days and less than 360 days	19,888	(13,853)	6,035	69.7
overdue more than 360 day	51,822	(39,681)	12,141	76.6
Plastic card overdraft	188,399	(29,645)	158,754	15.7
not past due	128,621	(2,138)	126,483	1.7
overdue less than 30 days	4,103	(549)	3,554	13.4
overdue more than 30 days and less than 90 days	4,246	(788)	3,458	18.6
overdue more than 90 days and less than 180 days	3,523	(1,063)	2,460	30.2
overdue more than 180 days and less than 360 days	7,346	(2,814)	4,532	38.3
overdue more than 360 day	40,560	(22,293)	18,267	55.0
Reverse sale and repurchase agreements	164,390	-	164,390	0.0
not past due	164,390	-	164,390	0.0
overdue less than 30 days	-	-	-	-
overdue more than 30 days and less than 90 days	-	-	-	-
overdue more than 90 days and less than 180 days	-	-	-	-
overdue more than 180 days and less than 360 days	-	-	-	-
overdue more than 360 day	-	-	-	-
Total	10,670,329	(666,544)	10,003,785	6.2

32. Risk Management Policies (continued)

The table below shows credit quality of assets other than loans to customers as at 31 December 2010:

	Rating I	Rating II	Rating III	Rating IV	Total
Cash and cash equivalents (excluding cash on hand)	24,044,329	-	-	-	24,044,329
Mandatory reserve deposits with CBRF	1,087,250	-	-	-	1,087,250
Due from banks	8,618,382	-	-	-	8,618,382
Financial assets at fair value through profit or loss	11,970,717	-	-	-	11,970,717
Available-for-sale financial assets	10,352,602	349,419	-	-	10,747,021
Loan commitments	25,593,521	-	-	-	25,593,521
Guarantees issued	9,415,552	-	-	-	9,415,552
Import letters of credit	2,224,523	-	-	-	2,224,523

The table below shows credit quality of assets other than loans to customers as at 31 December 2009:

	Rating I	Rating II	Rating III	Rating IV	Total
Cash and cash equivalents (excluding cash on hand)	24,014,279	-	-	-	24,014,279
Mandatory reserve deposits with CBRF	949,216	-	-	-	949,216
Due from banks	30,063,790	-	-	-	30,063,790
Financial assets at fair value through profit or loss	3,887,438	-	-	-	3,887,438
Available-for-sale financial assets	10,299,493	372,458	-	-	10,671,951
Loan commitments	15,021,194	-	-	-	15,021,194
Guarantees issued	21,248,623	-	-	-	21,248,623
Import letters of credit	2,322,560	-	-	-	2,322,560

Procedures on subsequent monitoring of credit risk include:

- Analysis of actual exposures versus established limits;
- Control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- Review of corporate borrowers' quarterly financial statements and, where appropriate, actual performance versus business plans;
- Control over existence and valuation of collateral taken;
- Monitoring of business, economic and political events in order to assess whether these events can negatively affect (a) an industry or a region where the Group's corporate borrowers operate; (b) the reputation of these corporate borrowers and of the Group itself;
- Monitoring of macroeconomic parameters in order to assess adequacy of risk assessment associated with corporate lending portfolios and to validate scoring models used for retail lending programs; and
- Portfolio analyses showing trends in default rates, concentrations/diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

32. Risk Management Policies (continued)

Attention is paid to improve efficiency of distressed debt collection and to protect the Group against illegal actions. Distressed debt collection procedures are initiated if loans are overdue by more than 30 days. These procedures include the Group's proprietary techniques and the best practices of international and Russian banks in this area such as debt restructuring, searching for evading debtors and their property, claims to property and earnings and actions against lending fraud. Debt collection procedures are performed on the basis of current Russian legislation and international standards in close interaction with legal and law enforcement authorities.

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

The Group also uses several limits on amounts due from other banks such as maximum credit exposure on counterparty and on a group of transactions with this counterparty including lending, purchase and sale of securities, currency and other financial assets if these transactions may cause a credit risk. In order to establish these limits the Group uses credit quality assessment procedures similar to the ones applicable to corporate borrowers discussed above.

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. It is unusual for banks ever to be completely matched on maturities of assets and liabilities since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Group's approach to liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes issued and bonds placed on domestic and international markets. On the other hand, the Group tends to keep diversified portfolios of liquid and highly-liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by the Board of Directors and Management Boards. ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information:

- Current structure of assets and liabilities including any known renewal arrangements as of the date of the respective test;
- Amounts, maturity and liquidity profiles of transactions projected by business units;
- Current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading; and
- Relevant external factors.

32. Risk Management Policies (continued)

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios.

While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity with a 1-year horizon.

For managing current liquidity (with a 1-day horizon) the following methods are used:

- Reallocation of cash between accounts with other banks;
- Collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- Purchase and sale of certain financial assets in liquid portfolios;
- Accelerating closure of trade positions;
- Estimation of minimum expected cash inflow during a business day; and
- Daily control over the balance of cash and estimated liabilities to be settled on demand.

For managing term liquidity treasury departments of the Group use liquidity graphs that reflect volume and time of liquidity mismatches (surpluses or deficiencies). These liquidity graphs, in essence, present projected cash flows estimated with due regard for expected maturities of assets and liabilities. The Group sets limits on acceptable accumulated liquidity mismatches which are calculated by using the following instruments:

- Discounts to assets are applied to recognize market risk in case of accelerated realization of respective assets; and
- Models showing cash flow fluctuations due to accelerated settlement of liabilities.

In the normal course of business, liquidity reports covering the current and projected structure of assets and liabilities as well as future expected cash flows are submitted to ALCO once every two weeks. Decisions on liquidity management made by ALCO are implemented by treasury departments within their duties and responsibilities. In addition to this, ALCO reviews and sets limits on the minimum daily balances payable on demand on the basis of three-month statistics in order to make liquidity management more efficient.

The tables below provide an analysis of assets and liabilities as of 31 December 2010 and 2009 by their remaining contractual maturity from the respective balance sheet date.

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32. Risk Management Policies (continued)

The liquidity position of interest bearing assets and liabilities the Group as of 31 December 2010 is set out below:

	Interest bearing financial assets/liabilities				Non-interest bearing		Total
	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Financial	Non-financial	
Assets							
Cash and cash equivalents	5,261,119	-	-	-	25,675,335	-	30,936,454
Mandatory reserve deposits with the CBRF	-	-	-	-	1,087,250	-	1,087,250
Due from banks	6,681,470	859,105	467,789	610,018	-	-	8,618,382
Financial assets at fair value through profit or loss	11,970,135	-	-	-	152,767	-	12,122,902
Available-for-sale financial assets	209,139	1,402,468	1,577,558	7,687,800	537,517	-	11,414,482
Investments in associates	-	-	-	-	1,162,726	-	1,162,726
Loans to customers	6,213,070	31,153,649	21,531,037	68,098,151	-	-	126,995,907
Property, plant and equipment	-	-	-	-	-	3,730,088	3,730,088
Investment property	-	-	-	-	-	212,771	212,771
Goodwill	-	-	-	-	-	156,248	156,248
Other assets	-	-	-	-	199,599	340,868	540,467
Current income tax asset	-	-	-	-	-	101,727	101,727
Deferred income tax asset	-	-	-	-	-	387,953	387,953
Non-current assets held for sale	-	-	-	-	-	2,328,547	2,328,547
Total assets	30,334,933	33,415,222	23,576,384	76,395,969	28,815,194	7,258,202	199,795,904
Liabilities							
Due to banks and CBRF	3,065,393	7,445,732	4,772,713	963,372	-	-	16,247,210
Customer accounts	16,096,348	32,850,594	30,994,178	7,335,300	28,877,280	-	116,153,700
Debt securities issued	2,246,623	4,815,810	5,132,059	3,296,679	341,608	-	15,832,779
RUR bonds issued	-	-	2,782,233	14,602,165	-	-	17,384,398
Other liabilities	-	-	-	-	143,542	671,580	815,122
Current income tax liability	-	-	-	-	-	4,002	4,002
Deferred income tax liability	-	-	-	-	-	101,759	101,759
Subordinated debt	35	59,445	-	11,028,219	-	-	11,087,699
Total liabilities	21,408,399	45,171,581	43,681,183	37,225,735	29,362,430	777,341	177,626,669
Net liquidity gap	8,926,534	(11,756,359)	(20,104,799)	39,170,234			
Cumulative liquidity gap at 31 December 2010	8,926,534	(2,829,825)	(22,934,624)	16,235,610			

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32. Risk Management Policies (continued)

The liquidity position of interest bearing assets and liabilities of the Group as of 31 December 2009 is set out below.

	Interest bearing				Non-interest bearing		Total
	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Financial	Non-financial	
Assets							
Cash and cash equivalents	5,893,275	-	-	-	25,092,849	-	30,986,124
Mandatory reserve deposits with the CBRF	-	-	-	-	949,216	-	949,216
Due from banks	23,343,171	2,725,446	1,801,631	2,193,542	-	-	30,063,790
Financial assets at fair value through profit or loss	3,874,342	-	-	-	34,704	-	3,909,046
Available-for-sale financial assets	416,725	2,437,372	2,219,297	5,700,250	1,473,920	-	12,247,564
Loans to customers	4,998,271	30,739,471	18,296,642	47,087,493	-	-	101,121,877
Property, plant and equipment	-	-	-	-	-	3,649,700	3,649,700
Investment property	-	-	-	-	-	201,779	201,779
Goodwill	-	-	-	-	-	156,248	156,248
Other assets	-	-	-	-	160,098	438,023	598,121
Current income tax asset	-	-	-	-	-	283,574	283,574
Deferred income tax asset	-	-	-	-	-	763,095	763,095
Non-current assets held for sale	-	-	-	-	-	1,110,646	1,110,646
Total assets	38,525,784	35,902,289	22,317,570	54,981,285	27,710,787	6,603,065	186,040,780
Liabilities							
Due to banks and CBRF	2,674,500	4,348,836	16,715,488	1,628,732	-	-	25,367,556
Customer accounts	15,500,008	30,511,444	19,862,953	7,947,142	30,837,738	-	104,659,285
Debt securities issued	752,048	8,645,810	1,060,430	3,278,489	494,093	-	14,230,870
RUR bonds issued	-	687,077	-	9,333,329	-	-	10,020,406
Other liabilities	-	-	-	-	82,046	663,558	745,604
Current income tax liability	-	-	-	-	-	24,408	24,408
Deferred income tax liability	-	-	-	-	-	149,453	149,453
Subordinated debt	-	14,639	49,000	11,056,219	-	-	11,119,858
Total liabilities	18,926,556	44,207,806	37,687,871	33,243,911	31,413,877	837,419	166,317,440
Net liquidity gap	19,599,228	(8,305,517)	(15,370,301)	21,737,374			
Cumulative liquidity gap at 31 December 2009	19,599,228	11,293,711	(4,076,590)	17,660,784			

The Group considers certain assets and liabilities to be of a longer-term nature. This is due to the fact that long-term credits and overdraft facilities in Russia are generally only available to limited number of banks and customers, except for programs set up by international financial institutions or medium-term securities such as RUR-denominated bonds issued in the open market. However, in the Russian marketplace, many short-term credits are frequently renewed at maturity. As such, the ultimate maturity of assets and liabilities may be different from the analysis presented above.

In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above where these balances are included in amounts due in less than one month. Management believes that, in spite of a substantial portion of the balances on current accounts of legal entities being on demand, diversification of these deposits by number and type of depositor together with the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

32. Risk Management Policies (continued)

Term deposits from individuals are based on the terms of individual deposits stipulated in the contracts. However, in accordance with the Russian legislation, such deposits must be repaid on receipt of an individual's request.

While financial assets at fair value through profit or loss are shown at demand, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

In addition to the risk of unmatched positions on maturity of assets and liabilities, 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 result in losses in the event that unexpected movements arise. Interest rate risk is discussed below as a part of market risk.

The following tables show undiscounted cash flows (the gross outflow) of the Group's financial liabilities and off-balance sheet loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2010 and 2009 were as follows:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2010						
Financial liabilities						
Due to banks and CBRF	3,267,922	7,726,933	6,374,617	744,664	-	18,114,136
Customer accounts	45,267,149	34,331,195	32,219,953	7,793,953	185,474	119,797,724
Debt securities issued	2,255,886	5,235,216	5,383,303	3,619,566	-	16,493,971
RUR-denominated bonds issued	101,449	567,324	3,420,934	16,455,700	-	20,545,407
Other financial liabilities	103,920	13,645	3,594	22,383	-	143,542
Subordinated debt	50,077	453,098	287,589	10,984,408	3,683,518	15,458,690
Total financial liabilities	51,046,403	48,327,411	47,689,990	39,620,674	3,868,992	190,553,470
Loan commitments	2,270,507	5,618,630	9,544,189	5,697,704	2,462,491	25,593,521
31 December 2009						
Financial liabilities						
Due to banks and CBRF	3,316,755	5,245,313	17,785,780	1,233,176	2,529	27,583,553
Customer accounts	46,353,326	31,892,996	21,318,385	7,909,817	834,862	108,309,386
Debt securities issued	754,812	9,275,185	1,151,934	5,274,044	-	16,455,975
RUR-denominated bonds issued	-	1,170,826	609,052	11,941,322	-	13,721,200
Other financial liabilities	72,104	6,030	3,912	-	-	82,046
Subordinated debt	6,460	382,018	441,563	8,463,388	3,729,852	13,023,281
Total financial liabilities	50,503,457	47,972,368	41,310,626	34,821,747	4,567,243	179,175,441
Loan commitments	782,632	3,479,614	3,691,758	5,933,458	1,133,732	15,021,194

32. Risk Management Policies (continued)

Market risk. Market risk is the risk that movements in market prices (including interest rates and spreads, foreign exchange rates, quotes on assets held-for-trading and assets recognized at fair value through profit and loss) will result in fluctuations of the fair value or future cash flows of a financial instrument and, therefore, will affect the Group's profitability. Market risk arises due to open positions on interest rates, currency, financial assets at fair value through profit or loss and available-for-sale financial assets that are exposed to general and specific market movements and changes in the level of volatility of market prices.

Market risk includes currency risk, interest rate risk, and other prices risk.

The purpose of market risk management is to maintain a reasonable balance of risk and profitability. The market risk management system includes limits, policies and procedures regarding the different types of market risk including currency, interest rate and other prices risk.

Market risk is managed primarily through daily mark-to-market procedures, sensitivity analysis showing how the Group's profit or loss and equity would have been affected by changes in the relevant risk variable and control of limits established for various types of financial instruments.

All new types of transactions are examined for risk associated with them and a preliminary analysis of these risks is performed by risk management departments. This risk profile along with proposals on risk limits and control procedures is submitted to ALCO for approval.

Depending on the type of risk the Group introduces position limits (i.e. limits restricting the total amount of an investment or exposure) as well as stop-loss and call-level limits. Stop-loss limits are extensively used for the restriction of price risks associated with investments in securities. In addition to these, the Group sets limits on a maximum duration of debt instruments. When necessary the Group establishes margin and collateral requirements.

Market risk management is performed on a regular basis by evaluating risk indices and calculating the market value of open positions which are compared to permitted limits approved by ALCO. Market risk control procedures on positions in securities are performed on a daily basis and their result is an integral part of the quarterly report on the Group's consolidated risks.

Currency risk. Currency risk is the risk that values of financial instruments will fluctuate due to changes in foreign exchange rates. The Group operates within the limits of exposure by different currencies set by the CBRF. The Group management controls the allocation of these limits between operating units.

Generally the Group does not allow long open currency positions, these are monitored and controlled by treasury departments on a daily basis. Short-term trade transactions are permitted in insignificant amounts, but only if a position can be closed immediately. The Group sets position limits and stop-loss limits for such transactions which are controlled by the risk management departments.

At the year end the Group had balances in RUR, USD and other currencies. Other currencies are represented mainly by amounts in Euro, clearing currencies and precious metals.

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32. Risk Management Policies (continued)

As at 31 December 2010, the Group has the following open positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Financial assets				
Cash and cash equivalents	17,259,851	7,090,078	6,586,525	30,936,454
Mandatory reserve deposits with the CBRF	1,087,250	-	-	1,087,250
Due from banks	6,079,993	1,168,319	1,370,070	8,618,382
Financial assets at fair value through profit or loss	9,901,857	2,220,462	583	12,122,902
Available-for-sale financial assets	9,284,125	2,126,051	4,306	11,414,482
Investments in associates	-	1,162,726	-	1,162,726
Loans to customers	103,003,238	15,979,307	8,013,362	126,995,907
Other financial assets	180,438	14,336	4,825	199,599
Total financial assets	146,796,752	29,761,279	15,979,671	192,537,702
Non-financial assets				
Property, plant and equipment	3,730,088	-	-	3,730,088
Investment property	212,771	-	-	212,771
Goodwill	156,248	-	-	156,248
Other non-financial assets	304,707	4,200	31,961	340,868
Current income tax asset	101,727	-	-	101,727
Deferred income tax asset	387,953	-	-	387,953
Non-current assets held for sale	2,328,547	-	-	2,328,547
Total non-financial assets	7,222,041	4,200	31,961	7,258,202
Total assets	154,018,793	29,765,479	16,011,632	199,795,904
Liabilities				
Financial liabilities				
Due to banks and CBRF	6,539,813	7,952,782	1,754,615	16,247,210
Customer accounts	89,507,061	14,327,402	12,319,237	116,153,700
Debt securities issued	6,323,536	6,532,864	2,976,379	15,832,779
RUR-denominated bonds issued	17,384,398	-	-	17,384,398
Other financial liabilities	115,854	24,824	2,864	143,542
Subordinated debt	8,855,887	2,231,812	-	11,087,699
Total financial liabilities	128,726,549	31,069,684	17,053,095	176,849,328
Non-financial liabilities				
Current income tax liability	4,002	-	-	4,002
Deferred income tax liability	101,759	-	-	101,759
Other non-financial liabilities	670,908	588	84	671,580
Total non-financial liabilities	776,669	588	84	777,341
Total liabilities	129,503,218	31,070,272	17,053,179	177,626,669
Net position	24,515,575	(1,304,793)	(1,041,547)	
Off-balance sheet (derivatives) net notional position	629,136	(2,239,215)	1,610,079	
Credit related commitments	29,583,919	3,881,094	2,917,195	

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32. Risk Management Policies (continued)

As at 31 December 2009, the Group has the following open positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Financial assets				
Cash and cash equivalents	15,714,263	8,456,947	6,814,914	30,986,124
Mandatory reserve deposits with the CBRF	949,216	-	-	949,216
Due from banks	22,813,625	2,161,687	5,088,478	30,063,790
Financial assets at fair value through profit or loss	2,856,219	1,045,019	7,808	3,909,046
Available-for-sale financial assets	8,402,791	3,690,298	154,475	12,247,564
Loans to customers	77,879,742	10,279,105	12,963,030	101,121,877
Other financial assets	108,741	29,710	21,647	160,098
Total financial assets	128,724,597	25,662,766	25,050,352	179,437,715
Non-financial assets				
Property, plant and equipment	3,649,700	-	-	3,649,700
Investment property	201,779	-	-	201,779
Goodwill	156,248	-	-	156,248
Other non-financial assets	333,034	4,054	100,935	438,023
Current income tax asset	283,574	-	-	283,574
Deferred income tax asset	763,095	-	-	763,095
Non-current assets held for sale	1,110,646	-	-	1,110,646
Total non-financial assets	6,498,076	4,054	100,935	6,603,065
Total assets	135,222,673	25,666,820	25,151,287	186,040,780
Liabilities				
Financial liabilities				
Due to banks and CBRF	17,282,510	3,774,757	4,310,289	25,367,556
Customer accounts	72,064,194	14,966,361	17,628,730	104,659,285
Debt securities issued	4,278,379	6,908,489	3,044,002	14,230,870
RUR-denominated bonds issued	10,020,406	-	-	10,020,406
Other financial liabilities	65,717	12,794	3,535	82,046
Subordinated debt	8,905,009	2,214,849	-	11,119,858
Total financial liabilities	112,616,215	27,877,250	24,986,556	165,480,021
Non-financial liabilities				
Current income tax liability	24,408	-	-	24,408
Deferred income tax liability	149,453	-	-	149,453
Other non-financial liabilities	662,186	1,367	5	663,558
Total non-financial liabilities	836,047	1,367	5	837,419
Total liabilities	113,452,262	27,878,617	24,986,561	166,317,440
Net position	21,770,411	(2,211,797)	164,726	
Off-balance sheet (derivatives) net notional position	(402,304)	(394,425)	796,729	
Credit related commitments	31,479,897	3,794,090	2,909,086	

The off-balance sheet net notional positions represent notional currency positions on deliverable forward and spot contracts entered into during 2010 and 2009. All balances are presented net of impairment allowances.

The Group has extended loans denominated in foreign currencies. Depending on the revenue sources of the borrower, the increase of the foreign currency exchange rate can adversely influence the borrowers' repayment ability and, therefore, increases the probability of future loan losses.

32. Risk Management Policies (continued)

The sensitivity analysis of currency risk includes outstanding balance revaluation and calculation of the translation effect for main currencies. The table below represents the Group's sensitivity to a 17.6% increase and decrease in USD against RUR as of 31 December 2010 (2009: 20.4%). These sensitivity rates are used in foreign currency risk internal reports and represent management's assessment of the possible change in foreign exchange rates.

	As of 31 December 2010		As of 31 December 2009	
	RUR/USD +17.6%	RUR/USD -17.6%	RUR/USD +20.4%	RUR/USD -20.4%
Impact on profit or loss before tax	(625,071)	625,071	(531,075)	531,075
Impact on equity	(500,057)	500,057	(424,860)	424,860

Interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The table below summarises the effective average year end interest rates, by major currencies (USD, RUR), for financial instruments outstanding as at 31 December 2010 and 2009. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	31 December 2010		31 December 2009	
	USD %	RUR %	USD %	RUR %
Assets				
Cash and cash equivalents	0.1	1.8	0.1	1.6
Due from banks	0.1	3.2	0.2	4.1
Financial assets at fair value through profit or loss	9.4	4.9	8.5	9.8
Available-for-sale financial assets	10.2	9.4	10.4	12.2
Loans to customers	10.4	12.1	13.3	15.9
Liabilities				
Due to banks and CBRF	4.1	6.3	5.0	10.5
Customer accounts	4.6	7.9	6.7	10.4
Debt securities issued	6.4	6.8	5.4	12.4
Eurobonds and other bonds issued	-	7.9	-	13.8
Subordinated debt	7.2	8.5	7.4	9.2

The majority of the Group's interest rate sensitive financial assets and liabilities are at fixed rates. Floating rate arrangements exist in respect of term deposits placed with or taken from foreign banks, loans attracted from syndicates of foreign financial institutions and certain subordinated loans. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by repricing dates. Interest rates are revised on a short-term basis, normally at three-month intervals. Also, interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

32. Risk Management Policies (continued)

Additionally, as disclosed in the maturity analysis above, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market situations.

The Group's overall interest rate risk is monitored by ALCO which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk management departments review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The quantitative estimation of interest rate risk is carried out using stress-models which quantify the change in net interest margin due to fluctuations of interest rate sensitive assets and liabilities. For this purpose the Group identifies interest rate sensitive assets and liabilities and assesses the level of interest rate sensitivity by each asset or liability. The analysis is made by currencies on an annual horizon and is based on certain assumptions in respect of expected fluctuations of interest rates and stress scenarios. The results are used for on-going interest margin monitoring and regulation and are included in the quarterly report on the Group's consolidated risks.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on reasonably possible changes in risk variables.

Change of interest rates for interest rate sensitive financial instruments		31 December 2010		31 December 2009	
RUR	USD	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
-1%	+1%	(33,420)	(26,736)	21,215	16,972

Other prices risk. Other prices risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Other prices risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits. In addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Other prices risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

Other prices sensitivity is assessed using the Value at Risk ("VaR") method. This is a technique that estimates potential losses that could occur on a risk position as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The method is predominantly based on historical simulation models which incorporate the following features: (i) potential market movements calculated with reference to data from the previous two years; (ii) risk is calculated to a 98.5 per cent confidence level; and (iii) risk is calculated for a one-day holding period. The Group uses a VaR model that relies on Monte Carlo simulations.

32. Risk Management Policies (continued)

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as at 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Fixed income securities price risk	316,422	190,060
Equity securities price risk	69,394	15,464
Total price risk in respect with financial assets at fair value through profit or loss and available-for-sale financial assets	385,816	205,524

Although VaR is a valuable tool in measuring other prices risk exposures, it has a number of limitations, especially, in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios;
- A 1 day holding period assumes that all positions can be liquidated or hedged within that period; however, this may not be the case in situations when severe market illiquidity exists and is prolonged;
- The use of a 98.5 per cent confidence level does not take into account losses that may occur beyond this level. There is 1.5 per cent probability that the loss could exceed the VaR; and
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

The limitations of the VaR method are recognized by supplementing these assessments with limits on other prices risk discussed above.

33. Contingencies and Commitments

Operating Environment. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and Russian economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic dynamics of the country is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal and regulatory developments.

The year 2010 was marked by the recovery of economic growth in the Russian Federation. The negative influence of the global financial crisis of 2008 and 2009 on the Russian financial and capital markets substantially diminished. The improving macroeconomic environment in Russia in 2010 brought higher demand for loans from corporates and individuals as a result.

At the same time, Russia being a part of global economy is exposed to the systemic risks existing in the global economy and finance. Particularly, there still remains uncertainty regarding financial sector liquidity and prices for oil and gas which keeps the risks of high fluctuations on the Russian financial market.

33. Contingencies and Commitments (continued)

Russia is facing a relatively high level of inflation (according to the government's statistical data this ratio for 2010 reached 8.8%). Interest rates are expected to stay at current levels or even tend to grow. Then the increase in the cost of loans is impeded due to the weakness of economic entities, and the rise in the cost of liabilities could lead to reduction of interest margin.

The management of the Group is constantly monitoring the macroeconomic and market environment within the country and in the world to react effective and prompt to the ongoing changes and to adjust their actions to the competitive environment. The management of the Group considers that all necessary steps to keep the stable development and growth of the Group are undertaken in the given circumstances.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material losses will be incurred by the Group and, accordingly, no provision for such contingent liabilities has been made in these consolidated financial statements.

Tax legislation. The presence in Russian commercial and tax legislation of provisions allowing more than one interpretation coupled with the practice by the tax authorities of making arbitrary judgements of business activities, management's judgement on the Group's business activities may not coincide with the interpretation of the same by tax and other regulatory authorities. Therefore, the possibility exists that tax authorities may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Group's business.

In addition to this, because the tax legislation is subject to frequent change and some tax regulations are comparatively new, implementation of these regulations is often unclear or nonexistent. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. There is no established precedent or consistent court practice in respect of these questions. Tax years remain open to review by the tax authorities for three years.

Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose several fines, penalties and interest charges.

The Bank has a legal dispute with Russian Tax Authority upon additional income tax payment for the years 2006-2008. As at December 31 2009 the Group made a provision for these contingent liabilities totalling to RUR 82,612 thousand. In 2010 the Group paid the requested amount but the dispute is proceeding and the court decision has not been passed.

33. Contingencies and Commitments (continued)

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

	31 December 2010	31 December 2009
Not later than one year	448,568	395,047
Later than one year and not later than five years	707,306	931,094
Total operating lease commitments	1,155,874	1,326,141

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Outstanding credit related commitments are as follows:

	31 December 2010	31 December 2009
Guarantees issued	9,415,552	21,248,623
Loan commitments	25,593,521	15,021,194
Import letters of credit	2,224,523	2,322,560
Total credit related commitments before impairment	37,233,596	38,592,377
Less: client funds held as security for guarantees issued	(348,789)	(72,970)
Less: client funds held as security for import letter of credit	(496,348)	(324,077)
Less: allowance for credit related commitment impairment	(6,251)	(12,257)
Total credit related commitments	36,382,208	38,183,073

This allowance was included in other liabilities. The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

33. Contingencies and Commitments (continued)

Fiduciary activities. These assets are not included in the Group’s consolidated statement of financial position as they are not assets of the Group and are held in custody or safekeeping for customers. The nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	31 December 2010 Nominal value	31 December 2009 Nominal value
Shares in banks	8,565,903	7,258,642
Corporate bonds	5,670,317	8,087,601
Shares in companies	2,248,634	2,149,660
Local authorities bonds	1,108,921	661,002
Shares in investment funds	1,015,607	1,069,660
Bills of exchange	527,535	1,764
Corporate Eurobonds	463,256	936,638
Federal loan bonds (OFZ)	378,798	227,228
Depository notes	105,510	353,354
Vnesheconombank 3.0% coupon bonds (“MinFin bonds”)	31,195	30,244

The Group also performs asset management on behalf of customers and at their expense. The fair value of assets under management as of 31 December 2010 amounted to RUR 2,060,554 thousand (2009: RUR 2,030,261 thousand).

34. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between knowledgeable willing parties on arm’s length conditions, other than in a forced sale or liquidation.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised.

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. When utilizing valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Fixed income and equity securities – quoted prices are generally available for these securities.

Interest rates – these are principally benchmarks interest rates effective as at reporting date and quoted interest rates in the bond and futures markets.

34. Fair Value of Financial Instruments (continued)

Foreign currency exchange rates – these are observable markets both for forward contracts and futures in major currencies.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumption have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBRF and mandatory reserve deposits with the CBRF, due to the short term environment and availability restriction of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category and available-for-sale financial assets, is determined based on quoted active market prices at the reporting date.
- The fair value of overdraft loans to customers is assumed to be the amount of their carrying value. The fair value of other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar deposits with the deduction of the allowance for loan impairment from the calculated fair value amounts.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimated of their fair value.
- The fair value of the term deposits (included in customer accounts and due to banks) is estimated by application of market interest rates when the deposits were placed with the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of debt securities issued, RUR-denominated bonds issued, and subordinated debt is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.

34. Fair Value of Financial Instruments (continued)

The following tables compares the carrying amount of financial assets and liabilities to their estimated fair value:

	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	30,936,454	30,936,454	30,986,124	30,986,124
Mandatory cash balances with the Central Bank of the Russian Federation	1,087,250	1,087,250	949,216	949,216
Due from other banks	8,618,382	8,619,151	30,063,790	30,058,750
Trading securities	12,122,902	12,122,902	3,909,046	3,909,046
Available for sale securities	11,414,482	11,414,482	12,247,564	12,247,564
Investments in associates	1,162,726	1,162,726	-	-
Loans and advances to customers	126,995,907	127,171,642	101,121,877	100,466,530
Other financial assets	199,599	199,599	160,098	160,098
Financial liabilities				
Due to other banks	16,247,210	16,416,843	25,367,556	25,436,731
Customer accounts	116,153,700	116,499,690	104,659,285	104,860,871
Debt securities issued	15,832,779	15,946,751	14,230,870	14,320,731
RUR-bonds issued	17,384,398	17,426,151	10,020,406	10,112,801
Other financial liabilities	143,542	143,542	82,046	82,046
Other borrowed funds	11,087,699	11,302,455	11,119,858	9,890,605

Valuation hierarchy

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

34. Fair Value of Financial Instruments (continued)

The Group's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

	31 December 2010		
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	11,858,279	264,623	-
Investments available-for-sale	11,414,482	-	-
	31 December 2009		
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets at fair value through profit or loss	3,909,046	-	-
Investments available-for-sale	12,247,564	-	-

There were no transfers between Level 1 and Level 2 during the year 2010 and 2009.

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35. Related Party Transactions

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

The outstanding balances at the year-end and income and expenses as well as other transactions with related parties as of and for the year ended 31 December 2010 are as follows:

	Entities with significant influence over the Group	Key management personnel of the Group	Associates	Other related parties	Total related parties
Assets					
Financial assets at fair value through profit or loss	11,311	-	-	-	11,311
Available-for-sale financial assets	179,676	-	-	-	179,676
Investments in associates	-	-	1,162,726	-	1,162,726
Loans to customers, net	3,157,115	120,145	748,406	6	4,025,672
Loans to customers, gross	3,349,943	126,171	766,355	6	4,242,475
Less: allowance for loan impairment	(192,828)	(6,026)	(17,949)	-	(216,803)
Liabilities					
Customer accounts	24,917,485	2,926,354	5,183	3,150,695	30,999,717
Debt securities issued (first holder)	448,032	-	-	-	448,032
Subordinated debt	8,282,258	-	-	45,000	8,327,258
Statement of Income					
Interest income	205,557	9,855	770	62,398	278,580
Interest expense	(2,010,126)	(328,181)	-	(190,636)	(2,528,943)
Provision for loan impairment	(183,788)	(4,730)	-	41,690	(146,828)
Net gain on financial assets at fair value through profit or loss	15,746	-	-	-	15,746
Fee and commission income	1,256,092	864	4	24,793	1,281,753
Off-balance sheet commitments					
Guarantees issued	741,133	-	-	-	741,133
Import letters of credit	368,282	-	-	-	368,282
Loan commitments	1,323,125	15,210	-	394,337	1,732,672
Fiduciary activities	3,363,029	9,759	-	1,320,557	4,693,345

35. Related Party Transactions (continued)

The outstanding balances at the year-end and income and expenses as well as other transactions with related parties as of and for the year ended 31 December 2009 are as follows:

	Entities with significant influence over the Group	Key management personnel of the Group	Other related parties	Total related parties
Assets				
Financial assets at fair value through profit or loss	98,141	-	-	98,141
Available-for-sale financial assets	813,508	-	223,150	1,036,658
Loans to customers, net	241,878	24,752	1,105,340	1,371,970
Loans to customers, gross	250,918	26,048	1,147,030	1,423,996
Less: allowance for loan impairment	(9,040)	(1,296)	(41,690)	(52,026)
Liabilities				
Customer accounts	32,695,428	1,390,400	2,676,977	36,762,805
Debt securities issued (first holder)	4,701,210	-	-	4,701,210
Subordinated debt	8,270,001	-	94,000	8,364,001
Statement of Income				
Interest income	488,274	2,724	161,316	652,314
Interest expense	(2,511,889)	(93,356)	(133,541)	(2,738,786)
Provision for loan impairment	64,717	690	(15,775)	49,632
Net gain on financial assets at fair value through profit or loss	3,528	-	-	3,528
Fee and commission income	1,126,757	310	19,206	1,146,273
Off-balance sheet commitments				
Guarantees issued	402,765	1,512	304	404,581
Import letters of credit	470,354	-	-	470,354
Loan commitments	331,014	34,831	554,312	920,157
Fiduciary activities	2,965,481	313,405	426,483	3,705,369

During 2010, the total remuneration of directors and key management personnel included in operating expenses was RUR 181,686 thousand (2009: RUR 186,740 thousand). The amount included solely short-term benefits.

36. Segment Reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 “Operating segments” and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

36. Segment Reporting (continued)

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- **Corporate banking:** Corporate banking includes the provision of settlement, foreign currency, cash and other transactions as well as the attraction of funds and extension loans to large and medium-sized companies;
- **Investment banking:** Investment banking includes the provision of brokerage, custody and fiduciary services to large corporate groups and individual clients, acting as a financial consultant to the corporate customers on raising finance as well as operating as a dealer on financial markets on the Bank's own behalf; and
- **Retail and private banking:** Retail and private banking represents the provision of large-scale retail services to middle-income and high net-worth individuals, the attraction of funds from them and the issuance loans of different types.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's internal interest rates that are based on market terms and conditions for similar financial instruments. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but excluding items such as taxation, share of profits of associates, etc. Internal charges for items such as management board and directors' salaries and transfer pricing adjustments have been reflected in the performance of each business. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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36. Segment Reporting (continued)

Segment information about these businesses as of 31 December 2010 and for the year 2010 is presented below.

	Corporate banking	Investment banking	Retail and private banking	Unallocated	Total
Interest income	14,016,160	2,514,945	1,240,359	-	17,771,464
Interest expense	(5,232,679)	(2,041,581)	(3,509,056)	-	(10,783,316)
Net interest income	8,783,481	473,364	(2,268,697)	-	6,988,148
Provision for loan impairment	(1,767,662)	-	(88,591)	-	(1,856,253)
Net interest income after changes in provision for loan impairment	7,015,819	473,364	(2,357,288)	-	5,131,895
Net loss on financial assets at fair value through profit or loss	-	(52,925)	-	-	(52,925)
Net realised gain from available-for- sale financial assets	-	1,772,123	-	-	1,772,123
Impairment of available-for-sale financial assets	-	(5,824)	-	-	(5,824)
Net gain arising from dealing in foreign currencies	311,887	249,330	88,412	-	649,629
Net loss arising on foreign exchange translation	(16)	(285,629)	-	-	(285,645)
Fee and commission income	2,684,373	227,353	752,482	-	3,664,208
Fee and commission expense	(144,791)	(70,459)	(168,514)	-	(383,764)
Recovery of provisions on credit related commitments	6,128	-	(122)	-	6,006
Impairment of property, plant and equipment	89,925	373	5,444	1,019	96,761
Fair value movement of investment property	10,992	-	-	-	10,992
Impairment of non-current assets held for sale	(272,250)	-	(5,110)	-	(277,360)
Other operating income	278,543	179,739	35,554	101,873	595,709
External net revenue	9,980,610	2,487,449	(1,649,142)	102,892	10,921,805
Net revenue from other segments	(2,218,822)	4,256	2,214,566	-	-
Total	7,761,788	2,491,705	565,424	102,892	10,921,805
Operating expenses	(2,968,888)	(473,127)	(2,015,186)	(281,653)	(5,738,854)
Profit before income tax expense	4,792,900	2,018,578	(1,449,762)	(178,761)	5,182,951
Income tax expense	-	-	-	(1,521,027)	(1,521,027)
Net profit	4,792,900	2,018,578	(1,449,762)	(1,699,788)	3,661,924
Segment assets	149,204,319	31,796,083	17,394,211	1,401,291	199,795,904
Segment liabilities	87,164,245	37,473,395	52,652,120	336,909	177,626,669
Other segment items					
Depreciation expense	(100,754)	(5,331)	(68,652)	(12,940)	(187,677)
Capital expenditures	(109,327)	(4,706)	(79,024)	(49,669)	(242,726)

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36. Segment Reporting (continued)

Segment information about these businesses as of 31 December 2009 and for the year 2009 is presented below.

	Corporate banking	Investment banking	Retail and Private banking	Unallocated	Total
Interest income	14,910,388	3,048,623	1,554,626	-	19,513,637
Interest expense	(5,869,006)	(3,206,164)	(2,840,290)	-	(11,915,460)
Net interest income	9,041,382	(157,541)	(1,285,664)	-	7,598,177
Provision for loan impairment	(3,546,570)	-	(202,601)	-	(3,749,171)
Net interest income after changes in provision for loan impairment	5,494,812	(157,541)	(1,488,265)	-	3,849,006
Net gain on financial assets at fair value through profit or loss	-	206,085	-	-	206,085
Net realised gain from available-for- sale financial assets	-	281,835	-	-	281,835
Impairment of available-for-sale financial assets	-	(846,698)	-	-	(846,698)
Net gain arising from dealing in foreign currencies	16,585	1,978,798	50,402	-	2,045,785
Net loss arising on foreign exchange translation	(70)	(1,153,361)	-	-	(1,153,431)
Fee and commission income	2,805,270	143,626	731,032	-	3,679,928
Fee and commission expense	(190,691)	(90,296)	(146,834)	-	(427,821)
Recovery of provisions on credit related commitments	138,682	-	-	-	138,682
Impairment of property, plant and equipment	(355,275)	-	-	-	(355,275)
Fair value movement of investment property	(24,330)	-	-	-	(24,330)
Impairment of non-current assets held for sale	(23,937)	-	-	-	(23,937)
Provision for contingent liability	-	-	-	(82,612)	(82,612)
Other operating income	298,384	16,499	47,083	150,406	512,372
External net revenue	8,159,430	378,947	(806,582)	67,794	7,799,589
Net revenue from other segments	(1,701,885)	(200,780)	1,902,665	-	-
Total	6,457,545	178,167	1,096,083	67,794	7,799,589
Operating expenses	(3,070,957)	(315,815)	(1,521,025)	(43,868)	(4,951,665)
Profit before income tax expense	3,386,588	(137,648)	(424,942)	23,926	2,847,924
Income tax expense	-	-	-	(758,096)	(758,096)
Net profit	3,386,588	(137,648)	(424,942)	(734,170)	2,089,828
Segment assets	128,334,186	34,897,011	20,835,516	1,974,067	186,040,780
Segment liabilities	89,436,589	36,917,653	39,595,250	367,948	166,317,440
Other segment items					
Depreciation expense	(112,536)	(5,452)	(69,538)	(17,028)	(204,554)
Capital expenditures	(99,284)	(4,872)	(77,468)	(57,318)	(238,942)

37. Capital Management and Capital Adequacy

Capital Management

The Group's policy on capital management is to maintain a strong capital base in order to support further business development of the Group and to satisfy requirements set by regulatory authorities.

The CBRF establishes and controls capital adequacy requirements. Banks are obliged to maintain the ratio of capital to risk weighted assets at not less than certain established levels. As of 31 December 2010 and 2009 the minimum capital adequacy requirement was 10%.

The following table shows the structure of the Group's capital position calculated in accordance with the requirements of the Basle Accord as of 31 December 2010 and 2009.

	As of 31 December 2010	As of 31 December 2009
Tier 1 capital	20,712,559	19,472,516
Tier 2 capital	7,695,069	8,837,091
Total capital	28,407,628	28,309,607
Risk-weighted assets	174,052,875	152,316,349
Total capital ratio, %	16.3%	18.6%
Tier 1 capital ratio, %	11.9%	12.8%

Capital allocation between transactions and business lines performed by the Group is done to maximize risk adjusted profitability (return on allocated capital). The Group's capital management policies are reviewed by the Board of Director on a regular basis.

The Group has been developing procedures for the economic capital calculation on the basis of best international risk management practices. The economic capital is compared to the Group's capital and should not exceed it. The calculation is performed on a quarterly basis and includes all types of risks by all business lines. Where appropriate, an accepted level of calculation reliability equals to 98.5% which corresponds to international standards.

38. Subsequent Events

In February 2011 the Group became the sole owner of ZPIF "4th Natsionalny". The principal activity of the entity is investment management. The fair value of the net assets of the entity as of the acquisition date amounted of RUR 1,500,000 thousand was equal to the consideration paid.

In February 2011 the Board of Directors made a decision on issuance of five emissions of RUR-denominated bonds in total amount of RUR 21,000,000 thousand.

The maturity dates of subordinated debts in amount of RUR 3,606,500 thousand were extended from years 2012-2013 until years 2017-2018.