RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of 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

2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 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 financial statements are free from material misstatement.

4 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

28 April 2011
Moscow, Russian Federation

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In millions of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	81 010	94 958
Mandatory cash balances with the Central Bank of the Russian Federation		3 468	2 974
Trading securities	8	3 563	18 022
Repurchase receivables	9	15 240	3 467
Financial instruments designated at fair value through profit or loss	10	9 686	4 070
Derivative financial instruments	36	20 621	28 289
Due from other banks	11	34 477	37 792
Loans and advances to customers	12	688 556	584 407
Investment securities available for sale	13	15 687	7 800
Investment securities held to maturity	14	14 922	7 732
Deferred income tax asset	30	1 930	400
Goodwill	15	-	298
Intangible assets	16	1 563	1 023
Premises and equipment	16	25 985	27 446
Current income tax prepayment	30	191	229
Other assets	17	11 052	11 757
Assets of the disposal groups held for sale	40	2 849	-
TOTAL ASSETS		**930 800**	**830 664**
LIABILITIES			
Derivative financial instruments	36	541	167
Due to other banks	18	105 578	192 010
Customer accounts	19	386 279	230 303
Promissory notes issued	20	9 874	12 567
Other borrowed funds	21	257 559	216 484
Syndicated loans	22	-	7 570
Deferred income tax liability	30	1 405	1 815
Current income tax liability	30	17	-
Other liabilities	23	4 389	7 842
Subordinated debts	24	46 545	46 370
Liabilities directly associated with disposal groups held for sale	40	1 015	-
TOTAL LIABILITIES		**813 202**	**715 128**
EQUITY			
Share capital	25	108 798	106 973
Revaluation reserve for premises		933	842
Revaluation reserve for investment securities available for sale		(101)	14
Retained earnings		6 851	6 572
Equity attributable to the Bank's owner		**116 481**	**114 401**
Non-controlling interests		**1 117**	**1 135**
TOTAL EQUITY		**117 598**	**115 536**
TOTAL LIABILITES AND EQUITY		**930 800**	**830 664**

Approved for issue and signed on behalf of the Management Board on 28 April 2011.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

In millions of Russian Roubles	Note	2010	2009
Interest income	26	105 007	93 146
Interest expense	26	(53 383)	(58 069)
Net interest income		**51 624**	**35 077**
Provision for loan impairment	11, 12	(28 507)	(13 421)
Net interest income after provision for loan impairment		**23 117**	**21 656**
Fee and commission income	27	3 411	3 244
Fee and commission expense	27	(589)	(489)
Gains less losses arising from trading securities		708	106
(Losses net of gains)/gains less losses arising from financial instruments designated at fair value through profit or loss		(734)	285
Foreign exchange translation losses net of gains		(1 737)	(2 515)
Losses net of gains from foreign exchange swaps with settlement dates of more than 30 days		(456)	(3 089)
Losses net of gains arising from other derivative financial instruments		(342)	(553)
Gains less losses arising from dealings in foreign currencies		289	472
Gains less losses arising from disposal of investment securities available for sale	13	390	528
Impairment of investment securities available for sale	13	-	(475)
Recovery of provision/(provision) for other assets and litigation	17, 23	192	(319)
Gains from early redemption of other borrowed funds and buy-back of subordinated debts	21, 24	41	2 075
Losses net of gains from non-banking activities	28	(269)	(299)
Other operating income		296	212
Administrative and other operating expenses	29	(23 584)	(19 999)
Profit before tax		**733**	**840**
Income tax expense	30	(364)	(589)
Profit for the year		**369**	**251**
Other comprehensive (expense)/income			
Securities available for sale:			
-Revaluation of securities at fair value	13	246	2 292
-Realised revaluation reserve (at disposal)	13	(390)	(528)
-Impairment losses recycled to profit or loss		-	134
Revaluation of premises		142	(106)
Income tax recorded directly in other comprehensive income	30	-	(358)
Other comprehensive (expense)/income for the year, net of tax		**(2)**	**1 434**
Total comprehensive income for the year		**367**	**1 685**
Profit/(loss) is attributable to:			
Owner of the Bank		489	358
Non-controlling interests		(120)	(107)
Profit for the year		**369**	**251**
Total comprehensive income/(expense) is attributable to:			
Owner of the Bank		487	1 792
Non-controlling interests		(120)	(107)
Total comprehensive income for the year		**367**	**1 685**

In millions of Russian Roubles	**Note**	**Attributable to owner of the Bank** Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total	**Non-controlling interests**	**Total equity**
Balance at 31 December 2008		**61 973**	**952**	**(1 504)**	**6 337**	**67 758**	**-**	**67 758**
Total comprehensive income, net of tax		-	(84)	1 518	358	1 792	(107)	1 685
Share issue	25	45 000	-	-	-	45 000	-	45 000
Business combinations		-	-	-	-	-	1 242	1 242
Realised revaluation reserve for premises, net of tax		-	(26)	-	26	-	-	-
Dividends declared	31	-	-	-	(149)	(149)	-	(149)
Balance at 31 December 2009		**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**
Total comprehensive income, net of tax		-	113	(115)	489	487	(120)	367
Share issue	25	1 825	-	-	-	1 825	-	1 825
Change in ownership interests		-	-	-	-	-	102	102
Realised revaluation reserve for premises, net of tax		-	(22)	-	22	-	-	-
Dividends declared	31	-	-	-	(232)	(232)	-	(232)
Balance at 31 December 2010		**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**

In millions of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		99 098	92 450
Interest paid		(51 386)	(56 614)
Income received/(losses incurred) from trading in securities and financial instruments designated at fair value through profit or loss		1 091	(419)
Income received/(losses incurred) from foreign exchange swaps with settlement dates of more than 30 days		7 624	(4 478)
Losses incurred from other derivative financial instruments		(380)	(762)
Income received from dealings in foreign currencies		289	472
Fees and commissions received		3 411	3 031
Fees and commissions paid		(440)	(452)
Other operating income received		296	207
Staff costs paid		(14 794)	(11 847)
Administrative and other operating expenses paid		(6 873)	(6 401)
Income tax paid		(1 940)	(1 718)
Cash flows from operating activities before changes in operating assets and liabilities		**35 996**	**13 469**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(494)	(2 011)
Net decrease/(increase) in trading securities		16 826	(3 677)
Net (increase)/decrease in financial instruments designated at fair value through profit or loss		(6 055)	2 357
Net decrease in due from other banks		3 586	66 501
Net increase in loans and advances to customers		(125 768)	(158 326)
Net increase in other assets		(1 336)	(1 573)
Net decrease in due to other banks		(87 348)	(58 083)
Net increase in customer accounts		154 883	73 240
Net (decrease)/increase in promissory notes issued		(2 633)	3 072
Net increase in other liabilities		257	1 511
Net cash used in operating activities		**(12 086)**	**(63 520)**
Cash flows from investing activities			
Acquisition of premises and equipment	16	(2 855)	(4 486)
Proceeds from disposal of premises and equipment		702	108
Acquisition of intangible assets	16	(829)	(498)
Acquisition of investment securities available for sale	13	(40 136)	(14 391)
Proceeds from disposal of investment securities available for sale		16 825	11 984
Acquisition of investment securities held to maturity		(7 956)	(2 251)
Proceeds from redemption of investment securities held to maturity		865	4 609
Acquisition of subsidiaries net of cash disposed of		-	(1 531)
Net cash used in investing activities		**(33 384)**	**(6 456)**
Cash flows from financing activities			
Proceeds from other borrowed funds	21	65 958	49 509
Repayment of other borrowed funds	21	(27 081)	(11 161)
Repayment of syndicated loans	22	(7 374)	(3 281)
Proceeds from placement of bought-back subordinated debt	24	-	163
Issue of ordinary shares	25	1 825	45 000
Dividends paid	31	(232)	(149)
Net cash from financing activities		**33 096**	**80 081**
Effect of exchange rate changes on cash and cash equivalents		**(1 568)**	**1 676**
Effect directly associated with disposal groups held for sale		**(6)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(13 948)**	**11 781**
Cash and cash equivalents at the beginning of the year	7	94 958	83 177
Cash and cash equivalents at the end of the year	7	**81 010**	**94 958**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) for the year ended 31 December 2010 for Open Joint-Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2009: 78) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3.

The number of the Group’s employees at 31 December 2010 was 36 120 (2009: 33 134).

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

In summer 2010, the Government declared drought emergency in several Russian regions. This event had significant negative consequences, including increase in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 35). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation.

2 Operating Environment of the Group (Continued)

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises used in banking activity, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interests are that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

3 Summary of Significant Accounting Policies (Continued)

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Financial instruments-key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognitotion).

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

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flow.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Summary of Significant Accounting Policies (Continued)

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group 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. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss or available for sale categories in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year.

***Repossessed collateral*.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each end of the reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

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

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

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognized by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 16. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

At each end of reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20 - 40
Equipment	5 - 20	5 - 20
Leasehold improvements	10	-

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

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognized in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

3 Summary of Significant Accounting Policies (Continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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

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

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

3 Summary of Significant Accounting Policies (Continued)

Syndicated loans. Syndicated loans include the amounts attracted by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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 amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commission on agency services are recognized based on the applicable service contracts.

Revenue recognition – sale of goods. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (2009: USD 1 = RR 30.2442), EUR 1 = RR 40.3331 (2009: EUR 1 = RR 43.3883).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 35. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Group's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses of RR 1 480 million (2009: a 5% decrease in actual loss given default compared to estimated loss given default used would result in a decrease in loan impairment losses of RR 1 186 million; a 5% increase in actual loss given default compared to estimated loss given default used would not result in any additional loan impairment losses).

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 38.

Derecognition of financial assets. During 2010 the Group entered into an arrangement with the subsidiary of a foreign bank regarding the sale of defaulted borrowers' loans for the total amount of RR 1 405 million. The Group has determined that it transferred substantially all the risks and rewards of ownership of these loans, both the risks in respect of default payments and the time value of money. Accordingly, these loans were derecognised.

Accounting for subordinated debt from Vnesheconombank. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation".

In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt were originally recognized and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such loans was higher than the contractual interest rates, the amortised contractual value of the debt would has been replaced by (i) the amortised value of the loans determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rates would have been offset by amortisation of the government grant.

4 Critical Accounting Estimated, and Judgements in Applying Accounting Policies (Continued)

Accounting for change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law №173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remain unchanged.

The Group accounted for such reduction in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would be recorded as government grant deferred income within other liabilities and is to be amortised through interest expense until the debts' maturity date.

5 Adoption of New or Revised Standards and Interpretations

(a) Certain amendments were early adopted by the Group

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 39.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011). IFRS 7 was amended to clarify certain disclosure requirements, in particular: (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period. The Group has early adopted amendments to IFRS 7. Refer to Note 12 and 17.

(b) Certain new standards and interpretations became effective for the Group from 1 January 2010

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amended standard did not have a material impact on these consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these consolidated financial statements.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions-Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters-Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later periods and which the Group has not been early adopted.

Classification of Rights Issues-Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14 (are effective for annual periods beginning on or after 1 January 2011). This amendment has a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plans. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that the amendment will not have any effect on its consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, IAS 28 and IAS 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements except the amendment to IFRS 7 which was early adopted by the Group as explained in Note 5.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group concluded that the amendments will not have any effect on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	2010	2009
Cash on hand	16 101	12 373
Cash balances with the CBRF (other than mandatory reserve deposits)	37 361	17 691
Correspondent accounts and deposits with other banks with original maturities less than one month	25 952	63 006
Settlement accounts with MICEX, RTS and NCC	1 596	1 749
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	-	139
Total cash and cash equivalents	**81 010**	**94 958**

There were no cash equivalents effectively collateralized by securities purchased under reverse sale and repurchase agreements as at 31 December 2010 (2009: RR 139 million collateralized by securities under reverse sale and repurchase agreements at fair value RR 252 million). The Group had a right to sell or repledge these securities.

As at 31 December 2010 correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one Russian banking group with rating of its parent bank BBB (S&P) in the amount of RR 21 457 million or 26% of total cash and cash equivalents (2009: foreign bank with rating AA- (S&P) in the amount of RR 46 914 million or 49% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	2010	2009
Current and not impaired		
Cash on hand	16 101	12 373
Cash balances with the CBRF (other than mandatory reserve deposits)	37 361	17 691
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- OECD banks and their subsidiary banks	2 498	47 536
- top 30 Russian banks (by net assets) and their subsidiary banks	23 441	15 165
- other Russian banks	3	303
- other non-resident banks	10	2
Settlement accounts with MICEX, RTS and NCC	1 596	1 749
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	-	100
- other Russian banks	-	39
Total cash and cash equivalents	**81 010**	**94 958**

Refer to Note 37 for the disclosure of fair value of cash and cash equivalents. Geography analysis and interest rate analysis of cash and cash equivalents are disclosed in Note 33.

8 Trading Securities

In millions of Russian Roubles	2010	2009
Corporate bonds	3 312	16 481
Municipal and subfederal bonds	251	321
Securities in trust	-	1 220
Total trading securities	**3 563**	**18 022**

As at 31 December 2009 the securities in trust were corporate bonds managed by the trust company in accordance with the investment declaration.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	2 412	900	-	3 312
Municipal and subfederal bonds	251	-	-	251
Total debt trading securities	**2 663**	**900**	**-**	**3 563**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	15 881	236	364	16 481
Securities in trust	750	285	185	1 220
Municipal and subfederal bonds	321	-	-	321
Total debt trading securities	**16 952**	**521**	**549**	**18 022**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from May 2011 to December 2013 (2009: from May 2011 to February 2014), coupon rates from 10.0% to 13.5% p.a. (2009: from 11.5% to 20.0% p.a.) and yield to maturity or next repricing date from 6.3% to 7.0% p.a. (2009: from 9.6% to 21.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity date in June 2017 (2009: from September 2010 to June 2017), coupon rate 8.0% p.a. (2009: from 6.8% to 8.0% p.a.) and yield to maturity 7.4% p.a. (2009: from 9.1% to 9.9% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Refer to Note 37 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 33.

8 Trading Securities (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal and subfederal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal and subfederal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognized, were as follows:

In millions of Russian Roubles	2010		2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity				
Federal loan bonds (OFZ)	3 317	3 171	3 917	3 573
Municipal and subfederal bonds	1 020	1 009	1 148	1 040
Corporate bonds	710	727	695	628
Corporate Eurobonds	912	999	1 033	1 078
Reclassified into available for sale				
Corporate bonds	62	62	422	422
Corporate Eurobonds	1 106	1 106	2 097	2 097
Corporate shares	15	15	10	10
Total	**7 142**	**7 089**	**9 322**	**8 848**

8 Trading Securities (Continued)

Income or loss recognised for 2010 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	Income recognised in profit or loss after reclassification			Gain from revaluation that would have been recognised in profit or loss if the assets had not been reclassified
	Gains less losses from sale	Interest income	Foreign exchange gains less losses	
Reclassified into held to maturity				
Federal loan bonds (OFZ)	-	237	-	188
Municipal and subfederal bonds	-	97	-	109
Corporate bonds	-	66	-	99
Corporate Eurobonds	-	71	9	45
Reclassified into available for sale				
Corporate bonds	20	22	-	6
Corporate Eurobonds	31	135	7	63
Corporate shares	-	-	-	5
Total	**51**	**628**	**16**	**515**

Income or loss recognised for 2009 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	Income recognised in profit or loss after reclassification			Gain from revaluation that would have been recognised in profit or loss if the assets had not been reclassified
	(Losses net of gains)/gains less losses from sale	Interest income	Foreign exchange gains less losses	
Reclassified into held to maturity				
Federal loan bonds (OFZ)	-	264	-	169
Municipal and subfederal bonds	-	105	-	184
Corporate bonds	-	56	-	115
Corporate Eurobonds	-	88	27	365
Reclassified into available for sale				
Municipal and subfederal bonds	(2)	2	-	-
Corporate bonds	(2)	207	-	98
Corporate Eurobonds	3	220	64	964
Corporate shares	-	-	-	5
Total	**(1)**	**942**	**91**	**1 900**

8 Trading Securities (Continued)

Income or loss recognised for six months 2008 after reclassification, and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		**Loss from revaluation that would have been recognised in profit or loss if the assets had not been reclassified**
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Federal loan bonds (OFZ)	150	-	(536)
Municipal and subfederal bonds	51	-	(287)
Corporate bonds	38	-	(177)
Corporate Eurobonds	35	208	(307)
Reclassified into available for sale			
Municipal and subfederal bonds	3	-	(2)
Corporate bonds	142	-	(484)
Corporate Eurobonds	92	506	(1 119)
Corporate shares	-	-	(7)
Total	**511**	**714**	**(2 919)**

9 Repurchase Receivables

In millions of Russian Roubles	**2010**	**2009**
Trading securities		
Corporate bonds	618	3 410
Municipal and subfederal bonds	-	57
Securities available for sale		
Corporate bonds	11 929	-
State Eurobonds	2 658	-
Municipal and subfederal bonds	35	-
Total repurchase receivables	**15 240**	**3 467**

Analysis by credit quality of repurchase receivables outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Trading securities				
Corporate bonds	618	-	-	618
Securities available for sale				
Corporate bonds	10 556	676	697	11 929
State Eurobonds	2 658	-	-	2 658
Municipal and subfederal bonds	35	-	-	35
Total repurchase receivables	**13 867**	**676**	**697**	**15 240**

* or ratings of other analogous rating agencies

9 Repurchase Receivables (Continued)

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Trading securities				
Corporate bonds	3 410	-	-	3 410
Municipal and subfederal bonds	57	-	-	57
Total repurchase receivables	**3 467**	**-**	**-**	**3 467**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from October 2011 to November 2020 (2009: from October 2011 to February 2014), coupon rates from 7.0% to 14.8% p.a. (2009: from 11.5% to 13.5% p.a.) and yield to maturity or next repricing date from 6.3% to 11.2% p.a. (2009: from 9.7% to 13.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 there bonds have maturity date in March 2030, annual coupon rate 7.5% p.a. payable semi-annually, and yield to maturity 4.8% p.a. (2009: nil).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2010 these bonds have maturity date in June 2012 (2009: July 2014), coupon rate 9.5% p.a. (2009: 8.0% p.a.) and yield to maturity 6.7% p.a. (2009: 9.5% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 37 for the disclosure of fair value hierarchy for repurchase receivables. Geographical and interest rate analyses of repurchase receivables are disclosed in Note 33.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	2010	2009
Credit Linked Notes	825	700
Due from other banks	8 861	3 370
Total financial instruments designated at fair value through profit or loss	**9 686**	**4 070**

International credit rankings of issuers of the above notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2010 (2009: not less than BB- (S&P)).

The management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, while there was an option to separate the embedded derivative and value the host contract at amortized cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

In March 2010, the Group placed funds with the same OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with another OECD bank in the total amount of USD 107 million, with maturity dates in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to credit risk of a quasi-sovereign issuer.

10 Financial Instruments Designated at Fair Value Thought Profit or Loss (Continued)

Refer to Note 37 for the disclosure of fair value hierarchy for financial instruments designated at fair value through profit or loss. Geography analysis and interest rate analysis of financial instruments designated at fair value through profit or loss are disclosed in Note 33.

11 Due from Other Banks

In millions of Russian Roubles	**2010**	**2009**
Current term placements with other banks	34 500	37 643
Overdue deposits in other banks	-	156
Less: Provision for impairment	(23)	(7)
Total due from other banks	**34 477**	**37 792**

Analysis of the movements in the provision for impairment of due from other banks is as follows:

In millions of Russian Roubles	**2010**	**2009**
Provision for impairment at 1 January	**7**	**-**
Provision for impairment during the year	16	7
Provision for impairment at 31 December	**23**	**7**

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	**2010**	**2009**
Current and not impaired		
- OECD banks and their subsidiary banks	24 566	24 380
- Other non-resident banks	3 787	7 194
- Top 30 Russian banks (by net assets) and their subsidiary banks	916	-
- Other Russian banks	4 861	6 069
Total current and not impaired	**34 130**	**37 643**
Individually assessed for impairment		
- watch-list	370	-
- 6 to 30 days overdue	-	156
Total individually assessed for impairment	**370**	**156**
Total due from other banks (before impairment)	**34 500**	**37 799**
Provision for impairment	**(23)**	**(7)**
Total due from other banks	**34 477**	**37 792**

Overdue loans represent not only past due payments but the whole outstanding balance of such loans.

11 Due from Other Banks (Continued)

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	2010	2009
Unsecured interbank loans	5 099	9 481
Interbank loans collateralised by:		
- guarantee deposits	24 566	24 374
- other assets	4 812	3 937
Total due from other banks	**34 477**	**37 792**

As at 31 December 2010 the Group has placements with one foreign bank with rating AA- (S&P) in the total amount of RR 24 566 million, or 71% of total due from other banks (2009: the same foreign bank with rating AA- (S&P) in the total amount of RR 24 374 million, or 64% of total due from other banks).

Refer to Note 37 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 33.

12 Loans and Advances to Customers

In millions of Russian Roubles	2010	2009
Loans to legal entities		
- Loans to corporates	615 385	503 568
- Lending for food interventions	44 514	42 666
- Deals with securities purchased under “reverse-repo agreements”	-	894
- Investments in agricultural cooperatives	655	702
Loans to individuals	85 031	66 527
Total loans and advances to customers (before impairment)	**745 585**	**614 357**
Less: Provision for loan impairment	(57 029)	(29 950)
Total loans and advances to customers	**688 556**	**584 407**

As at 31 December 2010 included in gross amount of loans are loans in the amount of RR 419 590 million (2009: RR 362 335 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of the Bank of Russia of the contributions made. The Group’s management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2010, no loans and advances to customers are effectively collateralised by securities purchased under reverse repo agreements (2009: RR 894 million with a fair value RR 985 million). The Group had the right to sell or repledge securities.

12 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

In millions of Russian Roubles	2010				2009			
	Loans to corporates	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January	**28 439**	**8**	**1 503**	**29 950**	**15 249**	**20**	**1 288**	**16 557**
Provision for loan impairment during the year	27 742	15	734	28 491	13 211	(12)	215	13 414
Provision for uncollectible loans sold during the year	(1 405)	-	-	(1 405)	-	-	-	-
Loans and advances to customers written off during the year as uncollectible	(7)	-	-	(7)	(21)	-	-	(21)
Provision for loan impairment at 31 December	**54 769**	**23**	**2 237**	**57 029**	**28 439**	**8**	**1 503**	**29 950**

In 2010 no provision for “Lending for food interventions” was created (2009: no provision for “Lending for food interventions” and “Reverse repo agreements” was created).

The economic sector structure of the credit portfolio is as follows:

	2010		2009	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	467 876	63	392 916	64
Manufacturing	99 002	13	82 608	13
Individuals	85 031	11	66 527	11
Trading	54 179	7	40 039	6
Construction	25 898	4	22 034	4
Other	13 599	2	10 233	2
Total loans and advances to customers (before impairment)	**745 585**	**100**	**614 357**	**100**

As at 31 December 2010, the aggregate amount of loans to individuals included loans in the amount of RR 52 689 million issued to individuals-sole farmers (2009: RR 49 026 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower’s activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower’s financial position the Group applies a system of coefficients according to which the borrower’s financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

12 Loans and Advances to Customers (Continued)

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;

12 Loans and Advances to Customers (Continued)

- principal or interest overdue by over 365 days;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired					
- good financial position	-	44 514	-	-	44 514
Total current and not impaired	**-**	**44 514**	**-**	**-**	**44 514**
2. Collectively assessed for impairment					
Current					
- good financial position	316 256	-	-	-	316 256
- average financial position	149 659	-	-	-	149 659
- included in portfolios of similar risk loans	1 313	-	655	81 900	83 868
Overdue					
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 229	-	-	425	5 654
Total collectively assessed for impairment	**472 457**	**-**	**655**	**82 325**	**555 437**
3. Individually assessed for impairment					
- watch list	73 990	-	-	-	73 990
- poor financial position	3 372	-	-	-	3 372
- 6 to 30 days overdue	3 273	-	-	-	3 273
- 31 to 90 days overdue	8 241	-	-	238	8 479
- 91 to 180 days overdue	18 267	-	-	302	18 569
- 181 to 365 days overdue	10 296	-	-	529	10 825
- over 365 days overdue	25 489	-	-	1 637	27 126
Total individually assessed for impairment	**142 928**	**-**	**-**	**2 706**	**145 634**
Total loans and advances to customers (before impairment)	**615 385**	**44 514**	**655**	**85 031**	**745 585**
Provision for loan impairment	**(54 769)**	**-**	**(23)**	**(2 237)**	**(57 029)**
Total loans and advances to customers	**560 616**	**44 514**	**632**	**82 794**	**688 556**

12 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2009 is as follows:

In millions of Russian Roubles	Loans to corporates	Lending for food interven-tions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	42 666	894	-	-	43 560
Total current and not impaired	**-**	**42 666**	**894**	**-**	**-**	**43 560**
2. Collectively assessed for impairment						
Current						
- good financial position	283 580	-	-	702	-	284 282
- average financial position	156 025	-	-	-	-	156 025
- included in portfolios of similar risk loans	618	-	-	-	63 928	64 546
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 096	-	-	-	380	5 476
Total collectively assessed for impairment	**445 319**	**-**	**-**	**702**	**64 308**	**510 329**
3. Individually assessed for impairment						
- watch list	23 828	-	-	-	-	23 828
- poor financial position	2 841	-	-	-	-	2 841
- 6 to 30 days overdue	1 925	-	-	-	-	1 925
- 31 to 90 days overdue	5 193	-	-	-	314	5 507
- 91 to 180 days overdue	4 905	-	-	-	321	5 226
- 181 to 365 days overdue	7 815	-	-	-	681	8 496
- over 365 days overdue	11 742	-	-	-	903	12 645
Total individually assessed for impairment	**58 249**	**-**	**-**	**-**	**2 219**	**60 468**
Total loans and advances to customers (before impairment)	**503 568**	**42 666**	**894**	**702**	**66 527**	**614 357**
Provision for loan impairment	**(28 439)**	**-**	**-**	**(8)**	**(1 503)**	**(29 950)**
Total loans and advances to customers	**475 129**	**42 666**	**894**	**694**	**65 024**	**584 407**

Overdue loans represent not only past due payments but also outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 26 878 million (2009: RR 554 million) and loans and advances to customers overdue more than 180 days of RR 7 869 million (2009: RR 2 259 million).

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment, which are not analysed by the Group on an individual basis.

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	2010	2009
Current loans	636 912	572 269
Past due instalments	50 825	20 966
Current portion of past due loans	57 848	21 122
Provision for loan impairment	(57 029)	(29 950)
Total loans and advances to customers	**688 556**	**584 407**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) (2009: over 70%) relates to the following types: real estate – 41% (2009: 41%), equipment – 17% (2009: 19%) and goods in turnover – 15% (2009: 16%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts; and
- for individuals – overdrafts and loans issued within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans"; "Loans to the sole farmers", "Reliable Customer".

Refer to Note 37 for the disclosure of fair value of each class of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 33. The information on related party transactions is disclosed in Note 39.

13 Investment Securities Available for Sale

In millions of Russian Roubles	2010	2009
Corporate bonds	7 139	3 449
Corporate Eurobonds	4 955	2 355
State Eurobonds	3 054	1 531
Municipal and subfederal bonds	524	92
Corporate shares	15	10
Federal loan bonds (OFZ)	-	363
Total investment securities available for sale	**15 687**	**7 800**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	5 482	201	1 456	7 139
Corporate Eurobonds	4 645	310	-	4 955
State Eurobonds	3 054	-	-	3 054
Municipal and subfederal bonds	322	202	-	524
Total debt investment securities available for sale	**13 503**	**713**	**1 456**	**15 672**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	825	-	2 624	3 449
Corporate Eurobonds	1 835	520	-	2 355
State Eurobonds	1 531	-	-	1 531
Federal loan bonds (OFZ)	363	-	-	363
Municipal and subfederal bonds	92	-	-	92
Total debt investment securities available for sale	**4 646**	**520**	**2 624**	**7 790**

* or ratings of other analogous rating agencies

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from October 2011 to November 2020 (2009: from November 2010 to November 2014), annual coupon rates from 7.0% to 14.8% p.a. (2009: from 7.8% to 20.0% p.a.) and yield to maturity or next repricing date from 6.3% to 17.7% p.a. (2009: from 7.6% to 21.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Corporate Eurobonds are bonds denominated in USD issued by major Russian companies. As at 31 December 2010 these bonds have maturity dates from January 2011 to October 2020 (2009: from January 2010 to February 2017), annual coupon rates from 5.4% to 12.0% p.a. (2009: from 7.5% to 12.0% p.a.), payable semi-annually, and yield to maturity or next repricing date from 4.3% to 10.9% p.a. (2009: from 3.9% to 16.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in April 2020 (2009: March 2030), annual coupon rate 5.0% p.a. (2009: 7.5% p.a.), payable semi-annually, and yield to maturity 5.0% p.a. (2009: 5.5% p.a.).

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from June 2012 to December 2014 (2009: June 2012), annual coupon rates from 8.3% to 9.5% p.a. (2009: 9.6% p.a.) and yield to maturity or next repricing date from 6.7% to 8.9% p.a. (2009: 16.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	Note	2010	2009
Carrying amount at 1 January		**7 800**	**4 793**
Purchases		40 136	14 391
Fair value gains less losses		246	2 292
Realised revaluation reserve (at disposal)		(390)	(528)
Interest income accrued	26	1 346	955
Interest income received		(1 010)	(923)
Proceeds from disposal		(17 966)	(12 588)
Foreign exchange differences gains less losses		147	(251)
Impairment recognised directly in profit or loss		-	(341)
Reclassification to Repurchase receivables	9	(14 622)	-
Carrying amount at 31 December		**15 687**	**7 800**

The Group reclassified the following financial assets from the available-for-sale category during 2008:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Corporate Eurobonds	222	739	8.2
Total	**222**	**739**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices, which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

13 Investment Securities Available for Sale (Continued)

The carrying amounts and fair values of all financial assets that have been reclassified from available for sale securities and which were not yet sold or otherwise derecognized, were as follows:

	2010		2009	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity				
Corporate Eurobonds	290	325	287	288
Total	**290**	**325**	**287**	**288**

Income or loss recognised for 2010, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	**Gains from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified**
Reclassified into held to maturity			
Corporate Eurobonds	25	2	35
Total	**25**	**2**	**35**

Income or loss recognised for 2009, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	**Gains from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified**
Reclassified into held to maturity			
Corporate Eurobonds	23	9	97
Total	**23**	**9**	**97**

As at 31 December 2008, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	**Losses from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified**
Reclassified into held to maturity			
Corporate Eurobonds	10	59	(94)
Total	**10**	**59**	**(94)**

Refer to Note 37 for the disclosure of the fair value hierachy for investment securities available for sale. Geographical and interest rate analysis of investment securities available for sale are disclosed in Note 33.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	2010	2009
State Eurobonds	6 682	-
Federal Loan bonds (OFZ)	3 317	3 917
Corporate Eurobonds	1 473	1 586
Promissory notes	1 281	-
Corporate bonds	1 087	1 073
Municipal and subfederal bonds	1 082	1 156
Total investment securities held to maturity	**14 922**	**7 732**

Analysis by credit quality of investment securities held to maturity at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
State Eurobonds	6 682	-	6 682
Federal Loan bonds (OFZ)	3 317	-	3 317
Corporate Eurobonds	1 473	-	1 473
Promissory notes	-	1 281	1 281
Corporate bonds	1 087	-	1 087
Municipal and subfederal bonds	1 082	-	1 082
Total investment securities held to maturity	**13 641**	**1 281**	**14 922**

* or ratings of other analogous rating agencies

Analysis by credit quality of investment securities held to maturity at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Federal Loan bonds (OFZ)	3 917	-	3 917
Corporate Eurobonds	1 586	-	1 586
Corporate bonds	1 073	-	1 073
Municipal and subfederal bonds	763	393	1 156
Total investment securities held to maturity	**7 339**	**393**	**7 732**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in April 2020, annual coupon rate 5.0% p.a. payable semi-annually, and yield to maturity 5.0% p.a. (2009: nil).

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2010 these OFZ have maturity dates from July 2012 to February 2036 (2009: from May 2010 to February 2036), annual coupon rates from 6.1% to 8.0% p.a. (2009: from 5.8% to 10.0%, p.a.) payable quarterly or semi-annually, and yield to maturity from 5.1% to 8.0% p.a. (2009: from 6.2% to 9.7% p.a.), depending on the type of the bond issue and the market conditions.

14 Investment Securities Held to Maturity (Continued)

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2010 these bonds have maturity dates from January 2012 to August 2037 (2009: from May 2010 to August 2037), annual coupon rates from 6.7% to 9.6% p.a. (2009: from 6.7% to 9.6% p.a.) payable semi-annually, and yield to maturity or next repricing date from 2.7% to 6.9% p.a. (2009: from 3.6% to 8.1% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes are represented by promissory notes denominated in USD at a discount to nominal value issued by one Russian bank. As at 31 December 2010 these promissory notes have maturity date in November 2013 and yield to maturity 9.0% p.a. (2009: nil).

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from July 2011 to September 2020 (2009: from July 2011 to September 2020), annual coupon rates from 7.2% to 8.5% p.a. (2009: from 7.2% to 8.5% p.a.) and yield to maturity or next repricing date from 5.5% to 8.9% p.a. (2009: from 8.5% to 14.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from June 2012 to December 2015 (2009: from December 2010 to December 2015), annual coupon rates from 7.0% to 8.0% p.a. (2009: from 7.0% to 9.0% p.a.) and yield to maturity from 7.1% to 8.5% p.a. (2009: from 8.1% to 14.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 37 for the disclosure of the fair value hierarchy for investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 33.

15 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	**Note**	**2010**	**2009**
Carrying amount at 1 January		**298**	**-**
Acquisition of subsidiaries		-	728
Impairment loss	29	(298)	(430)
Carrying amount at 31 December		**-**	**298**

16 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Leasehold (premises) improve-ments	Office and computer equipment	Land	Used in non-banking activities: Production premises	Equipment	Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2009		5 210	1 423	3 213	237	-	-	-	10 083	1 040	11 123
Accumulated depreciation		(212)	(159)	(780)	-	-	-	-	(1 151)	(299)	(1 450)
Carrying amount at 1 January 2009		**4 998**	**1 264**	**2 433**	**237**	**-**	**-**	**-**	**8 932**	**741**	**9 673**
Acquisitions through business combinations		-	-	-	-	13 367	1 709	1 322	16 398	-	16 398
Additions		2 394	120	1 816	50	444	80	-	4 904	498	5 402
Disposals		(39)	(27)	(19)	(6)	(18)	(8)	-	(117)	-	(117)
Transfer to other assets		-	-	-	-	-	-	(1 161)	(1 161)	-	(1 161)
Depreciation charge: before revaluation	28, 29	(121)	(152)	(608)	-	(243)	(65)	-	(1 189)	(216)	(1 405)
Depreciation charge: realised revaluation reserve and revaluation loss	29	(20)	-	-	-	-	-	-	(20)	-	(20)
Changes in gross carrying value resulting from revaluation		(316)	-	-	-	-	-	-	(316)	-	(316)
Changes in accumulated depreciation resulting from revaluation		15	-	-	-	-	-	-	15	-	15
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Cost at 31 December 2009		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**

16 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improve-ments	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2010		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 1 January 2010		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Acquisitions through business combinations		-	-	-	-	292	98	-	390	-	390
Additions		1 151	62	1 068	72	94	408	-	2 855	829	3 684
Disposals		-	(5)	(17)	(3)	(764)	-	-	(789)	-	(789)
Depreciation charge: before revaluation	28, 29	(133)	(162)	(868)	-	(603)	(207)	-	(1 973)	(287)	(2 260)
Depreciation charge: realised revaluation reserve and revaluation loss	29	(14)	-	-	-	-	-	-	(14)	-	(14)
Changes in gross carrying value resulting from revaluation		209	-	-	-	-	-	-	209	-	209
Changes in accumulated depreciation resulting from revaluation		(17)	-	-	-	-	-	-	(17)	-	(17)
Reclassification to assets of the disposal groups held for sale	40	(96)	-	(4)	-	(1 526)	(396)	(100)	(2 122)	(2)	(2 124)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Cost at 31 December 2010		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**

16 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2010 was RR 2 859 million (2009: RR 3 468 million).

Carrying amount of office premises without revaluation at 31 December 2010 is RR 7 442 million (2009: RR 6 487 million), including cost in amount of RR 7 820 million (2009: RR 6 735 million) and accumulated depreciation of RR 378 million (2009: RR 248 million). Premises were independently valued as at 31 December 2010. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

17 Other Assets

In millions of Russian Roubles	**2010**	**2009**
Non-financial assets		
Repossessed collateral	5 395	5 610
Inventory	847	1 000
Prepayment for services	421	756
Prepayment for goods	305	181
Prepaid taxes	102	33
Other	9	9
Financial assets		
Settlements on credit and debit cards	1 937	804
Trade receivables	1 215	2 893
Settlements on funds transfer operations	75	33
Other	913	608
Provision for impairment of other financial assets	(167)	(170)
Total other assets	**11 052**	**11 757**

Repossessed collateral mainly represents the land and production premises measured in accordance with IAS 40 «Investment Property». The Group is not going to use repossessed collateral in its own operations.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	**2010**	**2009**
Provision for impairment of other financial assets at 1 January	**170**	**51**
Provision for impairment of other financial assets during the year	8	119
Reclassification to assets of the disposal groups held for sale	(6)	-
Other financial assets written off during the year as uncollectible	(5)	-
Provision for impairment of other financial assets at 31 December	**167**	**170**

17 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2010	2009
Repossessed collateral at 1 January		**5 610**	**1 010**
Additions for the year		1 088	4 901
Disposal for the year		(1 279)	(256)
Depreciation charge	29	(24)	(45)
Repossessed collateral at 31 December		**5 395**	**5 610**

As at 31 December 2010 the fair value of repossessed collateral was RR 5 544 million (2009: RR 5 703 million).

Refer to the Note 37 for the disclosure of fair value of other financial assets. Geographical analysis of other assets is disclosed in Note 33.

18 Due to Other Banks

In millions of Russian Roubles	2010	2009
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	12 911	-
- less than 30 days	7 378	29 050
- from 31 to 180 days	4 793	3 779
- from 181 days to 1 year	4 652	23 388
- from 1 year to 3 years	53 558	11 670
- more than 3 years	18 192	53 913
Borrowings from the CBRF with term to maturity		
- less than 30 days	1 058	190
- from 31 to 180 days	2 795	64 019
- from 181 days to 1 year	-	2 917
- sale and repurchase agreements less than 30 days	-	3 000
Correspondent accounts and overnight placements of other banks	241	84
Total due to other banks	**105 578**	**192 010**

As at 31 December 2010 the Group had balances due to one foreign bank with the aggregated amount of RR 29 254 million, or 28% of total due to other banks (2009: due to two foreign banks with aggregated amount of RR 45 836 million, or 24% of total due to other banks).

Refer to Note 37 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 33.

19 Customer Accounts

In millions of Russian Roubles	**2010**	**2009**
State and public organisations		
- Current/settlement accounts	5 333	4 864
- Term deposits	74 300	52 954
Other legal entities		
- Current/settlement accounts	50 317	30 658
- Term deposits	128 443	60 480
- Sale and repurchase agreements with securities	195	-
Individuals		
- Current/demand accounts	16 835	10 760
- Term deposits	110 856	70 587
Total customer accounts	**386 279**	**230 303**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2010		**2009**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	127 691	33	81 347	35
State and public organisations	79 633	21	57 818	25
Manufacturing	35 371	9	9 096	4
Financial services and pension funds	33 260	9	22 673	10
Insurance	29 444	8	22 541	10
Agriculture	25 203	6	14 081	6
Trading	13 685	4	8 124	4
Construction	12 738	3	8 559	4
Leasing	8 920	2	972	-
Telecommunication	7 404	2	54	-
Other	12 930	3	5 038	2
Total customer accounts	**386 279**	**100**	**230 303**	**100**

As at 31 December 2010, the Group had three customers with balances above RR 11 500 million (2009: three customers with balances above RR 11 500 million). The aggregate balance of these customers was RR 60 639 million, or 16% of total customer accounts (2009: RR 53 674 million, or 23% of total customer accounts).

As at 31 December 2010, customer accounts include secured deposit of RR 5 928 million (2009: nil). The deposit secured by State Eurobonds with carring value of RR 6 682 million. Refer to Note 35.

Refer to Note 37 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

20 Promissory Notes Issued

In millions of Russian Roubles	2010	2009
Promissory notes issued	9 874	12 567
Total promissory notes issued	**9 874**	**12 567**

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 rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2011 to December 2016 (2009: promissory notes denominated Russian roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 15% p.a. and maturity dates from January 2010 to August 2017).

As at 31 December 2010, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 3 948 million or 40% of total promissory notes issued by the Group (2009: one counterparty amounted RR 9 373 million or 75% of total promissory notes issued by the Group).

Refer to Note 37 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 33.

21 Other Borrowed Funds

In millions of Russian Roubles	2010	2009
Eurobonds issued	169 102	158 841
Bonds issued on domestic market	88 457	57 643
Total other borrowed funds	**257 559**	**216 484**

As at 31 December 2010, other borrowed funds consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.17%
US Dollars	1 127	14 May 2007	15 May 2017	-	6.299%	6 months	6.20%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	3.50%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	4.76%
- tranche B	898	29 May 2008	29 May 2018	-	7.750%	6 months	6.42%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.02%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	7.56%
Bonds issued on domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	7.64%
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.43%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.08%
Russian Roubles	5 000	17 June 2008	5 June 2018	16 June 2011	6.900%	6 months	4.93%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.93%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.84%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.79%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.71%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.62%
Russian Roubles	5 000	1September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	1September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	6.90%

21 Other Borrowed Funds (Continued)

As at 31 December 2009, the Group's other borrowed funds included Eurobonds denominated in US Dollars and Swiss Francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	350	29 November 2005	29 November 2010	-	6.875%	6 months	2.31%
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	5.34%
Swiss Francs	375	29 March 2007	29 March 2010	-	3.583%	1 year	4.05%
US Dollars	1 125	14 May 2007	15 May 2017	-	6.299%	6 months	6.24%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	5.86%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.54%
- tranche B	891	29 May 2008	29 May 2018	-	7.750%	6 months	6.37%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.61%
Bonds issued in domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.88%
Russian Roubles	10 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	6.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.50%	6 months	10.14%
Russian Roubles	5 000	22 February 2008	9 February 2018	24 August 2010	13.350%	6 months	8.70%
Russian Roubles	5 000	17 June 2008	5 June 2018	17 June 2010	13.950%	6 months	7.69%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.92%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.67%

Refer to Note 37 for the disclosure of the fair value for other borrowed funds. Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 33.

22 Syndicated Loans

As at 31 December 2010, syndicated loans attracted by the Group, were fully redeemed (2009: RR 7 570 million).

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 million, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B). In October 2008 Group redeemed at a stated time the first tranche (tranche A) of syndicated loan in the total amount of USD 270 million. In April 2010, the Group redeemed the second tranche (tranche B) of the syndicated loan totalling USD 250 million within the maturity period.

Refer to Note 37 for the disclosure of the fair value for syndicated loans. Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 33.

23 Other Liabilities

In millions of Russian Roubles	Note	2010	2009
Non-financial liabilities			
Accrued staff costs		922	784
Taxes payable other than on income		294	292
Insurance contribution		114	71
Unregistered share capital increase		-	825
Provision for litigation	35	-	200
Other		302	184
Financial liabilities			
Settlements on debit and credit cards		1 495	548
Trade payables		704	4 124
Other subsidiaries' payables		371	624
Financial liabilities associated with issuance of guarantees by subsidiaries		187	190
Total other liabilities		**4 389**	**7 842**

Trade payables are related to the business activities of subsidiaries.

Refer to Note 37 for the disclosure of the fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 33.

24 Subordinated Debts

As at 31 December 2010, the Group's subordinated debts totalled RR 46 545 million (2009: RR 46 370 million).

In September 2006, the Group attracted a subordinated debt totalling USD 500 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2009: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 6.7% p.a. (2009: 7.7% p.a.). The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017. The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law No. 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a.

Refer to Note 37 for the disclosure of the fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

25 Share Capital

The Group's share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2009	**61 223**	**61 223**	**61 973**
New shares issued	45 000	45 000	45 000
At 31 December 2009	**106 223**	**106 223**	**106 973**
New shares issued	1 825	1 825	1 825
At 31 December 2010	**108 048**	**108 048**	**108 798**

The Group's issued and fully paid authorised share capital comprises 108 048 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2010, the Bank increased its share capital by issuing 1 825 ordinary shares with the total nominal amount of RR 1 825 million. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

26 Interest Income and Expense

In millions of Russian Roubles	2010	2009
Interest income		
Loans and advances to customers	97 749	82 520
Due from other banks	3 246	4 863
Securities available for sale and appropriate repurchase receivables	1 346	955
Trading securities and appropriate repurchase receivables	978	2 850
Financial instruments designated at fair value through profit or loss	813	645
Securities held to maturity	665	739
Cash equivalents	210	574
Total interest income	**105 007**	**93 146**
Interest expense		
Other borrowed funds	(20 003)	(15 430)
Term deposits of legal entities	(10 849)	(15 338)
Term deposits of individuals	(8 268)	(5 511)
Term deposits of other banks	(7 557)	(10 320)
Subordinated debts	(3 090)	(3 352)
Promissory notes issued	(1 590)	(648)
Term deposits of the CBRF	(1 282)	(6 755)
Current/settlement accounts	(720)	(391)
Syndicated loans	(24)	(324)
Total interest expense	**(53 383)**	**(58 069)**
Net interest income	**51 624**	**35 077**

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in the total amount of RR 15 911 million (2009: RR 5 732 million).

27 Fee and Commission Income and Expense

In millions of Russian Roubles	2010	2009
Fee and commission income		
Commission on cash transactions	2 668	2 159
Commission on settlement transactions	423	330
Agency fees for debt collection and currency control	77	57
Commission on guarantees issued	10	534
Other	233	164
Total fee and commission income	**3 411**	**3 244**
Fee and commission expense		
Commission on cash collection	(349)	(260)
Commission on restructuring of loans	(148)	-
Commission on settlement transactions	(59)	(28)
Commission on guarantees received	-	(140)
Other	(33)	(61)
Total fee and commission expense	**(589)**	**(489)**
Net fee and commission income	**2 822**	**2 755**

28 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2010	2009
Sales of goods	3 799	2 772
Cost of goods sold	(4 205)	(2 605)
Financial result from netting receivables and payables	614	-
Other	(477)	(466)
Total losses net of gains from non-banking activities	**(269)**	**(299)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products and animal feedstuff.

During 2010, the Group settled receivables for the total amount of RR 1 801 million on the net basis with payables in the total amount of RR 2 415 million. As a result the Group recognized a gain in the total amount of RR 614 million.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 810 million (2009: RR 308 million).

29 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2010	2009
Staff costs		15 102	12 122
Rental expenses		2 050	1 828
Depreciation of premises and equipment	16	1 177	901
Other costs of premises and equipment		1 011	907
Taxes other than on income		895	829
Security services		716	629
Communications		343	299
Impairment of goodwill	15	298	430
Amortization of intangible assets	16	287	216
Supplies and other materials		258	278
Advertising and marketing services		185	169
(Reversals of impairment)/impairment of premises		(51)	195
Depreciation of repossessed collateral	17	24	45
Other		1 289	1 151
Total administrative and other operating expenses		**23 584**	**19 999**

Included in staff costs are statutory social security and contributions to a state and non-state pension funds of RR 2 496 million (2009: RR 1 952 million).

30 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2010	2009
Current tax	1 995	1 666
Deferred tax	(1 631)	(1 077)
Income tax expense for the year	**364**	**589**

The income tax rate applicable to the majority of the Group's income is 20% (2009: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2010	2009
IFRS profit before tax	**733**	**840**
Theoretical tax charge at statutory rate (2010: 20%; 2009: 20%)	147	168
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impairment of goodwill	58	86
- Non deductible staff costs	53	48
- Non deductible charity costs	8	28
- Non deductible interest expenses	1	47
- Unrecognised tax loss carry forward of subsidiaries	-	75
- Non deductible write-off of subsidiaries' assets	-	31
- Other non deductible operating expenses	116	124
- Income on government securities taxed at different rates	(19)	(18)
Income tax expense for the year	**364**	**589**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%), except for income on government securities that is taxed at 15% (2009: 15%).

30 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Russian Roubles	31 December 2009	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2010
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 455	515	-	(2)	1 968
Provision for loan impairment	418	240	-	(10)	648
Accrued staff costs	153	25	-	-	178
Fair valuation of derivative financial instruments	(526)	201	-	-	(325)
Premises and equipment	(2 294)	127	(29)	301	(1 895)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(202)	(16)	-	-	(218)
Fair valuation of securities	(186)	47	29	-	(110)
Intangible assets	(49)	(8)	-	-	(57)
Accruals on due to other banks	(26)	100	-	-	74
Promissory notes issued	(3)	-	-	-	(3)
Other	(155)	400	-	20	265
Net deferred income tax asset/ (liability)	**(1 415)**	**1 631**	**-**	**309**	**525**
Recognized deferred income tax asset	400	1 530	-	-	1 930
Recognized deferred income tax liability	(1 815)	101	-	309	(1 405)
Net deferred income tax asset/ (liability)	**(1 415)**	**1 631**	**-**	**309**	**525**

30 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2008	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Business combina-tions	31 December 2009
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	522	820	-	113	1 455
Provision for loan impairment	509	(184)	-	93	418
Accrued staff costs	118	35	-	-	153
Fair valuation of derivative financial instruments	(1 444)	918	-	-	(526)
Premises and equipment	(415)	(19)	22	(1 882)	(2 294)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(190)	(12)	-	-	(202)
Fair valuation of securities	264	(70)	(380)	-	(186)
Intangible assets	(41)	(8)	-	-	(49)
Accruals on due to other banks	(58)	32	-	-	(26)
Promissory notes issued	(2)	(1)	-	-	(3)
Carrying value of sureties issued	44	(44)	-	-	-
Other	138	(390)	-	97	(155)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**
Recognized deferred income tax asset	14	379	(358)	365	400
Recognized deferred income tax liability	(569)	698	-	(1 944)	(1 815)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**

31 Dividends

In millions of Russian Roubles	2010 Ordinary shares	2009 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	232	149
Dividends paid during the year	(232)	(149)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0022**	**0.0014**

32 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

32 Segment Analysis (Continued)

As at 31 December 2010 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- North-Caucasian federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

As at 31 December 2009 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 26, 27.

In January 2010 the North-Caucasian federal district has been segregated from Southern federal district in accordance with the Order of the President of Russian Federation. This resulted in the changes in the management accounts reflected also in the segment reporting for 2010 and 2009 respectively.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group’s revenue and profit/(loss) for the reporting period ended 31 December 2010 and 31 December 2009 and segment reporting of the Group's assets at 31 December 2010 and 31 December 2009 is as follows:

32 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2010											
Revenue from external customers:	**17 132**	**24 352**	**3 660**	**19 397**	**7 253**	**7 759**	**10 850**	**2 421**	**12 273**	**4 072**	**109 169**
- Income from loans and advances to customers, due from other banks and other placed funds	15 769	22 997	3 386	18 494	6 886	7 407	10 246	2 298	11 676	3 879	103 038
- Fee and commission income from credit related operations	1 363	1 355	274	903	367	352	604	123	597	193	6 131
Gains less losses / (losses net of gains) arising from securities	(4 283)	(37)	-	(60)	3	-	9	-	2	(14)	(4 380)
Net interest and commissions from current/correspondent/settlement accounts	(389)	623	122	467	148	452	278	65	151	127	2 044
Expenses from due to other banks, term deposits and other borrowed funds	(40 307)	(4 257)	(697)	(2 372)	(1 345)	(467)	(1 386)	(331)	(1 041)	(569)	(52 772)
Provision charge for impairment	(552)	(4 947)	(492)	(5 071)	(1 748)	(101)	(3 797)	(882)	(9 667)	(536)	(27 793)
Administrative and Maintenance expense	(4 152)	(4 292)	(1 468)	(3 926)	(1 684)	(1 759)	(3 068)	(650)	(843)	(1 244)	(23 086)
Intersegment income and expense*	**49 724**	**(11 876)**	**(1 665)**	**(10 653)**	**(3 700)**	**(4 614)**	**(5 781)**	**(1 282)**	**(7 818)**	**(2 335)**	**-**
Profit/(loss) of reportable segments	**(35 315)**	**11 640**	**1 148**	**8 452**	**2 788**	**6 089**	**2 805**	**633**	**909**	**1 865**	**1 014**
For the year ended 31 December 2009											
Revenue from external customers:	**17 996**	**21 382**	**2 820**	**17 482**	**5 642**	**5 416**	**9 315**	**2 066**	**10 843**	**3 204**	**96 166**
- Income from loans and advances to customers, due from other banks and other placed funds	17 613	20 149	2 609	16 521	5 284	5 151	8 812	1 949	10 161	3 042	91 291
- Fee and commission income from credit related operations	383	1 233	211	961	358	265	503	117	682	162	4 875
Gains less losses / (losses net of gains) arising from securities	2 202	(17)	(2)	(14)	3	(1)	10	(1)	1	-	2 181
Net interest and commissions from current/correspondent/settlement accounts	(49)	474	95	350	127	497	231	45	158	99	2 027
Expenses from due to other banks, term deposits and other borrowed funds	(55 754)	(2 502)	(410)	(1 396)	(758)	(345)	(752)	(155)	(500)	(340)	(62 912)
Provision charge for impairment	(176)	(3 543)	(787)	(6 065)	(655)	(1 722)	(2 000)	(594)	(1 628)	(600)	(17 770)
Administrative and Maintenance expense	(3 594)	(3 527)	(1 029)	(3 096)	(1 146)	(1 319)	(2 408)	(534)	(797)	(761)	(18 211)
Intersegment income and expense*	**45 829**	**(11 846)**	**(1 512)**	**(10 468)**	**(3 319)**	**(3 221)**	**(5 300)**	**(1 281)**	**(6 876)**	**(2 006)**	**-**
Profit/(loss) of reportable segments	**(40 233)**	**12 331**	**694**	**7 302**	**3 259**	**2 561**	**4 445**	**832**	**8 144**	**1 593**	**928**
Total assets											
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451
31 December 2009	1 054 144	232 220	34 169	184 657	81 029	67 392	98 221	20 402	108 797	36 094	1 917 125

***** Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

32 Segment Analysis (Continued)

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Additions/(disposals)*		
Head office	126	(24)
Central federal district	4 156	528
Far Eastern federal district	86	136
Volga federal district	1 316	343
North-West federal district	145	1 282
North-Caucasian federal district	110	899
Siberian federal district	494	371
Ural federal district	43	165
Krasnodar branch	35	113
Southern federal district (without Krasnodar branch)	34	57
Total additions/(disposals)	**6 545**	**3 870**

* including revaluation as at 31 December 2010 and 31 December 2009

(d) Reconciliation of reportable segment revenues, profit or loss and assets

Reconciliation of profit and assets of the reporting segments for the reporting period ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Total profit of reportable segments (after tax)	**1 014**	**928**
Adjustments of deferred tax	1 479	1 190
Adjustments of provisions for impairment	1 300	3 369
Accounting for derivative financial instruments at fair value	(960)	(4 386)
Losses less gains from revaluation of other financial assets at fair value through profit and loss	(734)	285
Other expenses from non-reportable segments, including the effect of consolidation*	(636)	(296)
Accounting for financial assets and liabilities carried at amortised cost	(482)	(1150)
Revenue of non-reportable segments, including the effect of consolidation*	(307)	(239)
Revaluation of premises	23	(39)
Carrying value of guaranties issued	-	182
Other	(328)	407
The Group's profit under IFRS (after tax)	**369**	**251**
Assets of reportable segments	**2 325 451**	**1 917 125**
Elimination of settlements between branches	(1 228 300)	(931 026)
Elimination of back-to-back deposits	(105 506)	(128 134)
Provision for loan impairment	(57 052)	(29 957)
Assets of non-reportable segments, including the effect of consolidation*	1 737	6 795
Other	(5 530)	(4 139)
The Group's assets under IFRS	**930 800**	**830 664**

* Non-reportable segments are represented by subsidiaries of the Group.

32 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Total revenue of reportable segments from external customers	**109 169**	**96 166**
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(7 144)	(7 766)
Reclassification of income not included in segment revenue	7 682	9 442
Interest income related to effective interest rate implication	(966)	(1 391)
Revenue of non-reportable segments, including the effect of consolidation*	(307)	(239)
Other	(16)	178
The Group's revenue under IFRS	**108 418**	**96 390**
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	**(52 772)**	**(62 912)**
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	9 512	10 859
Interest expense related to the securities issued by the Bank	(9 526)	(6 194)
Effective interest rate adjustments	(628)	114
Results of non-reportable segments, including the effect of consolidation*	82	84
Other	(51)	(20)
The Group's interest expense under IFRS	**(53 383)**	**(58 069)**
Provision charge for impairment	**(27 793)**	**(17 770)**
Accounting for provision under IFRS	1 300	3 566
Accounting for provision for litigation	200	(200)
Provision related to consolidated companies, including the effect of consolidation*	(2 022)	664
The Group's provision for impairment	**(28 315)**	**(13 740)**
Administrative and Maintenance expenses of reportable segments	**(23 086)**	**(18 211)**
Reclassification of results from loan restructuring	1 121	-
Taxes other than income tax and charity expense	(980)	(1 012)
Expense of non-reportable segments, including the effect of consolidation*	(341)	(524)
Accrued staff costs	(132)	(174)
Other	(166)	(78)
The Group's administrative and other operating expenses under IFRS	**(23 584)**	**(19 999)**

* Non-reportable segments are represented by subsidiaries of the Group.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

32 Segment Analysis (Continued)

- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 36. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.

- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.

- There is no concept of deferred tax accounting in RAR for credit organizations.

- Reclassification of income non included in segment revenue mainly related to interest income from securities.

- Interest income and interest expense under IFRS are accounted using the effective interest rate method.

- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% of more of the total revenues.

33 Financial Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, and also by separate structural divisions and executives on the basis of their competence.

The Department for Risks Evaluation and Monitoring (hereinafter, the DREM) is responsible for risk control and evaluation and performs its functions independently from business units. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and adjust actions in order to reveal and minimize negative consequences on early stages.

33 Financial Risk Management (Continued)

In order to ensure stable operation of the Bank in a post-recession period and drought after summer 2010, the Bank took the following priority steps.

For its lending activities the Bank developed “Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2010” documents, which are an addition to the existing Credit Policy of the Bank for 2008-2012. The Bank’s lending regulations were amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with a credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for risk assessment and control in the Bank’s regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans and certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank’s Supervisory Board approved Funding program for 2011 specifying sources, volume and timing of funding for Bank. The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identify the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The Bank performs stress-testing of exposed credit and market risks of quarterly basis.

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

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

The credit risk approval competencies in 2010 and 2009 are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009).

- The Bank’s Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009) .

- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010 (2009: RR 500 million).

33 Financial Risk Management (Continued)

- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.

- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration per one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

In selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);

- lending to borrowers with different specialisation in different regions;

- a combination of several types of production in one entity typical for agricultural producers;

- diversification of investments in effective and reliable projects of other economic sectors;

- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products. The market risk of the subsidiary bank is estimated to be non material due to proportion and structure of its assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

33 Financial Risk Management (Continued)

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the DREM.

The DREM's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Department of Accounting and Monitoring of Banking Operations are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DREM jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DREM monitors limits and reports information on compliance with the set limits to the Bank's management. The DREM also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DREM is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

33 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk at 31 December 2010 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	83 313	83 673	105 389	171 807	245 424	252 650	942 256
Total interest bearing financial liabilities*	100 699	111 641	132 739	163 084	151 178	183 152	842 493
Sensitivity gap	**(17 386)**	**(27 968)**	**(27 350)**	**8 723**	**94 246**	**69 498**	**99 763**
Cummulative sensitivity gap	**(17 386)**	**(45 354)**	**(72 704)**	**(63 981)**	**30 265**	**99 763**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

33 Financial Risk Management (Continued)

For the year ended 31 December 2010, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income for the year would have been RR 592 million higher (2009: RR 412 million higher); other components of equity (pre-tax) would have been RR 303 million higher (2009: RR 78 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

For the year ended 31 December 2010, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income for the year would have been RR 592 million lower (2009: RR 412 million lower); other components of equity (pre-tax) would have been RR 303 million lower (2009: RR 78 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The table below summarises the Group's exposure to interest rate risk at 31 December 2009 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	107 776	80 160	130 588	136 170	216 472	214 735	885 901
Total interest bearing financial liabilities*	125 590	160 428	94 717	89 655	105 491	207 247	783 128
Sensitivity gap	**(17 814)**	**(80 268)**	**35 871**	**46 515**	**110 981**	**7 488**	**102 773**
Cummulative sensitivity gap	**(17 814)**	**(98 082)**	**(62 211)**	**(15 696)**	**95 285**	**102 773**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

33 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

	2010				2009			
In % p.a.	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents*	3	1	-	-	10	-	-	-
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Debt trading securities and appropriate repurchase receivables	12	-	-	-	12	-	-	-
Financial instruments designated at fair value through profit or loss	12	10	-	-	12	12	-	-
Due from other banks*	-	8	-	-	10	8	-	-
Loans and advances to customers	14	9	10	7	16	11	10	7
Debt investment securities available for sale and appropriate repurchase receivables	8	6	-	-	16	8	-	-
Debt investment securities held to maturity	8	6	-	-	7	7	-	-
Liabilities								
Due to other banks*	7	8	3	5	8	8	3	5
Customer accounts*	7	7	6	-	11	7	7	-
Promissory notes issued	6	1	5	-	11	-	5	-
Other borrowed funds	9	8	-	6	11	8	-	5
Syndicated loans	-	-	-	-	-	1	-	-
Subordinated debts	7	6	-	-	8	6	-	-

* disclosed rates on term deposits

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DREM to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

33 Financial Risk Management (Continued)

VaR is calculated by two different parametric methods and one historical method and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis.

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

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR; and
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		**2010**	**2009**
At period end	Short position	(1 068)	(1 249)
	VAR	9	16
	Expected ShortFall	11	26

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

Possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VaR and Expected ShortFall methods are negligible as at 31 December 2010 and 31 December 2009.

33 Financial Risk Management (Continued)

Geographical risk concentration.

The geographical concentration of the Group's assets and liabilities at 31 December 2010 is set out below:

In millions of Russian Roubles	**Russia**	**OECD***	**Other countries**	**Total**
Assets				
Cash and cash equivalents	80 504	496	10	81 010
Mandatory cash balances with the CBRF	3 468	-	-	3 468
Trading securities	3 563	-	-	3 563
Repurchase receivables	15 240	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	-	9 686
Derivative financial instruments	42	20 579	-	20 621
Due from other banks	5 777	24 566	4 134	34 477
Loans and advances to customers	688 556	-	-	688 556
Investment securities available for sale	15 687	-	-	15 687
Investment securities held to maturity	14 922	-	-	14 922
Deferred income tax asset	1 930	-	-	1 930
Intangible assets	1 563	-	-	1 563
Premises and equipment	25 985	-	-	25 985
Current income tax prepayment	191	-	-	191
Other assets	11 050	1	1	11 052
Assets of the disposal groups held for sale	2 847	2	-	2 849
Total assets	**871 325**	**55 330**	**4 145**	**930 800**
Liabilities				
Derivative financial instruments	31	510	-	541
Due to other banks	31 825	73 498	255	105 578
Customer accounts	375 817	7 473	2 989	386 279
Promissory notes issued	9 874	-	-	9 874
Other borrowed funds	88 457	169 102	-	257 559
Deferred income tax liability	1 405	-	-	1 405
Current income tax liability	17	-	-	17
Other liabilities	4 389	-	-	4 389
Subordinated debts	25 000	21 545	-	46 545
Liabilities directly associated with disposal groups held for sale	1 014	1	-	1 015
Total liabilities	**537 829**	**272 129**	**3 244**	**813 202**
Net position in on-balance sheet positon	**333 496**	**(216 799)**	**901**	**117 598**
Credit related commitments	**1 155**	**-**	**-**	**1 155**

* OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located.Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

33 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	47 422	47 534	2	94 958
Mandatory cash balances with the CBRF	2 974	-	-	2 974
Trading securities	18 022	-	-	18 022
Repurchase receivables	3 467	-	-	3 467
Financial instruments designated at fair value through profit or loss	-	4 070	-	4 070
Derivative financial instruments	-	28 289	-	28 289
Due from other banks	6 069	24 380	7 343	37 792
Loans and advances to customers	584 407	-	-	584 407
Investment securities available for sale	7 800	-	-	7 800
Investment securities held to maturity	7 732	-	-	7 732
Deferred income tax asset	400	-	-	400
Goodwill	298	-	-	298
Intangible assets	1 023	-	-	1 023
Premises and equipment	27 446	-	-	27 446
Current income tax prepayment	229	-	-	229
Other assets	11 269	1	487	11 757
Total assets	**718 558**	**104 274**	**7 832**	**830 664**
Liabilities				
Derivative financial instruments	37	130	-	167
Due to other banks	104 371	87 320	319	192 010
Customer accounts	230 303	-	-	230 303
Promissory notes issued	12 567	-	-	12 567
Other borrowed funds	57 643	158 841	-	216 484
Syndicated loans	-	7 570	-	7 570
Deferred income tax liability	1 815	-	-	1 815
Other liabilities	7 841	1	-	7 842
Subordinated debts	25 000	21 370	-	46 370
Total liabilities	**439 577**	**275 232**	**319**	**715 128**
Net position in on-balance sheet positon	**278 981**	**(170 958)**	**7 513**	**115 536**
Credit related commitments	**36 927**	**-**	**-**	**36 927**

* OECD – Organisation for Economic Cooperation and Development.

***Liquidity risk*.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

33 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board and Resource Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Group's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

33 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2010 is as follows:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(308)	(8 877)	(36 045)	(23 664)	(81 748)	(150 642)
- outflow	377	9 362	34 439	23 540	75 238	142 956
Net settled derivative financial instruments (liabilities)	31	-	-	-	-	31
Due to other banks	21 753	9 458	7 285	61 787	27 659	127 942
Customer accounts	119 173	161 625	91 715	18 920	7 604	399 037
Promissory notes issued	855	2 046	5 785	1 167	700	10 553
Other borrowed funds	762	21 504	29 652	127 663	144 492	324 073
Subordinated debts	-	1 003	17 075	9 409	34 714	62 201
Other financial liabilities	1 498	-	797	27	435	2 757
Off-balance sheet financial liabilities						
Guarantees issued	89	143	36	27	25	320
Letters of credit	42	691	102	-	-	835
Other credit related commitments*	24 497	-	-	-	-	24 497
Total potential future payments for financial obligations	**168 769**	**196 955**	**150 841**	**218 876**	**209 119**	**944 560**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

33 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2009 is as follows:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 114)	(87 967)	(3 797)	(47 515)	(110 071)	(250 464)
- outflow	1 391	85 313	4 955	46 457	102 743	240 859
Net settled derivative financial instruments (liabilities)	37	-	-	-	-	37
Due to other banks	33 076	70 762	29 975	21 200	60 689	215 702
Customer accounts	94 714	80 392	49 260	13 339	614	238 319
Promissory notes issued	214	995	11 146	1 183	472	14 010
Other borrowed funds	756	34 221	23 257	66 366	161 007	285 607
Syndicated loans	-	7 597	-	-	-	7 597
Subordinated debts	-	1 090	2 104	26 437	38 956	68 587
Other financial liabilities	728	1 889	2 432	258	190	5 497
Off-balance sheet financial liabilities						
Sureties issued	35 059	-	-	-	-	35 059
Guarantees issued	68	133	-	21	25	247
Letters of credit	19	40	166	509	-	734
Other credit related commitments*	23 313	-	-	-	-	23 313
Total potential future payments for financial obligations	**188 261**	**194 465**	**119 498**	**128 255**	**254 625**	**885 104**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 35.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

33 Financial Risk Management (Continued)

The table below summarizes analysis of liquidity risk at 31 December 2010:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	138 516	77 425	106 128	175 921	255 616	258 207	42 489	1 054 302
Total financial liabilities*	143 975	99 962	89 495	164 073	188 906	229 389	-	915 800
Net liquidity gap	**(5 459)**	**(22 537)**	**16 633**	**11 848**	**66 710**	**28 818**	**42 489**	**138 502**
Cumulative liquidity gap	**(5 459)**	**(27 996)**	**(11 363)**	**485**	**67 195**	**96 013**	**138 502**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2009:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	142 639	72 699	136 582	136 989	226 337	222 204	20 882	958 332
Total financial liabilities*	132 041	143 681	90 059	95 385	114 886	260 471	-	836 523
Net liquidity gap	**10 598**	**(70 982)**	**46 523**	**41 604**	**111 451**	**(38 267)**	**20 882**	**121 809**
Cumulative liquidity gap	**10 598**	**(60 384)**	**(13 861)**	**27 743**	**139 194**	**100 927**	**121 809**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

33 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The 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.

Management believes that in spite of a substantial portion of customers accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

34 Management of Capital

The Group's objectives when managing capital are

i. to comply with the capital requirements set by the Central Bank of the Russian Federation;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel II.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's report prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2010**	**2009**
Net assets under Russian legislation	112 726	111 126
Revaluation reserve	1 763	1 543
Subordinated debts	46 334	46 171
Investments in subsidiaries	(10 854)	(1 888)
Other	(136)	(130)
Total regulatory capital	**149 833**	**156 822**

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord.

The composition of the Group's capital calculated based on IFRS in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2010**	**2009**
Share capital	108 798	106 973
Retained earnings	6 851	6 572
Goodwill	-	(298)
Total tier 1 capital	115 649	113 247
Revaluation reserves	832	848
Subordinated debts	46 545	46 370
Total tier 2 capital	47 377	47 218
Total capital	**163 026**	**160 465**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Central Bank of the Russian Federation and loan covenants.

35 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. As at 31 December 2010, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (2009: Group was engaged in the litigation in relation to restitution of an assignment agreement with a borrower. A provision of RR 200 million was created by the management for this litigation. This provision was released in 2010).

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2010 the Management has not created any provision for potential tax liabilities (2009: nil).

Capital expenditure commitments. At 31 December 2010, the Group had contractual capital expenditure commitments of RR 307 million (2009: RR 175 million).

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

In millions of Russian Roubles	**2010**	**2009**
Not later than 1 year	1 676	1 531
Later than 1 year and not later than 5 years	3 679	3 591
Later than 5 years	2 391	2 713
Total operating lease commitments	**7 746**	**7 835**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

35 Contingencies and Commitments (Continued)

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

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

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2010**	**2009**
Letters of credit	835	734
Guarantees issued	320	247
Sureties issued	-	35 059
Undrawn credit lines	-	887
Total credit related commitments	**1 155**	**36 927**

As at 31 December 2009, sureties issued represented financial guaranties for loans from the Central Bank of the Russian Federation, received by two large Russian banks. There were no such sureties issued as at 31 December 2010.

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

In 2010 no provision for losses on credit related commitments was created (2009: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2010**	**2009**
US Dollars	508	60
Russian Roubles	356	36 189
Euros	291	605
Other currencies	-	73
Total	**1 155**	**36 927**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

35 Contingencies and Commitments (Continued)

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2010	2009
Corporate bonds held with the National Settlement Depository	3 564	2 677
Promissory notes issued by the Bank	803	599
Shares and bonds of companies held with other depositories	184	41
Promissory notes and securities of Russian companies held with the Bank	-	220
Subfederal bonds held with the National Settlement Depository	-	132
Corporate shares held with the National Settlement Depository	-	1

Assets pledged and restricted. The Group had assets pledged as follows:

In millions of Russian Roubles	Note	2010	2009
Under secured loans from the CBRF			
- loans to customers		7 101	48 125
- trading securities		-	5 760
- securities available for sale		-	1 628
- securities held to maturity		-	5 016
Under term deposits from clients:			
- State Eurobonds	19	6 682	-
Under repo agreements			
- Corporate bonds	9	12 547	3 410
- State Eurobonds	9	2 658	-
- Municipal and subfederal bonds	9	35	57

As at 31 December 2010, mandatory cash balances with the CBRF of RR 3 468 million (2009: RR 2 974 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2010, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks at the total amount of RR 1 863 million (2009: RR 1 790 million).

36 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Swiss Francs and Japanese yen to four OECD banks with maturities from February 2011 to May 2023 and deposits in Russian Roubles received from the same four banks with the same maturities ("back to back loans"). These transactions were aimed at economically hedging the currency exposure of the Group.

International credit rankings of these banks were not less than BB- as at 31 December 2010 (2009: not less than BB-).

36 Derivative Financial Instruments (Continued)

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2010 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Total**
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	95 172	21 373	116 545
RR payable on settlement (-)	(76 548)	(21 883)	(98 431)
CHF receivable on settlement (+)	5 313	-	5 313
RR payable on settlement (-)	(3 824)	-	(3 824)
JPY receivable on settlement (+)	4 364	-	4 364
RR payable on settlement (-)	(3 898)	-	(3 898)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	31	3 954	3 985
USD payable on settlement (-)	(31)	(3 966)	(3 997)
USD receivable on settlement (+)	13 340	8 848	22 188
RR payable on settlement (-)	(13 300)	(8 865)	(22 165)
Foreign exchange forwards with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	917	4 582	5 499
RR payable on settlement (-)	(915)	(4 584)	(5 499)
Total net fair value	**20 621**	**(541)**	**20 080**

36 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2009 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	163 198	-	163 198
USD payable on settlement (-)	(30 011)	-	(30 011)
RR receivable on settlement (+)	25 130	-	25 130
RR payable on settlement (-)	(133 987)	-	(133 987)
Euros receivable on settlement (+)	-	3 317	3 317
RR payable on settlement (-)	-	(3 429)	(3 429)
CHF receivable on settlement (+)	16 098	-	16 098
RR payable on settlement (-)	(12 209)	-	(12 209)
JPY receivable on settlement (+)	1 761	1 806	3 567
RR payable on settlement (-)	(1 694)	(1 824)	(3 518)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	2 780	3 586	6 366
USD payable on settlement (-)	(2 777)	(3 622)	(6 399)
USD receivable on settlement (+)	-	272	272
RR payable on settlement (-)	-	(273)	(273)
Term contracts on sale of securities: fair value at the end of the reporting period			
RR receivable on settlement (+)	-	187	187
Short position (-)	-	(187)	(187)
Total net fair value	**28 289**	**(167)**	**28 122**

As at 31 December 2010 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 52 878 million and RR 43 137 million, respectively, or 42% of total receivables or 41% of total payables on settlement of foreign exchange swaps (2009: RR 84 345 million and RR 68 156 million, respectively, or 40% of total receivables or 37% of total payables on settlement of foreign exchange swaps).

37 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

37 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, securities categorised as "repurchase receivables" are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets.

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities is based on market prices/dealer price quotations.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2010	**2009**
Due from other banks		
Short-term placements with other banks with original maturity more than one month	3% - 12%	7% - 15%
Loans and advances to customers		
Corporate loans	6% - 16%	9% - 21%
Loans to individuals	9% - 22%	8% - 25%
Securities held to maturity	3% - 9%	3% - 13%
Due to other banks	1% - 9%	1% - 11%
Customer accounts		
Term deposits of legal entities	1% - 13%	2% - 15%
Term deposits of individuals	1% - 7%	2% - 13%
Promissory notes issued	2% - 11%	2% - 15%
Syndicated loans	-	1%
Subordinated debts	2% - 7%	2% - 8%

37 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value

	2010		2009	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	81 010	81 010	94 958	94 958
Mandatory cash balances with the CBRF	3 468	3 468	2 974	2 974
Due from other banks	34 477	36 835	37 792	37 792
Loans and advances to customers				
- Loans to corporates	560 616	569 632	475 129	466 428
- Lending for food interventions	44 514	44 514	42 666	42 666
- Reverse repo agreements	-	-	894	894
- Investments in agricultural cooperatives	632	632	694	694
- Loans to individuals	82 794	83 945	65 024	64 271
Investment securities held to maturity	14 922	14 753	7 732	7 283
Other financial assets	3 973	3 973	4 168	4 168
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**826 406**	**838 762**	**732 031**	**722 128**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**64 797**	**64 797**	**61 648**	**61 648**
TOTAL FINANCIAL ASSETS	**891 203**	**903 559**	**793 679**	**783 776**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	101 484	110 102	121 800	121 800
- Term borrowings from the CBRF	3 853	3 853	70 126	70 126
- Correspondent accounts and overnight placements of other banks	241	241	84	84
Customer accounts				
- State and public organisations	79 633	79 633	57 818	57 818
- Other legal entities	178 955	178 955	91 138	91 138
- Individuals	127 691	128 673	81 347	81 676
Promissory notes issued	9 874	9 874	12 567	12 567
Other borrowed funds				
- Eurobonds issued	169 102	179 233	158 841	169 636
- Bonds issued on domestic market	88 457	90 899	57 643	58 769
Syndicated loans	-	-	7 570	7 570
Other financial liabilities	2 757	2 757	5 486	5 486
Subordinated debts	46 545	46 665	46 370	46 310
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**808 592**	**830 885**	**710 790**	**722 980**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**541**	**541**	**167**	**167**
TOTAL FINANCIAL LIABILITIES	**809 133**	**831 426**	**710 957**	**723 147**

37 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value

Analysis of financial instruments at fair value at 31 December 2010 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	3 563	-	3 563
Repurchase receivables	15 240	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	9 686
Investment securities available for sale	15 687	-	15 687
Derivative financial instruments assets	-	20 621	20 621
Financial liabilities			
Derivative financial instruments liabilities	-	(541)	(541)

Analysis of financial instruments at fair value at 31 December 2009 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	18 022	-	18 022
Repurchase receivables	3 467	-	3 467
Financial instruments designated at fair value through profit or loss	-	4 070	4 070
Investment securities available for sale	7 800	-	7 800
Derivative financial instruments assets	-	28 289	28 289
Financial liabilities			
Derivative financial instruments liabilities	-	(167)	(167)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2010 (2009: nil).

38 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	16 101	-	-	-	-	16 101
- cash balances with the CBRF (other than mandatory reserve deposits)	37 361	-	-	-	-	37 361
- correspondent accounts and placements with other banks with original maturities of less than one month	27 548	-	-	-	-	27 548
Mandatory cash balances with the CBRF	3 468	-	-	-	-	3 468
Trading securities						
- Debt securities	-	-	3 563	-	-	3 563
Repurchase receivables	-	14 622	618	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	-	-	9 686	-	9 686
Derivative financial instruments	-	-	20 621	-	-	20 621
Due from other banks	34 477	-	-	-	-	34 477
Loans and advances to customers						
- Loans to corporates	560 616	-	-	-	-	560 616
- Lending for food interventions	44 514	-	-	-	-	44 514
- Investments in agricultural cooperatives	632	-	-	-	-	632
- Loans to individuals	82 794	-	-	-	-	82 794
Investment securities available for sale	-	15 687	-	-	-	15 687
Investment securities held to maturity	-	-	-	-	14 922	14 922
Other financial assets	3 973	-	-	-	-	3 973
TOTAL FINANCIAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**891 203**
Non-financial assets						**39 597**
TOTAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**930 800**

38 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2009.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	12 373	-	-	-	-	12 373
- cash balances with the CBRF (other than mandatory reserve deposits)	17 691	-	-	-	-	17 691
- correspondent accounts and placements with other banks with original maturities of less than one month	64 894	-	-	-	-	64 894
Mandatory cash balances with the CBRF	2 974	-	-	-	-	2 974
Trading securities						
- Debt securities	-	-	18 022	-	-	18 022
Repurchase receivables	-	-	3 467	-	-	3 467
Financial instruments designated at fair value through profit or loss	-	-	-	4 070	-	4 070
Derivative financial instruments	-	-	28 289	-	-	28 289
Due from other banks	37 792	-	-	-	-	37 792
Loans and advances to customers						
- Loans to corporates	475 129	-	-	-	-	475 129
- Lending for food interventions	42 666	-	-	-	-	42 666
- Reverse repo agreements	894	-	-	-		894
- Investments in agricultural cooperatives	694	-	-	-	-	694
- Loans to individuals	65 024	-	-	-	-	65 024
Investment securities available for sale	-	7 800	-	-	-	7 800
Investment securities held to maturity	-	-	-	-	7 732	7 732
Other financial assets	4 168	-	-	-	-	4 168
TOTAL FINANCIAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**793 679**
Non-financial assets						**36 985**
TOTAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**830 664**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

39 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

The Group has early adopted and used the exemption allowed by amendment to IAS 24 from the disclosures required in relation to related parties transactions and outstanding balance with government controlled entities (Issued in November 2009; effective for annual periods beginning on or after 1 January 2011).

In these consolidated financial statements the most significant balances (in the aggregate amount of more then RR 1 000 million) with related parties controlled by the Russian State are disclosed.

In millions of Russian Roubles	**2010**	**2009**
Loans and advances to customers		
State-controlled companies (contractual interest rate: 7%-12% p.a. (2009: 7%-12% p.a.))	45 937	44 794
Key management and their family members (contractual interest rate: 5% p.a. (2009: 5%-22% p.a.))	21	32
Provision for loan impairment at the year end		
State-controlled companies	(8)	(9)
Customer accounts		
State-controlled companies (contractual interest rate for term deposits 1%-9% p.a. (2009: 7%-16% p.a.))	89 763	64 438
Key management and their family members (contractual interest rate for term deposits: 1%-7% p.a. (2009: 2%-13% p.a.))	235	532
Subordinated debts (contractual interest rate 6.5% p.a. (2009: 8.0% p.a.))	25 000	25 000
Off-balance sheet		
Sureties with state-controlled banks	-	35 059

The income and expense items with related parties were as follows:

In millions of Russian Roubles	**2010**	**2009**
Interest income on loans and advances to customers		
State-controlled companies	3 458	3 907
Key management and their family members	1	2
Interest expense on customer accounts		
State-controlled companies	(5 169)	(11 814)
Key management and their family members	(36)	(47)
Interest expense on subordinated debts		
State-controlled companies	(1 867)	(2 000)

39 Related Party Transactions (Continued)

The Group has the following collectively insignificant transactions with related parties:

- interest income on cash equivalents, trading securities, investment securities available for sale, investment securities held to maturity, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and available for sale;
- other.

In 2010 and 2009, the only transactions with the shareholder were dividends and taxes paid. Refer to Note 30 and 31.

Key management of the Group represents members of the Management Board of the Bank and Chief Accountant. In 2010, the total remuneration of the key management was RR 139 million (2009: RR 155 million).

	2010		2009	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	118	6	132	13
Post-employment benefits:				
- Defined contribution retirement scheme	14	-	9	-
- State pension and social costs	1	-	1	-
Total	**133**	**6**	**142**	**13**

Short-term bonuses fall due wholly within twelve months after the end of the period, in which management rendered the related services.

40 Disposal Groups Classified as Held for Sale

Major classes of assets of the disposal groups held for sale are as follows:

In millions of Russian Roubles	**2010**
Premises and equipment	2 122
Trade receivables	364
Inventory	125
Loans and advances to customers	93
Cash and cash equivalents	12
Other	133
Total assets of the disposal groups held for sale	**2 849**

40 Disposal Groups Classified as Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	**2010**
Trade payables	498
Deferred income tax liability	309
Due to other banks	158
Customer accounts	16
Other	34
Total liabilities directly associated with disposal groups held for sale	**1 015**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale:

In millions of Russian Roubles	**2010**	**2009**
Sales of goods	1 363	839
Cost of goods sold	(1 240)	(729)
Administrative and other operating expenses	(199)	(203)
Interest income	93	141
Other	(14)	180
Total income directly associated with disposal groups held for sale	**3**	**228**

The Group actively markets these assets and expects the sale to complete by the end of 2011.

41 Events after the End of the Reporting Period

In March 2011 the Group issued Eurobonds denominated in Russian Roubles in the amount of RR 20 000 million with maturity in March 2016 with semi-annual payment of coupon income at 8.7% p.a. In April 2011 the Group placed additional issue of Eurobonds denominated in Russian Roubles in the amount of RR 12 000 million with semi-annual payment of coupon income at 8.7% p.a., increasing the total issue size to RR 32 000 million.