ZAO Raiffeisenbank

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 Shareholders and Supervisory Board of ZAO Raiffeisenbank:

1 We have audited the accompanying consolidated financial statements of ZAO Raiffeisenbank 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 consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

15 February 2011
Moscow, Russian Federation

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In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	84 278 857	145 233 969
Mandatory cash balances with the Central Bank of the Russian Federation		2 698 403	2 608 971
Trading securities	8	53 613 606	39 334 913
Other securities at fair value through profit or loss	9	18 405 098	2 329 196
Due from other banks	10	21 724 713	30 553 396
Loans and advances to customers	11	283 563 919	244 528 529
Investment securities available for sale	12	11 086 572	10 663 813
Premises and equipment	15	9 097 449	9 336 095
Intangible assets	16	11 777 347	11 617 573
Current income tax asset		-	1 101 964
Deferred income tax asset	30	2 248 290	24 246
Investment securities held to maturity	13	512 148	137 256
Derivatives and other financial assets	17	6 337 166	12 522 507
Investment in associates	14	1 058 323	937 932
Other assets	18	1 902 811	1 726 001
TOTAL ASSETS		**508 304 702**	**512 656 361**
LIABILITIES			
Due to other banks	19	20 535 226	20 799 752
Customer accounts	20	286 744 158	259 128 882
Term borrowings from the Parent Bank	22	81 169 487	123 036 036
Term borrowings from other financial institutions	22	5 658 905	7 975 641
Debt securities in issue	21	16 196 249	10 078 975
Current income tax liability		500 840	-
Derivatives and other financial liabilities	23	7 591 746	9 570 910
Other liabilities	24	3 999 773	2 960 157
TOTAL LIABILITIES		**422 396 384**	**433 550 353**
EQUITY			
Share capital	25	43 268 888	43 268 888
Share premium		591 083	591 083
Additional paid-in capital	26	1 520 016	1 520 016
Retained earnings and other reserves		40 528 331	33 726 021
TOTAL EQUITY		**85 908 318**	**79 106 008**
TOTAL LIABILITIES AND EQUITY		**508 304 702**	**512 656 361**

Approved for issue and signed on behalf of the Managing Board on 15 February 2011.

Pavel Gurin
Chairman of the Board

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РАЙФФАЙЗЕНБАНК» Г.Р. № 3292 МОСКВА

Arndt Roechling
Chief Financial Officer

In thousands of Russian Roubles	Note	2010	2009
Interest income	27	32 643 595	46 252 006
Interest expense	27	(10 338 073)	(15 489 089)
Net interest income		**22 305 522**	**30 762 917**
Provision for loan impairment	11	(4 775 801)	(15 294 609)
Net interest income after provision for loan impairment		**17 529 721**	**15 468 308**
Fee and commission income	28	8 529 137	7 739 652
Fee and commission expense	28	(1 642 061)	(1 201 553)
Gains less losses from trading securities		343 308	1 789 609
Gains less losses from other securities at fair value through profit or loss		934 879	213 613
Gains less losses from trading in foreign currencies		3 179 292	4 160 207
Unrealized losses, net of gains from derivative financial instruments	36	(3 571 976)	(2 420 000)
Realized gains less losses from derivative financial instruments		2 429 994	2 433 702
Foreign exchange translation losses, net of gains		(195 860)	(4 753 004)
Ineffectiveness from hedge accounting	36	(86 788)	(260 630)
Provisions for credit related commitments	35	(896 743)	(510 131)
Provision for investment securities held to maturity	13	(1 362)	(2 836)
Gains from the sale of loans		752 124	457 079
Other operating income		179 858	128 054
Share of results and impairment of associates	14	6 682	40 997
Operating income		**27 490 205**	**23 283 067**
Administrative and other operating expenses	29	(18 078 945)	(16 676 112)
Profit before tax		**9 411 260**	**6 606 955**
Income tax expense	30	(2 123 588)	(1 183 875)
Profit for the year		**7 287 672**	**5 423 080**
Revaluation of investment securities available for sale		419 061	241 583
Income tax recorded directly in other comprehensive income	30	(178 220)	(154 410)
Valuation reserve due to cash flow hedge	36	472 038	530 463
Other comprehensive income for the year, net of tax		**712 879**	**617 636**
Total comprehensive income for the year, net of tax		**8 000 551**	**6 040 716**

In thousands of Russian Rouble	Note	Share capital	Share premium	Additional paid-in capital	Retained earnings	Other reserves	Total
Balance at 1 January 2009		**43 268 888**	**591 083**	**1 520 016**	**30 206 680**	**(1 150 321)**	**74 436 346**
Profit for the year		-	-	-	5 423 080	-	5 423 080
Other comprehensive income		-	-	-	-	617 636	617 636
Total comprehensive income for 2009		**-**	**-**	**-**	**5 423 080**	**617 636**	**6 040 716**
Dividends declared	31	-	-	-	(1 371 054)	-	(1 371 054)
Balance at 31 December 2009		**43 268 888**	**591 083**	**1 520 016**	**34 258 706**	**(532 685)**	**79 106 008**
Profit for the year		-	-	-	7 287 672	-	7 287 672
Other comprehensive income		-	-	-	-	712 879	712 879
Total comprehensive income for 2010		**-**	**-**	**-**	**7 287 672**	**712 879**	**8 000 551**
Dividends declared	31	-	-	-	(1 198 241)	-	(1 198 241)
Balance at 31 December 2010		**43 268 888**	**591 083**	**1 520 016**	**40 348 137**	**180 194**	**85 908 318**

In thousands of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		31 781 915	45 213 080
Interest paid		(7 967 061)	(12 527 714)
Fees and commissions received		8 529 137	7 739 652
Fees and commissions paid		(1 631 805)	(1 186 350)
Realized gains less losses/(losses, net of gains) from trading in trading securities		917 439	(436 938)
Realized gains less losses/(losses, net of gains) arising from other securities at fair value through profit or loss		995 672	(518 717)
Realized gains less losses from financial derivative instruments		2 479 532	3 381 059
Realized gains less losses arising from trading in foreign currencies		3 179 292	4 160 207
Gains arising from sale of loans		752 124	457 079
Other operating income received		179 858	312 754
Administrative and other operating expenses paid		(14 870 879)	(15 786 538)
Income tax paid		(2 923 048)	(888 333)
Cash flows from operating activities before changes in operating assets and liabilities		**21 422 176**	**29 919 241**
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(89 432)	(2 124 327)
Net increase in trading securities		(14 647 122)	(22 301 296)
Net (increase)/decrease in other securities at fair value through profit and loss		(16 218 491)	1 231 602
Net decrease/(increase) in due from other banks		7 680 289	(22 466 099)
Net (increase)/decrease in loans and advances to customers		(42 410 202)	108 613 600
Net (increase)/decrease in securities held to maturity		(354 742)	4 100 396
Net decrease in repurchase receivables		-	4 405 733
Net increase in derivatives and other financial assets		(207 419)	(87 311)
Net decrease/(increase) in other assets		257 904	(578 329)
Net decrease in due to other banks		(224 227)	(39 008 061)
Net increase/(decrease) in customer accounts		31 826 916	(6 300 882)
Net increase/(decrease) in debt securities in issue		6 066 116	(1 260)
Net decrease in derivatives and other financial liabilities		(162 165)	(57 985)
Net (decrease)/increase in other liabilities		(57 722)	784 364
Net cash (used in)/from operating activities		**(7 118 121)**	**56 129 386**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(2 494 394)	(2 044 178)
Investment in associate	14,15	(113 709)	(290 000)
Net cash used in investing activities		**(2 608 103)**	**(2 334 178)**
Cash flows from financing activities			
Proceeds from term borrowings from the Parent Bank and other financial institutions		10 909 582	-
Repayment of term borrowings from the Parent Bank and other financial institutions		(53 684 632)	(59 693 742)
Interest paid on term borrowings from the Parent Bank and other financial institutions		(2 172 963)	(3 981 175)
Dividends paid	31	(1 198 241)	(1 371 054)
Net cash used in financing activities		**(46 146 254)**	**(65 045 971)**
Change in accrued interest on cash and cash equivalents		(23 097)	15 806
Effect of exchange rate changes on cash and cash equivalents		(5 059 537)	3 096 116
Net decrease in cash and cash equivalents		**(60 955 112)**	**(8 138 841)**
Cash and cash equivalents at the beginning of the year		145 233 969	153 372 810
Cash and cash equivalents at the end of the year	**7**	**84 278 857**	**145 233 969**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for ZAO Raiffeisenbank (hereinafter – 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 a closed joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank is owned by Raiffeisen Bank International AG and Raiffeisen-Invest-Gesellschaft m.b.h., subsidiaries of Raiffeisen Zentralbank Osterreich AG (the "Parent Bank"), which is the ultimate controlling parent of the Group.

Principal activity. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1996. The Bank operates in all banking sectors of the Russian financial markets, including money market, investments, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Group, through operations of its subsidiaries and associates, is also involved in asset management, pension and leasing businesses. On 2 February 2005 the Bank was accepted to the State deposit insurance scheme, 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.

As at 31 December 2010 the Group had 22 branches within the Russian Federation and 173 outlets (2009: 50 branches and 161 outlets). During 2010 the Bank reorganised 28 regional branches, which had separate statements of financial position, into outlets and also 18 outlets were transformed following the process of harmonisation of the regional network.

The number of the Group's employees as at 31 December 2010 was 8 508 (2009: 8 490).

Registered address and place of business. The Bank's registered address is: 17/1 Troitskaya Str., 129090 Moscow, Russian Federation. The Bank's main place of business is: 15A Leninsky prospect, 119071 Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

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.

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.

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.

2 Operating Environment of the Group (Continued)

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 under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, 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 (acquisition date) and are deconsolidated from the date that control ceases.

The Group does not hold the voting rights in Roof Russia S.A., a special purpose entity set up in Luxembourg to effect a securitization of car loans (Refer to Note 11). The entity is consolidated into the Group based on SIC 12 "Consolidation of special purpose entities".

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 minority interest.

The consideration transferred 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.

3 Summary of Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Information on investment in associates is disclosed in Note 14.

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 arms 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 consolidated 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 recognised 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 statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

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.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments 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.

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 and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of foreign exchange forwards, interest rate swaps and cross currency interest rate swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of foreign exchange forwards, the interest rate swaps and cross currency interest rate swaps. With respect to the other financial assets and liabilities, any valuation differences observed on the initial recognition are evaluated on an individual basis and recognised in accordance with their nature.

Derecognition of financial assets. The Group derecognises 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 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 all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Bank of the Russian Federation (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 flows.

3 Summary of Significant Accounting Policies (Continued)

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, i.e. within six months. The Group may choose in rare circumstances to reclassify a non-derivative trading financial asset 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 profit or loss for the year 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 for the year as gains less losses from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities 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 recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance 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 Managing Board. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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.

Impairment of financial assets carried at amortised cost. 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 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 whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the Group as a lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group as a lender would not otherwise consider;
- the disappearance of an active market for that financial asset because of financial difficulties;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganization;
- there is an adverse change in the payment status of the borrower as a result of changes in internal factors (unprofitable activity, drop in production, significant increase in receivables/payables) and external factors (changes in national or local economic conditions that impact the borrower);
- the value of collateral significantly decreases as a result of deteriorating market conditions; or
- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems.

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 historical loss experience 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 recognised 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised 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 in 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 recognised 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.

3 Summary of Significant Accounting Policies (Continued)

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).

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit, financial guarantees, commitments to extend credit and undrawn credit lines. 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 recognised 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 the end of each 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 each reporting period. The principal criteria used to determine that there is objective evidence that expenditure to settle the commitment is required are the same to those principal criteria used to determine that there is objective evidence that an impairment loss has occurred for financial assets carried at amortised cost.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 derecognised. The securities are not reclassified in the 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 term borrowings from other financial institutions.

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, in accordance with the nature of the counterparty and the term of the deal. 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.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in due to other banks.

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 the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

3 Summary of Significant Accounting Policies (Continued)

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.

At the end of each 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 recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised 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.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	40-50
Office and computer equipment	5 - 7
Leasehold improvements	over the term of the underlying lease

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 other than goodwill have definite useful life and primarily include capitalised computer software and licenses.

Software and licences are amortised during four years period.

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

The customer base is amortised over expected useful life of five years.

The recoverable value of goodwill represents the higher of its value in use and the fair value less cost to sell. Refer to Note 16.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as other operating income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable within loans and advance to customers and are carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3 Summary of Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in 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 finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks, term borrowings from the Parent Bank and from other financial institutions. Amounts due to other banks, term borrowings from the Parent Bank and other financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is 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 or losses arising from early retirement of debt.

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

Debt securities in issue*.* Debt securities in issue include promissory notes and bonds issued by the Group. Debt securities in issue are stated at amortised cost. If the Group purchases its own debt securities in issue, 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.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency options and other derivative financial instruments are carried at their fair value. All derivatives 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 profit or loss for the year (unrealized gains less losses from derivative financial instruments), unless the derivatives qualify as hedging instruments. Where management are of the view that there is a probability that a counterparty will not honour all contractually committed cash flows the management assess the most likely outcome of those cash flows and those of any related collateral and apply the above valuation techniques to those expected cash flows.

The Group designates certain derivatives as fair value hedge or as cash flow hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

For the fair value hedge the hedged item is adjusted for the changes in its fair value attributable to the risk being hedged and those fair value changes are recognised in the consolidated statement of comprehensive income. The gain or loss relating to the hedging derivative is offset, in the profit or loss for the year, with the fair value gains and losses on the hedged item to the extent that the hedge is effective. The ineffective portion of the fair value changes is recognised immediately in the profit or loss for the year. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the consolidated statement of comprehensive income when the equity security is disposed of as part of the gain or loss on the sale.

3 Summary of Significant Accounting Policies (Continued)

As a cash flow hedge, the Group hedges variable interest payments on its borrowings using interest rate swaps. The Group receives floating rate and pays a fixed rate on the interest rate swaps. Credit risk on the debt is not designated as part of the hedge relationship. Counterparty credit risk of interest rate swaps is insignificant as the counterparties are rated AA and higher, and management believes that this risk is already included in the Libor rates. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the consolidated profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of comprehensive income – "Ineffectiveness from hedge accounting".

The interest of the hedging instrument is recognized in profit or loss for the year whereas the changes in clean present value of the derivative financial instruments – as far as they can be determined as being part of an effective hedge – are recognized directly in other comprehensive income. The effective part of the hedge is calculated as the lesser in absolute terms of the two amounts: (a) the cumulative gain or loss on the hedging instrument from the inception of the hedge (from 1 July 2008) and (b) the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from the inception of the hedge (from 1 July 2008). The effective part of cash flow hedge is shown in other comprehensive income in "Valuation reserve due to cash flow hedge".

The fair value gains or losses that represent the ineffective part of the hedging relation are shown in the consolidated statement of comprehensive income in "Ineffectiveness from the hedge accounting".

In order to assess hedge effectiveness the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period). Both tests need to be met for hedge accounting to be available.

A hedge is regarded as highly effective only if both of the following conditions are met:

1. At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in present values of cash flows attributable to the hedged risk during the period for which the hedge is designated – prospective effectiveness test, range of 80%-125% is used; and
2. The actual results of the hedge – retrospective effectiveness test, range of 80%-125% is used.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 payables and other accrued expenses. Trade payables and other accrued expenses 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. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Additional paid–in capital. Any amounts contributed by shareholders in addition to share issues are recorded as additional paid–in capital in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of 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 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.

3 Summary of Significant Accounting Policies (Continued)

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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Realized and unrealized gains less losses from financial derivatives. The Group separates realized gains less losses from financial derivatives from total gains less losses from financial derivatives. Realized gains less losses from financial derivatives consist of profit and loss from closed financial derivatives, where profit and loss calculated as difference between cash received on settlement date and original cost of derivatives, received and accrued interest income, paid and accrued interest expense. Unrealized gains less losses from financial derivatives consist of change in clean present value of interest rate derivative instruments and foreign exchange derivative instruments, fair value of bought put option on corporate bonds, change in fair value of the hedged item (long-term deposit) which is subject to fair value hedge accounting.

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769, EUR 1 = RR 40.3331 (2009: USD 1 = RR 30.2442, EUR 1 = RR 43.3883). The principle average rate of exchange used for translating income and expenses for USD in 2010 was USD 1 = RR 30.3697, EUR 1 = 40.2980 (2009: USD 1 = RR 31.7215, EUR 1 = RR 44.1987).

3 Summary of Significant Accounting Policies (Continued)

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. 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 recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 has no legal or constructive obligation to make pension or similar benefit payments beyond the unified social tax.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. During the third quarter of 2010 the management of the Group performed a detailed review of the Bank's accounting policy applied to the corporate bonds issued by a Russian borrower and purchased in full by the Bank in 2008. This review has resulted in reclassification of these securities since the initial recognition from Other securities at fair value through profit and loss to Investment securities available for sale to correctly reflect the substance of the initial purchase. The management has disclosed the impact of this reclassification in the tables below.

The effect of the reclassification on the financial position of the Bank as at 31 December 2009 is detailed below:

In thousands of Russian Roubles	**31 December 2009 (as previously reported)**	**Reclassification effect**	**31 December 2009 (reclassified)**
ASSETS			
Other securities at fair value through profit or loss	12 414 264	(10 085 068)	2 329 196
Investment securities available for sale	578 745	10 085 068	10 663 813

The effect of the reclassification on the financial position of the Bank as at 31 December 2008 is detailed below:

In thousands of Russian Roubles	**31 December 2008 (as previously reported)**	**Reclassification effect**	**31 December 2008 (reclassified)**
ASSETS			
Other securities at fair value through profit or loss	12 534 378	(10 081 370)	2 453 008
Investment securities available for sale	337 162	10 081 370	10 418 532

The reclassification does not impact on the consolidated statement of comprehensive income of the Group for twelve months ended 31 December 2009. As at 31 December 2010 the Group performed the reclassification of the interest income in the amount of RR 1 357 255 thousand (2009: RR 1 353 875 thousand) from other securities at fair value through profit and loss to interest income from investment securities available for sale within Interest income line in the consolidated statements of comprehensive income. Refer to Note 27.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised 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 recognised 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 to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, 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 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 845 608 thousand (2009: RR 1 248 091 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 452 205 thousand (2009: RR 730 247 thousand), respectively.

During 2009 the Group introduced changes in the estimations used in the portfolio loan loss provision methodology.

The changes in the loan loss provisioning referred to:

- Application of more specific internal loss statistics rather than regional peer statistics principles used;
- Improvement in methodology of fair valuation of collateral, which is taken into account in determining estimates of discounted future cash flows;
- Review of industry risk component in the portfolio provision rate based on recent development of the economic situation.

The above changes resulted the reduction of provision for loan impairment in the amount of RR 1 123 693 thousand. Refer to Note 11.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives. Refer to Note 36.

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

Special purpose entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity (SPE) indicates that the special purpose entity is controlled by the Group. In assessing ability of the Group to control the special purpose entities, Management takes into consideration the following factors presented in SIC 12 "Consolidation - special purpose entities":

(i) SPE activities are being conducted on behalf of the Bank as it was set up to satisfy specific business needs of the Group (issue of asset-backed securities);

(ii) Rewards taken by SPE are transferred to the Bank in the form of dividends on a preference share held by the Bank; and

(iii) Risks including credit risk are assumed by the Bank through the purchase of Subordinated notes.

Non-consolidation of the special purpose entity would decrease the Group's total assets by RR 2 948 261 thousand (2009: RR 6 023 644 thousand). The impact on the consolidated profit after tax would be a decrease by RR 304 831 thousand (2009: decrease by RR 655 742 thousand).

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following 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.

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 Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

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

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 an 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 an 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 an 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.

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 an 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 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 recognised 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 for the year 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 an impact on these financial statements.

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

(b) Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, *Presentation of Financial Statements*, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity.

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 and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 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.

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 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 profit or loss 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 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. 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 amendments to have any material effect on its consolidated financial statements.

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 does not expect the amendments to have any effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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 recognise 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 (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 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 IAS 1 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 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 does not expect the amendments to have any effect on its financial statements.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2010	2009
Cash on hand	19 639 061	19 334 279
Cash balances with the CBRF (other than mandatory reserve deposits)	24 349 214	14 540 451
Correspondent accounts and overnight placements with other banks		
- Russian Federation	5 743 136	5 412 469
- Other countries	23 681 028	66 167 250
Placements with other banks with original maturities of less than three months	1 308 642	30 600 211
Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	9 557 776	9 179 309
Total cash and cash equivalents	**84 278 857**	**145 233 969**

At 31 December 2010 cash equivalents in the amount of RR 9 557 776 thousand (31 December 2009: RR 9 179 309 thousand) are effectively collateralised by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 10 971 360 thousand (31 December 2009: RR 10 436 442 thousand). At 31 December 2010 included within correspondent accounts and overnight placements with other banks is a cash reserve facility placed under the terms of an asset backed securities program in the amount of RR 989 994 thousand (31 December 2009: RR 1 015 859 thousand).

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months and deals with securities purchased under “reverse-repo agreements” with original maturities of less than three months represent balances with the largest and well-known foreign banks and top-rated Russian banks.

Investment transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In thousands of Russian Roubles	2010	2009
Non-cash investing activities		
Acquisition of repossessed collateral in exchange for loans and advances to customers	243 899	159 492

The repossessed collateral is recongnised as other assets. Refer to Note 18.
The credit quality analysis of cash equivalents balances is summarised as follows at 31 December 2010:

In thousands of Russian Roubles	Cash balances with the CBRF (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks		Placements with other banks with original maturities of less than three months	Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	Total
		Russian Federation	Other countries			
Neither past due nor impaired						
Minimal risk	24 349 214	-	1 508 417	-	-	25 857 631
Excellent credit standing	-	-	20 078 071	1 308 642	93 209	21 479 922
Very good credit standing	-	-	2 077 332	-	971 140	3 048 472
Good credit standing	-	5 593 232	-	-	5 832 532	11 425 764
Average credit standing	-	45 647	-	-	2 160 749	2 206 396
Mediocre credit standing	-	13 038	17	-	500 146	513 201
Weak credit standing	-	18 043	16 015	-	-	34 058
Loss/bankruptcy	-	15 100	-	-	-	15 100
Unrated	-	58 076	1 176	-	-	59 252
Total cash equivalents	**24 349 214**	**5 743 136**	**23 681 028**	**1 308 642**	**9 557 776**	**64 639 796**

7 Cash and Cash Equivalents (Continued)

The credit quality analysis of cash equivalents balances is summarised as follows at 31 December 2009:

In thousands of Russian Roubles	Cash balances with the CBRF (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks – Russian Federation	Correspondent accounts and overnight placements with other banks – Other countries	Placements with other banks with original maturities of less than three months	Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	Total
Neither past due nor impaired						
Minimal risk	14 540 451	-	1 248 226	-	1 235 774	17 024 451
Excellent credit standing	-	-	63 715 844	30 404 351	549 596	94 669 791
Very good credit standing	-	-	1 196 227	-	355 201	1 551 428
Good credit standing	-	5 178 539	-	609	4 703 938	9 883 086
Average credit standing	-	15 799	-	80 132	1 528 508	1 624 439
Mediocre credit standing	-	70 152	3 289	72 326	759 465	905 232
Weak credit standing	-	5 142	2 238	42 793	46 827	97 000
Very weak credit standing	-	141 358	-	-	-	141 358
Unrated	-	1 479	1 426	-	-	2 905
Total cash equivalents	**14 540 451**	**5 412 469**	**66 167 250**	**30 600 211**	**9 179 309**	**125 899 690**

For the disclosure of credit risk management refer to Note 33.

Geographical, maturity and interest rate analysis of cash and cash equivalents are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

8 Trading Securities

In thousands of Russian Roubles	2010	2009
Corporate bonds	31 233 102	14 876 257
Corporate eurobonds	11 537 792	8 003 763
Bonds of the European Bank for Reconstruction and Development (EBRD bonds)	4 400 238	4 479 384
Federal loan bonds (OFZ)	3 509 158	5 882 603
Municipal bonds	2 542 342	3 173 598
Bonds of Central Bank of Russia	386 155	2 915 404
Total debt trading securities	**53 608 787**	**39 331 009**
Corporate shares	4 819	3 904
Total trading securities	**53 613 606**	**39 334 913**

Corporate shares are shares of foreign companies freely tradable in the international market.

Estimation of fair value of trading securities is based on their market quotations.

8 Trading Securities (Continued)

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities. Analysis by credit quality of debt trading securities at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Corporate eurobonds**	**EBRD bonds**	**Federal loan bonds**	**Municipal bonds**	**Bonds of Central Bank of Russia**	**Total**
Neither past due nor impaired (at fair value)							
Minimal risk	-	-	4 400 238	3 509 158	2 542 342	386 155	10 837 893
Excellent credit standing	678 038	-	-	-	-	-	678 038
Very good credit standing	6 373 716	1 790 621	-	-	-	-	8 164 337
Good credit standing	18 732 775	9 512 593	-	-	-	-	28 245 368
Average credit standing	2 531 260	74 419	-	-	-	-	2 605 679
Mediocre credit standing	2 500 121	160 159	-	-	-	-	2 660 280
Weak credit standing	344 078	-	-	-	-	-	344 078
Very weak credit standing	73 114	-	-	-	-	-	73 114
Total debt trading securities	**31 233 102**	**11 537 792**	**4 400 238**	**3 509 158**	**2 542 342**	**386 155**	**53 608 787**

8 Trading Securities (Continued)

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

In thousands of Russian Roubles	Corporate bonds	Corporate eurobonds	EBRD bonds	Federal loan bonds	Municipal bonds	Bonds of Central Bank of Russia	Total
Neither past due nor impaired (at fair value)							
Minimal risk	181 482	-	4 479 384	5 882 603	3 173 598	2 915 404	16 632 471
Excellent credit standing	2 090 607	395 954	-	-	-	-	2 486 561
Very good credit standing	1 867 851	593 727	-	-	-	-	2 461 578
Good credit standing	7 436 032	6 983 817	-	-	-	-	14 419 849
Average credit standing	2 232 228	30 265	-	-	-	-	2 262 493
Mediocre credit standing	531 191	-	-	-	-	-	531 191
Weak credit standing	365 222	-	-	-	-	-	365 222
Very weak credit standing	171 644	-	-	-	-	-	171 644
Total debt trading securities	**14 876 257**	**8 003 763**	**4 479 384**	**5 882 603**	**3 173 598**	**2 915 404**	**39 331 009**

For the disclosure of credit risk measurement refer to Note 33.

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

At 31 December 2010 there were no renegotiated balances that would otherwise be past due. At 31 December 2009 there were also no renegotiated balances that would otherwise be past due. Trading debt securities are not collateralised.

Geographical, maturity and interest rate analysis of trading securities are disclosed in Note 33.

9 Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	2010	2009
Bonds of Central bank of Russia	15 053 197	-
Corporate bonds	1 946 057	923 890
Municipal bonds	418 374	492 275
Federal loan bonds (OFZ)	237 044	199 744
Bonds of the European Bank for Reconstruction and Development (EBRD bonds)	48 816	21 471
Mutual funds	45 450	232 548
Corporate eurobonds	4 286	-
Total other debt securities at fair value through profit and loss	**17 753 224**	**1 869 928**
Corporate shares	651 874	459 268
Total other securities at fair value through profit or loss	**18 405 098**	**2 329 196**

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Asset and Liability Committee of the Group ("ALCO") assesses performance of the investments based on their fair values in accordance with a strategy documented in the business plan.

9 Other Securities at Fair Value Through Profit or Loss (Continued)

Corporate shares are shares of Russian companies freely tradable in the Russian market.

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the 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 other debt securities designated at fair value through profit or loss outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Bonds of central Bank of Russia**	**Corporate bonds**	**Municipal bonds**	**Federal loan bonds (OFZ)**	**Bonds of the European Bank for Reconstruction and Development**	**Mutual funds**	**Corporate eurobond**	**Total**
Neither past due nor impaired (at fair value)								
Minimal risk	15 053 197	-	-	237 044	48 816	-	-	15 339 057
Excellent credit standing	-	123 126	-	-	-	45 450	-	168 576
Very good credit standing	-	253 018	-	-	-	-	-	253 018
Good credit standing	-	937 009	241 536	-	-	-	-	1 178 545
Average credit standing	-	415 403	153 141	-	-	-	-	568 544
Mediocre credit standing	-	202 428	23 697	-	-	-	-	226 125
Weak credit standing	-	12 067	-	-	-	-	-	12 067
Unrated	-	3 006	-	-	-	-	4 286	7 292
Total other debt securities at fair value through profit or loss	**15 053 197**	**1 946 057**	**418 374**	**237 044**	**48 816**	**45 450**	**4 286**	**17 753 224**

Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Corporate bonds**	**Municipal bonds**	**Federal loan bonds (OFZ)**	**Bonds of the European Bank for Reconstruction and Development**	**Mutual funds**	**Total**
Neither past due nor impaired (at fair value)						
Minimal risk	52 028	365 848	199 744	21 471	-	639 091
Excellent credit standing	72 849	-	-	-	212 651	285 500
Very good credit standing	71 821	16 620	-	-	-	88 441
Good credit standing	366 185	33 727	-	-	-	399 912
Average credit standing	94 665	41 847	-	-	-	136 512
Mediocre credit standing	193 359	34 233	-	-	-	227 592
Weak credit standing	66 243	-	-	-	-	66 243
Unrated	6 740	-	-	-	19 897	26 637
Total other debt securities at fair value through profit or loss	**923 890**	**492 275**	**199 744**	**21 471**	**232 548**	**1 869 928**

For the disclosure of credit risk measurement refer to Note 33.

At 31 December 2010 there are no renegotiated balances that would otherwise be past due. At 31 December 2009 there are also no renegotiated balances that would otherwise be past due. Other debt securities at fair value through profit and loss are not collateralised.

Geographical, maturity and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 33.

10 Due from Other Banks

In thousands of Russian Roubles	2010	2009
Short-term placements with other banks with original maturities of more than three months and less than one year	15 104 374	30 444 750
Long-term placements with other banks with original maturities of more than one year	6 620 339	108 646
Total due from other banks	**21 724 713**	**30 553 396**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	Short-term placements with other banks with original maturities of more than three months and less than one year	Long-term placements with other banks with original maturities of more than one year	Total
Neither past due nor impaired			
Excellent credit standing	12 199 904	6 117 975	18 317 879
Good credit standing	-	32 760	32 760
Average credit standing	245 362	437 653	683 015
Mediocre credit standing	1 835 983	-	1 835 983
Weak credit standing	823 125	-	823 125
Unrated	-	31 951	31 951
Total due from other banks	**15 104 374**	**6 620 339**	**21 724 713**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

In thousands of Russian Roubles	Short-term placements with other banks with original maturities of more than three months and less than one year	Long-term placements with other banks with original maturities of more than one year	Total
Neither past due nor impaired			
Excellent credit standing	30 444 377	34 478	30 478 855
Week credit standing	373	-	373
Unrated	-	74 168	74 168
Total due from other banks	**30 444 750**	**108 646**	**30 553 396**

For the disclosure of credit risk management refer to Note 33.

At 31 December 2010 the Group had balances with six counterparty bank (2009: one bank) with aggregated amounts above RR 200 000 thousand. The total aggregated amount of these deposits was RR 20 958 898 thousand (2009: RR 30 478 855 thousand) or 96.47% of the total amount due from other banks (2009: 99.76%).

In total, credit risk exposure to financial institutions is estimated to have amounted to RR 62 015 295 thousand (2009: RR 141 912 635 thousand) comprising cash and cash equivalents, deposits and other amounts due from banks and financial derivatives.

Disclosure of the fair value of due from other banks is presented in Note 37.

Geographical, maturity and interest rate analysis of due from other banks are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

11 Loans and Advances to Customers

In thousands of Russian Roubles	2010	2009
Loans to corporate customers (Corporate loans)	225 007 721	182 771 126
Loans to individuals (Retail loans)	78 368 442	79 125 400
Loans to small and medium entities (SME loans)	5 159 529	5 161 418
Loans to state and municipal organisations (Public sector)	1 593 833	2 917 618
Finance lease receivables	324 406	340 640
Total gross loans and advances to customers	**310 453 931**	**270 316 202**
Less: Provision for loan impairment	(26 890 012)	(25 787 673)
Total loans and advances to customers	**283 563 919**	**244 528 529**

Movements in the provision for loan impairment during 2010 are as follows:

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Public sector	Finance lease receivables	Total
Provision for loan impairment at 1 January 2010	**16 547 947**	**8 015 311**	**1 183 742**	**40 673**	**-**	**25 787 673**
Provision for impairment during the year	3 586 839	1 103 078	78 383	7 501	-	4 775 801
Provisions on disposed loans	(1 043 193)	(1 792 304)	(61 304)	-	-	(2 896 801)
Amounts written off during the year as uncollectible	(670 544)	-	(92 899)	(13 218)	-	(776 661)
Provision for loan impairment at 31 December 2010	**18 421 049**	**7 326 085**	**1 107 922**	**34 956**	**-**	**26 890 012**

11 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 are as follows:

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Finance lease receivables**	**Total**
Provision for loan impairment at 1 January 2009	**8 322 328**	**4 913 817**	**744 891**	**-**	**-**	**13 981 036**
Release of provision after the changes in provision model estimations (Note 4)	(1 123 693)	-	-	-	-	(1 123 693)
Provision for impairment during the year	9 793 207	5 919 344	665 078	40 673	-	16 418 302
Provisions on disposed loans	(358 385)	(2 664 498)	(91 755)	-	-	(3 114 638)
Amounts written off during the year as uncollectible	(85 510)	(153 352)	(134 472)	-	-	(373 334)
Provision for loan impairment at 31 December 2009	**16 547 947**	**8 015 311**	**1 183 742**	**40 673**	**-**	**25 787 673**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2010		**2009**	
In thousand of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	78 368 442	25.24%	79 125 400	29.27%
Manufacturing	73 191 667	23.58%	56 280 618	20.82%
Real estate	68 876 571	22.19%	62 100 143	22.97%
Trade	40 686 786	13.11%	27 930 703	10.33%
Mining	23 195 512	7.47%	10 801 704	4.00%
Transport, storage and communication	11 199 079	3.61%	12 437 447	4.60%
Electricity, gas and water supply	7 374 392	2.38%	4 997 362	1.85%
Financial Services	4 751 929	1.53%	5 917 622	2.19%
Cities and municipalities	1 564 493	0.50%	2 917 618	1.08%
Other	1 245 060	0.39%	7 807 585	2.89%
Total loans and advances to customers (before impairment provision)	**310 453 931**	**100.00%**	**270 316 202**	**100.00%**

At 31 December 2010 the Group had no borrowers (2009: one borrower) with aggregated loan amount above RR 8 000 000 thousand. The total aggregate amount of these loans was RR nil thousand (2009: RR 9 023 230 thousand) or nil % of the gross loan portfolio (2009: 3.35%).

The Group has transferred a pool of fixed interest rate auto loans to individuals to finance the purchase of cars to Roof Russia S.A., a Luxembourg-based special purpose entity. At 31 December 2010 the amount of loans securitised was RR 2 165 574 thousand (2009: RR 5 101 011 thousand). The subsidiary is consolidated due to the requirements stated in SIC-12: Consolidation: Special Purpose Entities, the activities of SPE are conducted on behalf of the Group, the Group has the decision making powers to control the SPE, the rewards of SPE are transferred to the Group in the form of dividends on the preference shares. For the carrying amount of the corresponding asset backed securities refer to Note 22.

The main principles used for the estimation of the fair value of collateral are summarized in the Policy of the Collateral valuation, approved for the Group.

11 Loans and Advances to Customers (Continued)

The collateral coverage which is taken into account has the following characteristics:

- Valid legal title, which should be properly documented and legally enforceable under the applicable jurisdiction;
- Sustainable intrinsic value for at least the maximum tenor of the underlying credit contract, being regularly monitored and evaluated by the Group. In case of a decrease in value, appropriate measures to reflect this decrease are taken immediately by the Group;
- Realizable and willingness to realize. The collateral is realizable in cash within reasonable time, proven by a favorable track record of jurisdiction in the respective country; and
- Little *or no correlation* between the value of the collateral and the debtor's credit standing (the example of high correlation is a bond issued by the borrower used as a collateral) – the higher the level of correlation, the higher the discount to the collateral value.

The fair value of collateral is the estimated amount for which a tangible/intangible asset could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably prudent and without compulsion. In accordance with the internal procedures, the Group's Risk Management Collateral Department regularly performs the assessment of the fair value of the collaterals using the Group's internal guidelines and in some cases evaluation of collateral by independent appraisal companies.

The list of collateral that the Group requires from the customers includes residential real estate, other real estate, guarantees of the Parent Bank, cash deposits, other assets. Personal loans to individuals and credit cards are not secured. Mortgage loans and car loans to individuals are collateralized by the property and cars, correspondingly.

Information about collateralized loans at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Finance lease receivables**	**Total**
Unsecured loans	51 917 795	34 549 140	2 512 254	1 524 433	-	90 503 622
Loans collateralised by:						
- residential real estate	2 821 990	23 621 754	142 434	-	-	26 586 178
- other real estate	67 224 906	-	331 980	-	-	67 556 886
- guarantees of the Parent Bank	705 390	-	-	-	-	705 390
- cash deposits	-	-	-	-	-	-
- guarantees and surety ships	55 555 312	305 658	502 689	69 400	-	56 433 059
- other assets	46 782 328	19 891 890	1 670 172	-	324 406	68 668 796
Total loans and advances to customers (before impairment provision)	**225 007 721**	**78 368 442**	**5 159 529**	**1 593 833**	**324 406**	**310 453 931**

11 Loans and Advances to Customers (Continued)

Information about collateralized loans at 31 December 2009 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Public sector**	**Finance lease receivables**	**Total**
Unsecured loans	37 836 822	28 920 345	234 237	2 760 192	-	69 751 596
Loans collateralised by:						
- residential real estate	2 468 030	26 545 072	415 742	-	-	29 428 844
- other real estate	66 313 954	-	2 514 780	9 113	-	68 837 847
- guarantees of the Parent Bank	731 707	-	-	-	-	731 707
- cash deposits	13 190	-	-	-	-	13 190
- guarantees and surety ships	39 063 915	369 029	702 453	148 313	-	40 283 710
- other assets	36 343 508	23 290 954	1 294 206	-	340 640	61 269 308
Total loans and advances to customers (before impairment provision)	**182 771 126**	**79 125 400**	**5 161 418**	**2 917 618**	**340 640**	**270 316 202**

Other assets mainly include vehicles, equipment and receivables. The retail loans collaterised with vehicles amount to RR 18 189 345 thousand as at 31 December 2010 (2009: RR 21 036 355 thousand) classified among other assets in the table above.

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Public sector	Finance lease receivables	Total
Neither past due nor impaired loans, assessed for impairment on a collective basis						
Excellent credit standing	10 825 993	-	-	-	-	10 825 993
Very good credit standing	7 122 851	39 471 234	13 682	-	-	46 607 767
Good credit standing	29 750 826	28 804 833	2 255 488	38 255	-	60 849 402
Average credit standing	44 994 935	-	140 576	291 934	-	45 427 445
Mediocre credit standing	47 042 182	-	190 137	938 536	-	48 170 855
Weak credit standing	37 391 120	-	394 528	66 000	324 406	38 176 054
Very weak credit standing	2 716 902	-	12 903	-	-	2 729 805
Unrated	-	-	5 160	-	-	5 160
Loans renegotiated in 2010	24 595 521	44 863	121 806	-	-	24 762 190
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**204 440 330**	**68 320 930**	**3 134 280**	**1 334 725**	**324 406**	**277 554 671**
Past due but not impaired loans, assessed for impairment on a collective basis						
- less than 30 days overdue	50 152	1 765 729	34 765	-	-	1 850 646
- 31 – 60 days overdue	175 100	421 205	43 651	-	-	639 956
- 61 – 90 days overdue	-	224 829	1 259	-	-	226 088
- 91 – 180 days overdue	-	413 070	8 933	-	-	422 003
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**225 252**	**2 824 833**	**88 608**	**-**	**-**	**3 138 693**
Loans individually determined to be impaired						
- less than 30 days overdue	5 359 642	761 964	144 723	224 685	-	6 491 014
- 31 – 60 days overdue	439 742	43 169	12 880	-	-	495 791
- 61 – 90 days overdue	18 687	125 956	13 785	-	-	158 428
- 91 – 180 days overdue	155 554	144 017	38 473	-	-	338 044
- 181 – 364 days overdue	1 931 357	1 966 351	180 305	-	-	4 078 013
- over 365 days overdue	12 437 157	4 181 222	1 546 475	34 423	-	18 199 277
Total loans individually determined to be impaired (gross)	**20 342 139**	**7 222 679**	**1 936 641**	**259 108**	**-**	**29 760 567**
Total gross loans and advances to customers	**225 007 721**	**78 368 442**	**5 159 529**	**1 593 833**	**324 406**	**310 453 931**
Less: Provision for loan impairment	(18 421 049)	(7 326 085)	(1 107 922)	(34 956)	-	(26 890 012)
Total loans and advances to customers	**206 586 672**	**71 042 357**	**4 051 607**	**1 558 877**	**324 406**	**283 563 919**

11 Loans and Advances to Customers (Continued)

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

In thousands of Russian Roubles	Corporate loans	Retail loans	SME loans	Public sector	Finance lease receivables	Total
Neither past due nor impaired loans, assessed for impairment on a collective basis						
Excellent credit standing	9 101 209	-	32 434	-	-	9 133 643
Very good credit standing	7 009 206	56 555 689	70 443	37 779	-	63 673 117
Good credit standing	8 194 494	10 043 741	239 137	1 412 240	-	19 889 612
Average credit standing	18 796 861	-	291 277	949 328	-	20 037 466
Mediocre credit standing	41 822 140	-	1 018 160	374 366	-	43 214 666
Weak credit standing	45 196 526	-	1 024 959	-	340 640	46 562 125
Very weak credit standing	6 763 224	-	307 753	-	-	7 070 977
Unrated	21 232	-	18 348	-	-	39 580
Loans renegotiated in 2009	23 622 676	758 795	379 759	-	-	24 761 230
Total neither past due nor impaired loans, assessed for impairment on collective basis (gross)	**160 527 568**	**67 358 225**	**3 382 270**	**2 773 713**	**340 640**	**234 382 416**
Past due but not impaired loans, assessed for impairment on a collective basis						
- less than 30 days overdue	146 572	2 649 598	104 257	-	-	2 900 427
- 31 – 60 days overdue	170 000	802 861	28 424	-	-	1 001 285
- 61 – 90 days overdue	688 195	611 072	39 250	-	-	1 338 517
- 91 – 180 days overdue	-	1 146 437	577	-	-	1 147 014
Total past due but not impaired loans, assessed for impairment on collective basis (gross)	**1 004 767**	**5 209 968**	**172 508**	**-**	**-**	**6 387 243**
Loans individually determined to be impaired						
- less than 30 days overdue	6 958 715	96 914	60 863	-	-	7 116 492
- 31 – 60 days overdue	639 153	54 809	14 788	-	-	708 750
- 61 – 90 days overdue	582 447	55 894	45 849	-	-	684 190
- 91 – 180 days overdue	2 305 799	172 617	115 308	-	-	2 593 724
- 181 – 364 days overdue	7 073 930	3 152 876	359 434	127 028	-	10 713 268
- over 365 days overdue	3 678 747	3 024 097	1 010 398	16 877	-	7 730 119
Total loans individually determined to be impaired (gross)	**21 238 791**	**6 557 207**	**1 606 640**	**143 905**	**-**	**29 546 543**
Total gross loans and advances to customers	**182 771 126**	**79 125 400**	**5 161 418**	**2 917 618**	**340 640**	**270 316 202**
Less: Provision for loan impairment	(16 547 947)	(8 015 311)	(1 183 742)	(40 673)	-	(25 787 673)
Total loans and advances to customers	**166 223 179**	**71 110 089**	**3 977 676**	**2 876 945**	**340 640**	**244 528 529**

11 Loans and Advances to Customers (Continued)

For the disclosure of credit risk management and credit ratings description refer to Note 33.

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial performance of the borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for Retail loans or whether there are any other known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract for Corporate, SME and Public sector loans.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. Past due but not impaired loans are assessed for impairment on collective basis. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Total**
Fair value of collateral – loans past due but not impaired				
- residential real estate	-	1 103 347	211	1 103 558
- other real estate	120 599	-	285	120 884
- other assets	104 828	566 275	47 624	718 727
Total fair value of collateral – loans past due but not impaired	**225 427**	**1 669 622**	**48 120**	**1 943 169**
Fair value of collateral – loans individually determined to be impaired				
- residential real estate	331 781	745 828	4 863	1 082 472
- other real estate	6 874 127	-	59 822	6 933 949
- other assets	8 049 836	1 028 062	226 085	9 303 983
Total fair value of collateral - loans individually determined to be impaired	**15 255 744**	**1 773 890**	**290 770**	**17 320 404**
Total	**15 481 171**	**3 443 512**	**338 890**	**19 263 573**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

In thousands of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Total**
Fair value of collateral – loans past due but not impaired				
- residential real estate	-	1 770 217	5 000	1 775 217
- other real estate	423 827	-	90 475	514 302
- other assets	498 989	1 858 822	84 086	2 441 897
Total fair value of collateral – loans past due but not impaired	**922 816**	**3 629 039**	**179 561**	**4 731 416**
Fair value of collateral – loans individually determined to be impaired				
- residential real estate	314 294	1 427 667	71 227	1 813 188
- other real estate	3 199 070	-	585 577	3 784 647
- other assets	7 471 085	1 797 207	392 036	9 660 328
Total fair value of collateral - loans individually determined to be impaired	**10 984 449**	**3 224 874**	**1 048 840**	**15 258 163**
Total	**11 907 265**	**6 853 913**	**1 228 401**	**19 989 579**

11 Loans and Advances to Customers (Continued)

Fair value of the collateral was determined by the Group's credit department using the Group's internal guidelines on the basis of an internal expert evaluation and an independent appraiser's evaluation.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines.

Disclosure of the fair value of the Group's loans and advances to customers at 31 December 2010 and 2009 is presented in Note 37.

Geographical, maturity and interest rate analysis of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

12 Investment Securities Available for Sale

In thousands of Russian Roubles	**2010**	**2009**
Corporate bonds	10 617 267	10 085 068
Corporate shares	469 305	578 745
Total investment securities available for sale	**11 086 572**	**10 663 813**

Debt securities are neither past due nor impaired in 2009 and 2010 years. They have good credit standing in 2009 and 2010 years.

The Group did not have any movement in investments securities available for sale in 2009 and 2010 years.

Due to the absence of an active market for the corporate bond included in the investment securities available for sale category and also due to the low level of trading activity with this particular bond, for the purposes of the estimation of the fair value of this instrument, Management implemented a valuation technique based on the yield-to-maturity of comparable benchmark instruments, currently actively quoted on the market.

For the disclosure of credit risk management refer to Note 33.

Geographical, maturity and interest rate analysis of investment securities available for sale are disclosed in Note 33.

13 Investment Securities Held to Maturity

In thousands of Russian Roubles	2010	2009
Corporate bonds	516 346	77 640
Corporate Eurobonds	-	62 452
Total gross investment securities held to maturity	**516 346**	**140 092**
Less: Provision for impairment	(4 198)	(2 836)
Total investment securities held to maturity	**512 148**	**137 256**

Movements in the provision for impairment of investment securities held to maturity during 2010 are as follows

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Total
Provision for impairment at 1 January 2010	**(2 383)**	**(453)**	**(2 836)**
Provision for impairment during the year	(1 815)	453	(1 362)
Provision for impairment at 31 December 2010	**(4 198)**	**-**	**(4 198)**

Movements in the provision for impairment of investment securities held to maturity during 2009 are as follows

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Total
Provision for impairment at 1 January 2009	**-**	**-**	**-**
Provision for impairment during the year	(2 383)	(453)	(2 836)
Provision for impairment at 31 December 2009	**(2 383)**	**(453)**	**(2 836)**

Debt securities are neither past due nor impaired in 2009 and 2010 years. Corporate bonds have average credit standing in 2010 year and weak credit standing in 2009 year, corporate eurobonds had good credit standing in 2009 year.

For disclosure of credit risk management refer to Note 33.

Refer to Note 37 for the disclosure of the fair value of each class of investment securities held to maturity. Geographical, maturity and interest rate analysis of investment securities held to maturity are disclosed in Note 33.

14 Investment in Associate

In thousands of Russian Roubles	2010	2009
Raiffeisen Leasing	997 813	937 932
Raiffeisen Life	60 510	-
Total investment in associate	**1 058 323**	**937 932**

Investment in associate is represented by 50% share of participation in Raiffeisen Leasing and 25% share of participation in Raiffeisen Life. The table below summarises the movements in the carrying amount of the Group's investment in associate.

In thousands of Russian Roubles	2010	2009
Carrying amount at 1 January	**937 932**	**606 935**
Acquisition of share of participation in Raiffeisen Life	113 709	-
Contributions to the net assets attributable to the participants of Raiffeisen Leasing	-	290 000
Share of results of associates	48 358	40 997
Impairment of the investment in Raiffeisen Life	(41 676)	-
Carrying amount at 31 December	**1 058 323**	**937 932**

The table below represents summarised financial information of the associate.

In thousands of Russian Roubles	Total assets	Total liabilities	Profit/(loss) for the year
2010			
Raiffeisen Leasing	13 376 393	11 303 100	119 762
Raiffeisen Life	559 212	312 871	(46 091)
2009			
Raiffeisen Leasing	13 826 343	11 880 061	81 994

15 Premises and Equipment

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Leasehold improve-ments	Construc-tion in progress	Total
Cost at 1 January 2009		4 173 517	4 930 653	1 364 501	975 096	11 443 767
Accumulated depreciation		(270 647)	(1 541 778)	(406 419)	-	(2 218 844)
Carrying amount at 1 January 2009		**3 902 870**	**3 388 875**	**958 082**	**975 096**	**9 224 923**
Additions		179 434	830 514	422 798	-	1 432 746
Transfers		-	211 615	41 243	(252 858)	-
Depreciation charge	29	(97 554)	(872 285)	(168 747)	-	(1 138 586)
Disposals (at cost)		(631)	(225 673)	(131 681)	-	(357 985)
Disposals (accumulated depreciation)		17	139 318	35 662	-	174 997
Carrying amount at 31 December 2009		**3 984 136**	**3 472 364**	**1 157 357**	**722 238**	**9 336 095**
Cost at 31 December 2009		4 352 320	5 747 109	1 696 861	722 238	12 518 528
Accumulated depreciation		(368 184)	(2 274 745)	(539 504)	-	(3 182 433)
Carrying amount at 31 December 2009		**3 984 136**	**3 472 364**	**1 157 357**	**722 238**	**9 336 095**
Additions		305 398	990 405	287 135	110 087	1 693 025
Transfers		30 290	-	226 736	(257 026)	-
Reclassifications in financial year		186 940	(344 518)	157 578	-	-
Depreciation charge	29	(105 951)	(1 055 586)	(391 335)	-	(1 552 872)
Disposals (at cost)		(30 451)	(528 478)	(80 723)	-	(639 652)
Disposals (accumulated depreciation)		5 820	256 746	22 976	-	285 542
Impairment loss		(24 689)	-	-	-	(24 689)
Carrying amount at 31 December 2010		**4 351 493**	**2 790 933**	**1 379 724**	**575 299**	**9 097 449**
Cost at 31 December 2009		4 844 497	5 864 518	2 287 587	575 299	13 571 901
Accumulated depreciation		(493 004)	(3 073 585)	(907 863)	-	(4 474 452)
Carrying amount at 31 December 2010		**4 351 493**	**2 790 933**	**1 379 724**	**575 299**	**9 097 449**

Construction in progress consists mainly of construction and refurbishment of premises. Upon completion, assets are transferred to premises and equipment.

Included in office and computer equipment are assets held under finance leases at carrying amount of nil (2009: RR 100 049 thousand).

16 Intangible Assets

In thousands of Russian Roubles	Note	Goodwill	Customer base	Software and licenses	Total
Cost at 1 January 2009		10 700 290	415 727	721 097	11 837 114
Accumulated amortisation		-	(221 718)	(309 447)	(531 165)
Carrying amount at 1 January 2009		**10 700 290**	**194 009**	**411 650**	**11 305 949**
Additions		-	-	611 432	611 432
Amortisation charge	29	-	(83 144)	(214 952)	(298 096)
Disposals (at cost)		-	-	(14 921)	(14 921)
Disposals (accumulated amortisation)		-	-	13 209	13 209
Carrying amount at 31 December 2009		**10 700 290**	**110 865**	**806 418**	**11 617 573**
Cost at 31 December 2009		10 700 290	415 727	1 317 608	12 433 625
Accumulated amortisation		-	(304 862)	(511 190)	(816 052)
Carrying amount at 31 December 2009		**10 700 290**	**110 865**	**806 418**	**11 617 573**
Additions		-	-	801 370	801 370
Amortisation charge	29	-	(83 144)	(530 731)	(613 875)
Disposals (at cost)		-	-	(117)	(117)
Disposals (accumulated amortisation)		-	-	117	117
Impairment loss		-	(27 721)	-	(27 721)
Carrying amount at 31 December 2010		**10 700 290**	**-**	**1 077 057**	**11 777 347**
Cost at 31 December 2010		10 700 290	415 727	2 118 861	13 234 878
Accumulated amortisation and impairment		-	(415 727)	(1 041 804)	(1 457 531)
Carrying amount at 31 December 2010		**10 700 290**	**-**	**1 077 057**	**11 777 347**

The goodwill is tested annually for impairment.

On each balance-sheet date goodwill is examined with a view to its future economic utility on the basis of Cash Generating Unit. The Cash Generating Unit is defined by the Management. The carrying value of the Cash Generating Unit (including any allocated goodwill) is compared with its recoverable value. The recoverable value represents the higher of an item's value in use and the fair value less cost to sell which in this case was value in use. It is based on the expected cash flows in accordance with the business plan of the unit. It is discounted at an interest rate reflecting the risk involved. The estimation of future earnings requires judgment of the past and actual performance and the expected development in the respective markets and overall macro-economic environment.

16 Intangible Assets (Continued)

The estimation of the future development of the Cash Generating Unit starts with macro-economic facts (gross domestic product, inflation expectations) and considers specific market conditions and the business policy. In order to better reflect the mid-term development, a five-year budget was approved. The growth rate used in this plan accounts for the current economic situation.

The data is used to capture the terminal value on a going concern concept. The profit in compliance with the solvency regulations considering a security reserve serves as a basis for the calculation. Discounting is made on different country-specific equity capital cost rates which are based on the capital asset pricing model. The individual components (risk-free interest rate, inflation difference, market risk premium, country-specific risks and beta factors) are defined by using external information sources. The inflation-adjusted discount rates used in 2010 for the Cash Generating Unit was in the range from 16% to 23% (2009: from 16% to 23%).

The annual impairment test for goodwill for 2010 and 2009 did not result in an impairment loss as the recoverable amount for the entire Cash Generating Unit was higher than its respective carrying amount.

17 Derivatives and Other Financial Assets

In thousands of Russian Roubles	Note	2010	2009
Fair value of interest rate based financial derivatives	36	3 626 608	4 701 189
Fair value of currency rate based financial derivatives	36	2 064 010	7 382 888
Plastic card receivables		631 733	438 388
Trade receivables		14 815	42
Total derivatives and other financial assets		**6 337 166**	**12 522 507**

The primary factors that the Group considers whether a receivable is impaired are its overdue status and recoverability of related collateral, if any.

As at 31 December 2010 and as at 31 December 2009 derivatives and other financial assets of the Group are neither past due nor impaired. The Group has net settled derivative financial instruments with the counterparties with the credit rating of good and above (Refer to Note 33).

Refer to Note 37 for the disclosure of the fair value of each class of derivatives and other financial assets.

Geographical, maturity, and interest rate analysis of derivatives and other financial assets are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

18 Other Assets

In thousands of Russian Roubles	2010	2009
Prepayments for services and equipment	1 413 514	1 418 839
Repossessed collateral	243 899	159 492
Prepaid taxes other than on income	42 775	29 278
Other	202 623	118 392
Total other assets	**1 902 811**	**1 726 001**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group currently evaluates the possibilities of disposing of these assets. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, Inventories. The assets were initially recognised at a fair value of RR 243 899 thousand when acquired (2009: RR 159 492 thousand).

19 Due to Other Banks

In thousands of Russian Roubles	2010	2009
Correspondent accounts and overnight placements of other banks	14 800 075	2 823 029
Short-term placements of other banks	4 910 050	17 839 634
Long-term placements of other banks	825 101	137 089
Total due to other banks	**20 535 226**	**20 799 752**

Carrying value of each class of due to other banks approximates fair value at 31 December 2010 and 31 December 2009. Refer to Note 37.

Geographical, maturity and interest rate analysis of due to other banks are disclosed in Note 33. The information on related party balances is disclosed in Note 39. At 31 December 2010 included within correspondent accounts and overnight placements of other banks is a cash facility placed by the Parent Bank under the terms of a cash reserve facility agreement and in relation to asset backed securities program. The Group intends to hold the reserve until maturity of the respective securities in 2017 (Refer to Note 22).

20 Customer Accounts

In thousands of Russian Roubles	2010	2009
State and public organisations		
- Current/settlement accounts	266 022	118 575
- Term deposits	5 818	-
Legal entities		
- Current/settlement accounts	68 785 155	64 532 216
- Term deposits	57 022 981	49 343 871
Individuals		
- Current/demand accounts	66 147 355	52 681 818
- Term deposits	94 516 827	92 452 402
Total customer accounts	**286 744 158**	**259 128 882**

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	160 664 182	56.03%	145 134 220	56.01%
Real estate	31 196 139	10.88%	19 556 009	7.55%
Manufacturing	31 069 885	10.84%	37 478 675	14.46%
Trade	30 911 977	10.78%	19 039 864	7.35%
Financial services	7 267 263	2.53%	15 689 126	6.05%
Mining	7 106 751	2.48%	3 373 113	1.30%
Transport and communication	5 876 751	2.05%	9 667 003	3.73%
Electricity, gas and water supply	4 602 976	1.61%	3 026 921	1.17%
Other	8 048 234	2.80%	6 163 951	2.38%
Total customer accounts	**286 744 158**	**100.00%**	**259 128 882**	**100.00%**

20 Customer Accounts (Continued)

At 31 December 2010 the Group had no customers (31 December 2009: no customers) with balances above 10% of consolidated equity of the Group as at this date.

At 31 December 2010 included in customer accounts are deposits of RR 92 838 thousand (31 December 2009: RR 710 124 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 35.

Disclosure of the fair value of the Group's customer accounts at 31 December 2010 is presented in Note 37.

Geographical, maturity and interest rate analysis of customer accounts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

21 Debt Securities in Issue

In thousands of Russian Roubles	2010	2009
Bonds issued on domestic market	15 114 566	10 078 975
Promissory notes	1 081 683	-
Total debt securities in issue	**16 196 249**	**10 078 975**

As at 31 December 2010 the Group had bonds issued on the domestic market with a balance of RR 15 114 566 thousand (2009: RR 10 078 975 thousand). These bonds are denominated in Russian Roubles, comprise of two tranches of RR 10 000 000 and RR 5 000 000 (2009: one tranche of RR 10 000 000) and mature in 2013 (2009: in 2013) and have coupon rates of 13.5% and 7.5% respectively (2009: 13.5%).

Disclosure of fair value of debt securities in issue is presented in Note 37.

Geographical, maturity and interest rate analyses of debt securities in issue is disclosed in Note 33.

22 Term Borrowings from the Parent Bank and from Other Financial Institutions

In thousands of Russian Roubles	Note	2010	2009
Loans from the Parent Bank maturing in 2010-2015	19	72 870 274	114 194 384
Subordinated loans from the Parent Bank maturing in 2010 – 2013		8 299 213	8 841 652
Total term borrowings from the Parent Bank		**81 169 487**	**123 036 036**

Carrying value of term loans from the Parent Bank approximates fair value at 31 December 2010 and 31 December 2009 as all these liabilities bear floating interest rate. Refer to Note 37.

In thousands of Russian Roubles	Note	2010	2009
Loans from development banks maturing in 2010-2015		2 007 359	3 096 120
Loans from commercial banks maturing in 2013		1 968 107	-
Asset backed securities maturing in 2017	11	1 683 439	4 879 521
Total term borrowings from other financial institutions		**5 658 905**	**7 975 641**

Refer to Note 33 for the amount of current term borrowings from the Parent Bank and from other financial institutions.

22 Term Borrowings from the Parent Bank and from Other Financial Institutions (Continued)

Term borrowings from other financial institutions are represented by long term obligations of the Group denominated in Russian Roubles and US Dollars and issued by large international banks and asset backed securities. These borrowings have maturity dates ranging from 2012 up to 2017 (2009: from 2010 up to 2017) and Libor dependent floating interest rates.

Carrying value of each class of term borrowings from the Parent Bank and from other financial institutions approximates fair value at 31 December 2010 and 31 December 2009 as all these liabilities bear floating interest rate, except one liability taken from the Parent Bank in the amount of RR 13 713 254 thousand (2009: RR 14 752 022 thousand), which has a fixed rate and is a hedged item in the fair-value hedge. Refer to Note 37.

Where term borrowings are hedged in a fair value hedge, with respect to foreign currency risk or interest rate risk, the amortised cost is adjusted by the fair value change attributable to the hedged risk and representing an effective portion of the hedge. Refer to Note 36.

The Group is subject to certain covenants related to its term borrowings from other financial institutions. Refer to Note 35.

Geographical, maturity and interest rate analysis of term borrowings from the Parent Bank and from other financial institutions are disclosed in Note 33. Information on related party transactions is presented in Note 39.

23 Derivatives and Other Financial Liabilities

In thousands of Russian Roubles	**Note**	**2010**	**2009**
Fair value of interest rate based financial derivatives	36	4 867 803	5 288 294
Provision for credit related commitments	35	1 643 011	746 268
Fair value of currency rate based financial derivatives	36	724 141	3 015 363
Plastic cards payables		242 886	370 008
Commission on credit related commitments		49 405	58 386
Settlements on conversion operations		48 810	27 006
Trade payables		9 642	55 435
Other		6 048	10 150
Total derivatives and other financial liabilities		**7 591 746**	**9 570 910**

Carrying value of each class of derivatives and other financial liabilities approximates fair value at 31 December 2010 and 31 December 2009. Refer to Note 37.

Geographical, maturity and interest rate analysis of derivatives and other financial liabilities is disclosed in Note 33. Information on related party transactions is presented in Note 39.

24 Other Liabilities

In thousands of Russian Roubles	2010	2009
Accrued staff bonuses	1 483 142	1 393 808
Provisions for liabilities and charges	882 191	283 134
Other accrued expenses	699 020	695 011
Payables for intangible and fixed assets	337 515	92 123
Deferred commission income from financial guarantees	305 441	222 738
Taxes other than on income	140 425	152 145
Other	152 039	121 198
Total other liabilities	**3 999 773**	**2 960 157**

Movements in provisions for liabilities and charges are as follows:

In thousands of Russian Roubles	2010	2009
Carrying amount at 1 January	**283 134**	**208 575**
Provision charge during the year	778 980	97 127
Utilisation of provision	(136 535)	(22 568)
Release of provision	(43 388)	-
Carrying amount at 31 December	**882 191**	**283 134**

Information on related party balances is disclosed in Note 39.

25 Share Capital

In thousands of RR, except for number of shares	Number of outstanding shares, in thousands	Nominal amount	Inflation adjusted amount
At 1 January 2009	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2009	**36 565**	**36 711 260**	**43 268 888**
New shares issued	-	-	-
At 31 December 2010	**36 565**	**36 711 260**	**43 268 888**

At 31 December 2010, all of the Bank's outstanding shares were authorised, issued and fully paid in.

During 2010 the Group did not receive a capital contribution from its shareholders.

All ordinary shares have a nominal value of RR 1 004 thousand per share (2009: RR 1 004 thousand per share) and rank equally. Each share carries one vote.

26 Additional paid-in capital and other reserves

Additional paid-in capital comprises free of charge donations made by the shareholder to the Bank.

At 31 December 2010 additional paid-in capital in amount of RR 1 520 016 thousand represents amounts contributed by shareholders in addition to the share purchase (2009: RR 1 520 016 thousand).

Other reserves comprise fair value differences on investments available for sale and cash flow hedges net of deferred tax.

In accordance with Russian legislation, the Bank on a standalone basis distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's unconsolidated reserves under Russian Accounting Rules at 31 December 2010 are RR 27 078 870 thousand (2009: RR 18 385 003 thousand).

27 Interest Income and Expense

In thousands of Russian Roubles	**2010**	**2009**
Interest income		
Loans and advances to customers	25 862 799	40 629 925
Trading securities	3 302 497	2 147 992
Investment securities available for sale	1 357 255	1 353 875
Due from other banks	1 267 286	1 217 637
Interest income on impaired financial assets	831 479	755 836
Other securities at fair value through profit and loss	11 303	57 008
Debt securities held to maturity	10 976	89 733
Total interest income	**32 643 595**	**46 252 006**
Interest expense		
Term deposits of individuals	4 065 551	5 114 602
Term borrowings from the Parent Bank	2 388 691	2 608 574
Term deposits of legal entities	1 568 988	3 437 889
Debt securities in issue	1 398 933	1 385 948
Current/settlement accounts	497 953	685 451
Term placements of other banks	311 411	2 150 034
Term borrowings from other financial institutions	100 263	79 663
Correspondent accounts of other banks	6 283	26 928
Total interest expense	**10 338 073**	**15 489 089**
Net interest income	**22 305 522**	**30 762 917**

28 Fee and Commission Income and Expense

In thousands of Russian Roubles	2010	2009
Fee and commission income		
Commissions on operations with plastic cards	2 777 323	2 148 082
Commissions on settlement transactions	1 271 403	1 236 185
Commissions on documentary business and guarantees	845 956	666 819
Commissions on cash operations	738 742	649 133
Commissions from investment banking	438 202	495 316
Commissions on export operations	386 071	414 600
Early and late repayment fee	372 344	627 916
Fiduciary activities	359 315	183 964
Insurance commission income	335 312	243 735
Commissions on transfer payments	322 795	502 150
Commissions on transactions with securities	126 855	114 068
Commission income on foreign exchange operations	67 424	75 515
Other	487 395	382 169
Total fee and commission income	**8 529 137**	**7 739 652**
Fee and commission expense		
Commissions on operations with plastic cards	734 282	413 943
Commissions on cash operations	234 533	250 314
Commissions on transfer payments	154 991	185 606
Commissions on settlement transactions	150 678	137 930
Credit facility fee	99 223	45 916
Commissions on transactions with securities	62 336	50 837
Commissions on documentary business	17 221	13 872
Other	188 797	103 135
Total fee and commission expense	**1 642 061**	**1 201 553**
Net fee and commission income	**6 887 076**	**6 538 099**

29 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2010	2009
Staff costs		7 973 466	7 213 345
Rent expenses		2 161 716	2 621 328
Depreciation and impairment of premises and equipment	15	1 577 561	1 138 586
IT services		854 349	989 906
Premises and equipment maintenance expenses		808 227	722 111
Amortisation of intangible assets	16	641 596	298 096
Advertising and marketing		637 737	453 565
Deposit insurance fee		562 490	518 694
Communication expenses		504 821	600 901
Security expenses		418 655	498 177
Professional services		240 134	607 226
Taxes other than on income		176 389	190 070
Other		1 521 804	824 107
Total administrative and other operating expenses		**18 078 945**	**16 676 112**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 899 247 thousand (2009: RR 884 875 thousand). Staff costs also comprise employee bonuses in the amount of RR 1 191 253 thousand (2009: RR 1 123 765 thousand).

Included in staff costs are the contributions to the defined contribution pension plan, paid by the Group for its employees in the amount of RR 37 845 thousand (2009: RR 24 984 thousand).

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	**2010**	**2009**
Current tax	4 525 852	1 205 800
Deferred tax	(2 402 264)	(21 925)
Income tax expense for the year	**2 123 588**	**1 183 875**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2010 income is 20% (2009: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 9% to 20% (2009: 9% - 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2010**	**2009**
Profit before tax	**9 411 260**	**6 606 955**
Theoretical tax charge at statutory rate (2010: 20%; 2009: 20%)	1 882 252	1 321 391
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	311 906	306 265
- Income on government securities taxed at different rates	(6 973)	(22 151)
- (Income)/loss earned in tax free jurisdictions	(60 966)	(131 148)
- Profit on associate	(2 416)	(9 839)
- Over provision of current tax in prior years	-	(218 195)
- Other	(215)	(62 448)
Income tax expense for the year	**2 123 588**	**1 183 875**

(c) Tax loss carry forwards

The Group realised deferred tax assets in the amount of RR 73 394 in respect of unused tax loss of RR 366 970 thousand (2009: has recognized deferred tax assets in the amount of RR 73 394 in respect of unused tax loss of RR 366 970 thousand) on interest rate swap contracts.

30 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia 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%).

In thousands of Russian Roubles	**31 December 2009**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 December 2010**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(1 140 791)	(98 792)	-	(1 239 583)
Loan impairment provision	(1 403 936)	1 594 486	-	190 550
Fair valuation of trading securities	449 747	65 872	-	515 619
Fair valuation of other securities at fair value through profit or loss	(29 381)	51 022	-	21 641
Debt securities in issue	-	-	-	-
Tax loss carry forwards on interest rate swap contracts	73 394	(73 394)	-	-
Accruals	1 682 609	486 298	-	2 168 907
Fair value of derivative financial instruments	(688 953)	656 242	-	(32 711)
Provision for credit related commitments	149 254	179 348	-	328 602
Deferrals	689 407	(329 755)	-	359 652
Valuation reserve of investment securities available for sale	(115 749)	-	(83 812)	(199 561)
Valuation reserve due to cash flow hedge	227 031	-	(94 408)	132 623
Other	131 614	(129 063)	-	2 551
Net deferred tax asset	**24 246**	**2 402 264**	**(178 220)**	**2 248 290**

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 accrue 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 thousands of Russian Roubles	31 December 2008	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2009
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(1 108 107)	(32 684)	-	(1 140 791)
Loan impairment provision	(514 394)	(889 542)	-	(1 403 936)
Fair valuation of trading securities	811 473	(361 726)	-	449 747
Fair valuation of other securities at fair value through profit or loss	(55 710)	26 329	-	(29 381)
Debt securities in issue	(977)	977	-	-
Tax loss carry forwards on interest rate swap contracts	-	73 394	-	73 394
Accruals	693 181	989 428	-	1 682 609
Fair value of derivative financial instruments	(1 136 046)	447 093	-	(688 953)
Provision for credit related commitments	47 227	102 027	-	149 254
Deferrals	1 002 649	(313 242)	-	689 407
Valuation reserve due to investment securities available for sale	(67 432)	-	(48 317)	(115 749)
Valuation reserve due to cash flow hedge	333 124	-	(106 093)	227 031
Other	151 743	(20 129)	-	131 614
Net deferred tax asset	**156 731**	**21 925**	**(154 410)**	**24 246**

(e) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2010			2009		
In thousands of Russian Roubles	Before-tax amount	Income tax expense	Net-of-tax amount	Before-tax amount	Income tax expense	Net-of-tax amount
Investment securities available-for-sale:						
- Gains arising during the year	419 061	(83 812)	335 249	241 583	(48 317)	193 266
Cash flow hedge:						
- Valuation reserve due to cash flow hedge arising during the year	472 038	(94 408)	377 630	530 463	(106 093)	424 370
Other comprehensive income/(expense)	**891 099**	**(178 220)**	**712 879**	**772 046**	**(154 410)**	**617 636**

31 Dividends

In thousands of Russian Roubles	2010	2009
Dividends payable at 1 January	-	-
Dividends declared during the year	1 198 241	1 371 054
Dividends paid during the year	(1 198 241)	(1 371 054)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year, in Russian Roubles	**33**	**37**

All dividends are declared and paid in Russian Roubles.

32 Segment Analysis

Operating Segments

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*.

The Supervisory Board monitors the results of the Group and is the chief operating decision maker (CODM). The Supervisory Board of the Bank consists of the Management Board members of the Parent Bank. The Parent Bank is a holding company that controls the strategic and operating decisions of the Group. The Parent Bank monitors its business by geographic segment where the Group represents a separate segment "Russia". Therefore, the Group's format for reporting segment information is the geographical segment Russia. The Supervisory Board regularly meets at least on a quarterly basis. The Management Board of the Group informs the Supervisory Board in a timely and comprehensive manner about the issues relevant to the business development of the Group, including the Group's risk situation, risk management and that of Group entities. The Supervisory Board discusses with the Management Board of the Group the strategic orientation, makes respective decisions and monitors regularly the status of the strategy's implementation at regular intervals.

Measurement of operating segment profit or loss, assets and liabilities

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

(i) Information comprises consolidated result of the Bank and Roof Russia S.A. (SPE of the Bank);

(ii) Certain classification differences exist between the information presented to CODM and the Consolidated Financial Statements.

32 Segment Analysis (Continued)

Segment information for Russia (as a segment of the Parent Bank) is calculated as set out below:

In thousands of Russian Roubles	2010 Russia/Total	2009 Russia/Total
External revenues:		
Interest and similar income	34 697 705	54 064 712
Fee and commission Income	10 198 532	10 165 804
Total revenues	**44 896 237**	**64 230 516**
Interest and similar expense	(14 779 210)	(26 717 944)
Fee and commission expense	(1 638 227)	(1 196 320)
Provision for loan impairment	(4 042 754)	(13 452 522)
Trading result	2 980 093	(575 816)
Valuation result from hedge accounting and other derivative instruments	(509 850)	506 661
Net income from investments	62 071	191 459
Depreciation and amortization	(2 213 868)	(1 427 935)
Other administrative expenses	(14 296 179)	(14 336 601)
Other operating profit/loss	(1 177 795)	(646 430)
Income taxes	(2 101 406)	(1 185 931)
Segment result	**7 179 112**	**5 389 137**

Based on domicile of the customers substantially all of the revenues is from Russian customers.

Major ratio calculations for the reportable segment of the Group for the year ended 31 December 2010 and 31 December 2009 are set out below:

In thousands of Russian Roubles	Year Ended 31 December 2010 Russia/Total	Year Ended 31 December 2009 Russia/Total
Total segment assets	**508 304 702**	**512 656 361**
Total segment liabilities	**422 396 384**	**433 550 353**
Capital expenditure	**2 494 395**	**2 044 178**
Cost/income ratio	54.51%	42.66%
Average equity	82 507 163	76 771 177
Return on equity before tax	11.41%	8.61%
Return on equity after tax	8.83%	7.06%

Capital expenditure represents additions to premises and equipment and intangible assets.
Reconciliation of segment revenues, segment result

and other material items is presented below.

In thousands of Russian Roubles	2010	2009
Total revenue for segment	**44 896 237**	**64 230 516**
Reclassification of interest income to trading result	(2 973 248)	(9 604 344)
Reclassification of commission income to trading result	(1 960 922)	(2 582 584)
Reclassification provision for loan impairment to interest income	877 665	1 895 139
Effect of the consolidation of the subsidiaries and other adjustments	333 000	52 931
Total revenue	**41 172 732**	**53 991 658**

32 Segment Analysis (Continued)

Reconciliation of reportable segment result is presented below.

In thousands of Russian Roubles	2010 Russia/Total	2009 Russia/Total
Total segment result	**7 179 112**	**5 389 137**
Additional income tax based on tax declaration submitted	(22 182)	2 056
Consolidation of subsidiaries and associate	80 469	85 547
Intercompany adjustments	50 273	(53 660)
Profit after tax	**7 287 672**	**5 423 080**

Reconciliation of other material items of income or expenses for the year ended 31 December 2010 is as follows:

In thousands of Russian Roubles	Total amount for reportable segment	Reclassifi-cations	Consolidation of the subsi-diaries and associate	As reported under IFRS
Material income or expenses for year ended 31 December 2010				
External revenues, including	44 896 237	(4 056 505)	333 000	41 172 732
- Interest and similar income	34 697 705	(2 095 583)	41 473	32 643 595
- Fee and commission income	10 198 532	(1 960 922)	291 527	8 529 137
Interest and similar expense	(14 779 210)	4 422 733	18 404	(10 338 073)
Fee and commission expense	(1 638 227)	-	(3 834)	(1 642 061)
Provision for loan impairment	(4 042 754)	(877 665)	(1)	(4 920 420)
Trading result	2 980 093	(430 074)	(28 987)	2 521 032
Valuation result from hedge accounting and other derivative instruments	(509 850)	86 788	-	(423 062)
Net income from investments	62 071	854 723	16 723	933 517
Depreciation and amortization	(2 213 868)	-	(5 289)	(2 219 157)
Other administrative expenses and share of profit of associate	(14 296 179)	-	(35 123)	(14 331 302)
Other operating profit/loss	(1 177 795)	-	(164 151)	(1 341 946)
Income taxes	(2 101 406)	-	(22 182)	(2 123 588)

32 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2009 is as follows:

In thousands of Russian Roubles	Total amount for reportable segment	Reclassifi-cations	Consolidation of the subsi-diaries and associate	As reported under IFRS
Material income or expenses for year ended 31 December 2009				
External revenues, including	64 230 516	(11 155 086)	916 228	53 991 658
- Interest and similar income	54 064 712	(8 572 502)	759 796	46 252 006
- Fee and commission income	10 165 804	(2 582 584)	156 432	7 739 652
Interest and similar expense	(26 717 944)	11 235 615	(6 760)	(15 489 089)
Fee and commission expense	(1 196 320)	-	(5 233)	(1 201 553)
Provision for loan impairment	(13 452 522)	(1 167 709)	(727 430)	(15 347 661)
Trading result	(575 816)	826 550	(68 141)	182 593
Valuation result from hedge accounting and other derivative instruments	506 661	260 630	-	767 291
Net income from investments	191 459	-	19 318	210 777
Depreciation and amortization	(1 427 935)	-	(8 747)	(1 436 682)
Other administrative expenses and share of profit of associate	(14 336 601)	-	90 329	(14 246 272)
Other operating profit/loss	(646 430)	-	(49 623)	(696 053)
Income taxes	(1 185 931)	-	2 056	(1 183 875)

Provision for loan impairment comprises of provision for impairment of loans and advances to customers, provision for credit related commitments and gains from the sale of loans.

The reconciling items are attributable to the following:

Reclassification in interest and similar expense:

- reclassification of interest expenses from deposits which are the hedged items in Cash flow hedge from interest and similar expenses to trading result in the amount RR 114 486 (2009: RR 954 889 thousand);
- reclassification of computed refinancing cost of trading portfolio from trading result to interest and similar expenses in the amount RR 2 090 529 thousand (2009: 1 310 583 thousand); and
- reclassification of interest expenses from interest rate derivatives from interest and similar expenses to trading result in the amount of RR 6 398 776 thousand (2009: RR 11 591 309 thousand).

32 Segment Analysis (Continued)

Reclassification in Provision for loan impairment the movement for the reporting period of the gross up of the loans acquired in the course of the business combination for interest and similar income and for provision for loan impairment and unwinding effect to interest and similar income in the amount of RR 46 186 thousand (2009: RR 1 167 709 thousand).

Reclassification in trading result:

- the total amount of reclassification from Trading result to Interest and similar expenses is equal to the amount of RR 2 090 529 thousand (2009: RR 1 310 583 thousand);
- the total amount of reclassification to Trading result from Interest and similar expenses is equal to the amount of RR 6 513 262 thousand (2009: RR 12 546 198 thousand);
- reclassification of interest income from interest rate derivatives from interest and similar income to trading result in the amount of RR 6 274 120 thousand (2009: RR 11 888 203 thousand);
- reclassification of ineffective part from hedge accounting from valuation result from hedge accounting and other derivative instruments to trading result in the amount of RR 86 788 thousand RUB (2009: RR 260 630 thousand);
- reclassification of coupon income for trading securities from trading result to interest income in the amount of RR 3 295 996 thousand (2009: RR 2 147 992 thousand);
- reclassification of the result on clients' foreign exchange transactions from commission income to trading result in the amount of RR 1 956 046 thousand (2009: 2 582 584 thousand); and

Reclassification in Valuation result from hedge accounting and other derivative instruments: the total amount of reclassification of the termination fee for interest rate derivatives and ineffective part from hedge accounting from Valuation result from hedge accounting and other derivative instruments to Trading result is equal to the amount of RR 86 788 thousand (2009: RR 260 630 thousand).

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 Group's risk management function is conducted regarding financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and credit risk concentrations. Its primary objectives are to identify and assess risks, establish risk limits, assume risk mitigation measures, ensure that all material risks are measured and limited, and that business in general is evaluated from a risk/return perspective. The operational and legal risk management functions are meant to ensure that internal policies and procedures work properly to minimize operational and legal risks.

Responsibility for the Group's risk management activities are divided among the following: Risk Management Directorate, Assets and Liabilities Committee (ALCO), Credit Committee, Problem Loan Committee, Operational Risk Committees and other authorized bodies of the Group within the scope of responsibilities delegated by the Group's Supervisory and Management Board and in accordance with the Group's Charter.

Risk Management Directorate

The Risk Management Directorate is responsible for:

- preparing internal documents based on local regulatory requirements and the Bank's risk management standards, including identifying, evaluating and controlling risks;
- independently analyzing and evaluating all types of risks to which the Bank is exposed, including risks associated with its credit activity;
- independently monitoring the Bank's clients' financial and business situation;
- identifying, assessing, monitoring, reporting, preventing and mitigating operational risks;
- evaluating and monitoring collateral;
- loans' administration;
- managing problem assets;
- assessing and mitigating market risks;
- evaluating potential losses and establishing provisions;
- implementing Basel II standards.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is responsible for the development and implementation of the Bank's asset and liability management strategy. The following items are recognized as the ALCO's main areas of responsibility:

- Managing the assets and liabilities structure;
- Approving the interest rate policy and setting the Bank's internal and external interest rates;
- Developing and implementing market risk evaluation and control models;
- Setting market risk limits;
- Interest rate risk, foreign currency risk management and credit risk concentration issues;
- Approving internal documents on risk identification, evaluation and management;
- Approving the Bank's policy on the management of medium-term and long-term liquidity.

ALCO is presided over by the Chairman of the Bank's Management Board.

33 Financial Risk Management (Continued)

Credit Committee

The Credit Committee is responsible for managing the Group's credit risks, including:

- considering and approving the Group's credit policy;
- approving loans and other credit products;
- approving and amending the terms and conditions of credit products;
- establishing limits for transactions with certain counterparties and groups of connected parties;
- implementing policies and procedures for collateral assessment and evaluation;
- regularly reviewing loan applications, product strategies, industry reviews, etc.

The composition of the Credit Committee is approved by the Supervisory Board and includes senior managers whose activities involve risk assessment (e.g. specialists in the Risk Management Directorate) and client relations. The Credit Committee is usually chaired by the Director of the Risk Management Directorate, who is responsible for overseeing the Bank's overall risk management policies.

The following table shows the approval authority of the Credit Committee regarding corporate clients, which depends on the loan volume and tenor:

Amount (in EUR)	Term
20 million	Up to 3 years
10 million	Up to 5 years
5 million	Up to 10 years
1 million	Unlimited

The Credit Committee has the right to delegate approval authority to lower approval bodies.

- Small Credit Committee: Members of the Small Credit Committee are appointed by the Credit Committee. The Small Credit Committee is empowered to approve applications for up to EUR 7 million.
- Approvals requiring two signatures are generally authorized by the Credit Committee to approve a limit of up to EUR 3 million (up to 2010, the limit was EUR 2 million).

None lending transactions in the Corporate, Public or SME divisions are made without approval through the limit application process first. This process is also consistently applied to overdrafts, increases in existing limits, extensions, and in cases where a borrower's risk profile changes after the original lending decision was made (e.g. regarding his/her financial situation, the terms and conditions, or collateral).

Limits are granted within the context of a hierarchical decision making process depending on the type, size and term of a loan. Approval from the business and the credit risk management divisions is always required when granting new loans or when performing limit re-evaluations during the regular reassessment of counterparty risks. In this case, limit applications are approved by the Credit Committee.

If a requested limit is above what the Credit Committee is authorized to approve (by amount, tenor, etc.), then the application should be submitted to the Group's Supervisory Board.

The Group's Supervisory Board and the Parent Bank Managing Board

The Group's Supervisory Board and the Parent Bank Managing Board are responsible for approving limit applications when the total credit limit or tenor exceeds the approval powers of the Credit Committee. The Group's Supervisory Board meets at the Parent Bank Head Office on regularly basis.

33 Financial Risk Management (Continued)

The Group's Supervisory Board is authorized to approve loan applications from a group of connected customers ("GCC") with a total credit limit of less than EUR 50 million. Loan applications from a GCC with a total credit limit exceeding EUR 50 million must be approved by the Parent Bank Managing Board. Loan applications that exceed certain reporting limits set by Raiffeisen International Group for the Parent Bank Group must be approved by both the Parent Bank Supervisory Board and the Parent Bank Managing Board. All credit decisions above a fixed threshold of EUR 50 million must be reported to the Parent Bank Supervisory Board five times a year.

Problem Loan Committee

All problem loans are reviewed by the Problem Loan Committee or the Small Problem Loan Committee. The Problem Loan Committee has the authority to recommend courses of action and approve applications for restructuring, credit reviews, and write-offs, establish provisions and release provisions. Members of the Problem Loan Committee and the Small Problem Loan Committee are appointed by the Group's Supervisory Board and meet on a weekly basis.

The Small Problem Loan Committee has the authority to approve applications to restructure problem loans with a value of up to EUR 1 million.

The Problem Loan Committee is authorized to:

- approve applications for restructuring problem loans to a GCC of up to EUR 7 million;
- recommend courses of action to take if a customer deteriorates or if their credit rating is downgraded;
- approve the level of provisioning or the release of provisions for a GCC up to EUR 2 million (2009: EUR 5 million);
- approve direct write-offs of up to EUR 500,000 and write-offs against provisions of up to EUR 1 million;
- approve external legal and consulting costs related to the recovery of problem loans of up to EUR 200,000.

Decisions beyond the approval powers of the Problem Loan Committee must be approved by the Group's Supervisory Board.

33 Financial Risk Management (Continued)

Credit risk. The Group's credit risk mainly relates to the possibility of a financial loss due to a borrower's creditworthiness and/or inability to meet its obligations. The Group manages its credit risk in close cooperation with the credit risk management team at the Parent Bank level.

Credit risk management and lending decisions are based on the respective credit risk manuals and policies and the corresponding tools and processes that have been developed for this purpose.

The Group manages its credit portfolio on the basis of return on risk adjusted capital. The Group analyzes credit transactions and retail portfolios by calculating the expected loss and determining the unexpected loss on its loan portfolio. "Expected loss" is the loss that the Group expects over a one-year period in its credit portfolio for corporate customers and the loss the Group expects over a seven-month period for its credit portfolio for retail customers, based on its historical loss experience. In calculating expected loss, the Group takes into account a number of factors, including default probability and expected exposure at default, which the Group estimates based on client- and product-specific factors that reflect the risk characteristics of different types of credit exposures and facilities. Expected loss is a useful measure for planning purposes. "Unexpected loss" is the Group's estimate of the maximum negative deviation of the possible loss from the expected loss that it is likely to face within a one-year period. In the Group's risk management system, the expected loss in lending business is factored into the pricing of products in the form of standard risk costs. Unexpected loss is taken into account through the allocation of capital and is part of individual pricing decisions as well. The Group adjusts the expected loss model in order to calculate the incurred losses of its loan portfolio.

The Group analyzes credit risk associated with traditional banking products, such as loans, as well as credit risk for derivative financial instruments. The Group particularly attempts to limit its potential default risk from over the counter ("OTC") derivative transactions. The Group measures its credit exposure from OTC derivative transactions as the cost of replacing the contract if its counterparty were to default on its obligations.

The Group's corporate risk management and private individuals risk management departments are responsible for implementing its credit risk management policies and procedures as approved by the Parent Bank's management board. Regarding credit risk towards financial institutions and sovereigns, the Group follows standards and the ratings assumption procedure for financial institutions and sovereigns developed by the Parent Bank.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to a quarterly review in accordance with the requirements of the Central Bank of Russian Federation. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee and the Group Supervisory Board.

The exposure to any one borrower, including banks and brokers, is at the same time restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of borrowers' and potential borrowers' ability to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank'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.

Approval of a loan requires an evaluation and recommendation from the Group's Risk Management directorate and unanimous approval from the proper authority.

33 Financial Risk Management (Continued)

In 2010, the economy's recovery allowed to the Group to soften its Credit Policy and introduce some changes to its lending approach, which can be summarized as follows:

- The Group decreased the number of restricted industries for lending purposes;
- The underwriting criteria were improved; and
- Reviews were conducted less frequency.

Those best practices that have proved themselves in the last few years stayed in place:

- Special research regarding the real estate portfolio;
- Portfolio research – SWOT analysis of industries and majors; and
- Tight monitoring (including external and internal sources of information) of clients.

The Group implemented an early warning system, which is a specialized tool meant to indentify problem corporate customers early on and allow defaults to be prevented by taking appropriate action. The system is based on 39 warning signs and consolidates information from internal and external sources. Within the system, the corporate portfolio is screened regularly to detect these warning signs, which would indicate an upcoming problem loan. Based on its findings, every customer is assigned a so-called "client risk status" and an action plan is developed, if necessary.

Financial Institutions Risk Management (i.e. banks and securities houses, insurance, finance and factoring companies, brokers, asset management houses, leasing companies, subsidiaries of the above mentioned financial institutions and similar entities, sovereign and sub-sovereign borrowers) is implemented through research, analysis, and ensuring that the risk management standards, policies, practices and tools of the Parent Bank are adhered to by all business units in the credit process, the daily control of limits observance, and reporting.

Limits are subject to constant monitoring. This controlling function includes daily monitoring of treasury operations within the existing limits, operations with securities, REPO transactions (counterparty, issuer), and commercial limits. Monthly monitoring covers exposure, disbursed cash and the commitment OBS-exposure-sheet.

Asset class segmentation as an initial stage of the rating process

Asset class segmentation is one of the first steps in determining a client's risk segment and rating model.

The basic standards for asset class segmentation are determined by Parent Bank directives and establish common rules across the whole Parent Bank Group.

The asset class segmentation and rating process are used for the Risk Weighted Assets calculation in order to meet the Basel II Accord requirements.

Rating models

The rating process determines a counterparty's creditworthiness. The Group uses internal ratings for assessing credit risk, employing different risk classification procedures (rating and scoring models) for different asset classes. All rating and scoring models are worked out by the Parent Bank and used throughout the whole Group and are based on specific software tools (e.g. for business valuation and calculating rating grades; rating database).

The rating models in the main non-retail asset classes – corporate customers, financial institutions and sovereigns – are determined depending on the asset class and rank creditworthiness in ten classes. Judgment on a counterparty is based on statistical data, and the analyst's judgment and is validated, where appropriate, through a comparison with externally available data.

33 Financial Risk Management (Continued)

The following separate rating models are used by the Group:

1 *Corporate* – for large corporate counterparts

2 *SMB* – for corporate customers belonging to small and medium business

3 *Insurance* – for insurance companies (both life & non-life)

4 *FI* – for all types of financial institutions, except insurance companies

5 *Sovereigns* – for countries' central governments and relates to countries' non-commercial public sector entities (PSEs)

6 *LRG* – for local administrations and regional governments, and is related to large non-commercial PSEs

7 *CIUs* – for Collective Investment Undertakings

8 *Project Finance* – for separate projects

Rating process

The rating process is the process of determining the credit worthiness of counterparty. The Group uses internal rating for assessing credit risk employing different risk classification procedures (rating and scoring models) for different asset classes. All rating and scoring models are set by the Parent Bank and used throughout the whole Group and are based on specific software tools (e.g. for business valuation and calculating rating grades; rating data base).

The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under regular review and updated as necessary. The Group regularly validates the performance of the rating and their predictive power with regards to default events.

The Group's corporate internal rating scale and mapping of external ratings are presented in the table below.

Rating description	Group's corporate and retail rating	Group's bank rating	Group's sovereign rating
Minimal risk	0.5,1.0	A1,A2	A1,A2
Excellent credit standing	1.5	A3	A3
Very good credit standing	2.0	B1	B1
Good credit standing	2.5	B2	B2
Average credit standing	3.0	B3	B3
Mediocre credit standing	3.5	B4	B4
Weak credit standing	4.0	B5	B5
Very weak credit standing	4.5	C	C
Loss/bankruptcy	5.0	D	D

Judgment on a counterparty is based on statistical data, and the analyst's judgment is supported, where appropriate, through a comparison with externally available data.

The rating process is centralized, as there is a large number of counterparties, and the application of rating methodology and technology should remain under centralized control. The rating process is the responsibility of the central analysts at the Group's head office, but local risk managers also participate in rating local counterparties by providing their analysis and rating spreadsheets. Rating results and scores are discussed internally among several levels of analysts and then released within the Group.

33 Financial Risk Management (Continued)

The rating process for local and regional governments is assigned to local risk managers and analysts. The centre of competence is formed by the central analysts of the Group, who also exercise a controlling function over the rating performed by local analysts.

Exposure at default is based on the amount the Group expects to be owed at the time of a default. For a loan, this is represented by the face value. For a credit-related commitment, the Group includes any other amount that may have been taken out by the time of the default, should it occur.

In 2010 the Group updated default statistics based on a four year time period instead of a three year period used in 2009. The management believes that this change enhances the accuracy of estimates with respect to probabilities of default applied under the portfolio loan loss provision methodology. The management believes that it is impractical to calculate the effect of the change in estimate as of 31 December 2010.

"Loss given default" is the Group's expectation of the extent of the loss on a claim should a default occur. It is expressed as an inverse recovery rate.

Private Individuals

Private individual credit risk appears when performing risk-bearing transactions for private individual customers. A borrower could be defined as a private individual customer in case of lending for his own personal use. Basic types of private individual loans are mortgages, auto loans, personal loans and credit cards. For each type of private individual loan, the Group has established a product approval process, which is approved by the Parent Bank.

When establishing private individual credit risk limits, the Group usually follows the general guidelines set for the entire Parent Bank group and the specific guidelines for the Group. The decision on whether or not to provide a loan to a private individual customer depends on the customer's conformity with the basic conditions, which are documented separately for each type of credit product; the customer's scoring data; the customer's financial status, meaning his/her ability to pay; the results of a security check; credit history data, if it exists; and collateral (for pledge credit).

The Group uses certain reports for credit risk analyses on a monthly basis, such as consumer portfolio reports, branch monitoring reports, product reports, risk cost reports, vintage reports, collection bucket reports, collection target tracking and velocity reports.

For debt securities, the Group uses internal ratings to manage credit risk exposure. The Bank extrapolates the ratings model on its subsidiaries as well.

Credit limits The Group monitors exposure to banks using a system of limits set by the Bank's Treasury department based on the original methodology of evaluating a financial institution's financial position. The Bank's Risk Management Directorate monitors counterparties' creditworthiness on a monthly basis by issuing recommendations for changing the existing limits.

Exposure to other groups of borrowers (other than banks) is also monitored by setting limits on different types and terms of transactions for each individual counterparty and industry segment (economic entity), including regular monitoring of borrowers' creditworthiness based on evaluations and rating systems.

The Bank sets credit limits on the following:

- Assets exposed to credit risk
- Short-term interbank transactions with counterparty banks
- Investments in issuers' debt securities
- Investments in groups of interrelated counterparties
- An economic entity's liabilities to the Group

33 Financial Risk Management (Continued)

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by the Credit Committee. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

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

Credit risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 10 and 11. The Group did not have any such significant risk concentrations at 31 December 2010 and 2009.

Market risk. Market risk is the risk of loss due to adverse changes in interest rates, exchange rates, equity prices, commodity prices and credit spreads, which may affect the Group's equity, profit or the market value of its assets and liabilities. Market risk derives from on- and off-balance sheet positions in the Bank's treasury, investment banking and lending operations.

The Group's market risk management approach encompasses the recognition, measurement, monitoring and management of market risk that results from the Group's banking business on a group basis. The Group encounters market risk in both trading and non-trading activities (including interest rate positions, balance sheet structures and hedging positions).

The Group's market risk management unit is in charge of identifying and assessing market risks and establishing procedures to control market risks, including monitoring position limits and exposures. The Bank's market risk management unit also assesses market risk for new businesses and products, including structured products. The Treasury Directorate, which trades within the trading limits recommended by the market risk management unit and approved by the ALCO / CC, performs trading and market positioning for the Bank. The Bank is subject to the policies and limits set by the Parent Bank and approved by the Parent Bank's market risk committee.

The Bank's market risk management unit is in charge of daily limit monitoring and weekly reporting to the Parent Bank, and is responsible for reporting any limited breach to the Parent Bank. In the case of a limit breach, the Parent Bank board member responsible for global treasury has the right to intervene in the Bank's risk management activities and practices.

Risk management tools

The Bank manages market risks by controlling the market risk limits for all trading portfolios (domestic and foreign fixed income securities, foreign exchange and equity positions) by using risk management tools such as position limits, value at risk, stress tests, back-testing, interest rate gap and sensitivity analysis and stop-loss limits.

Value at Risk (VaR)

VaR is a statistically-based estimate of a potential loss in the Bank's trading portfolio, including fixed income, equity and foreign exchange positions, as well as a decrease in the economic value of the Banking Book, from adverse changes in market parameters. As is standard for the Parent Bank and the Group, VaR measures are calculated at a 99% confidence level, and there is a specified statistical probability of 1% that actual loss could be greater than the VaR estimate. Limits on VaR are applied for by the Bank's Treasury Directorate, recommended by the Bank's market risk management unit, approved by the ALCO internally and then approved by the Parent Bank's Market Risk Committee.

In 2010, the Group started to use a new model of measuring VaR that was developed and put into force by the Parent Bank. This model is now standard for all network units of the Parent Bank.

33 Financial Risk Management (Continued)

The main parameters of the new model are:

- hybrid simulation (combined Monte Carlo-Historical scenarios)
- currency risk and interest rate risk covered and simulated together (including diversification effect)
- based on a two-year time series with Volatility De-clustering (approx. 80% short-term and 20% long-term volatility).

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

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those of an extreme nature.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. VaR is only an estimate, which is subject to stochastic uncertainty. There is a 1% chance that the loss could exceed VaR.
- As VaR is only calculated at the end of the day, it does not necessarily reflect exposures that may arise on positions during the trading day.

VaR is dependent upon the Bank's position and the volatility of market prices. VaR of an unchanged position reduces if market volatility declines, and vice versa.

The Parent Bank calculates VaR for the Bank based on reported risk positions in the Trading Book and the Banking Book. The Parent Bank performs VaR calculations on a regular basis in EUR and compares the results to the VaR limits approved for the Bank. When a limit is exceeded, it is reported to the local Management and the Parent Bank’s Market Risk Committee.

VaR summary for currency and interest rate risks for the year ending 31 December 2010 and 2009:

		31 December 2010
In thousands of Russian rubles		*1-day VaR*
Trading Book	Currency risk	12 701
	Interest rate risk	156 832
	Currency risk and interest rate risk (including diversification effect)	157 168
Banking Book	Interest rate risk	90 702
Total for the Bank	**Currency risk**	**12 701**
	Interest rate risk	**134 834**
	Currency risk and interest rate risk (including diversification effect)	**141 177**

	31 December 2009	
In thousands of Russian rubles	*1-day VaR*	*10-day VaR*
Currency risk	25 760	81 461
Interest rate risk	168 171	531 804
Total risk	**193 931**	**613 265**

33 Financial Risk Management (Continued)

To calculate VaR, the Parent Bank uses the open risk positions of the Bank (without subsidiaries).

The Bank’s market risk management unit monitors VaR limits and exposures. The distribution of potential profits and losses from the VaR model provides an indication of potential trading revenue volatility, and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. VaR is based on a one-day calculation and provides an estimate of the range of daily mark-to-market profit and loss that the Bank may incur on its current portfolio under normal market conditions.

Stress tests

The main advantage of VaR risk assessment – its reliance on the empirical data – is at the same time its biggest drawback. Extreme market moves that may cause substantial deterioration of the Bank’s position have to be assessed by putting stress on a number of standard deviations of market returns. The resulting figures serve as a rough indicator of the magnitude of a likely loss under the corresponding scenario. The Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests indicate the potential size of losses that could arise in extreme conditions.

Stress testing helps measure the Bank’s exposure to extreme market movements and provides an indication of the potential loss that could arise as a result of such movements. Stress testing is designed to ensure that a wide range of possible outcomes is explored in order to understand the Bank’s vulnerability, and to ensure that the governance and control framework is comprehensive, transparent and responsive to market conditions and developments, both globally and in the Russian economy.

Back-testing

The effectiveness of the VaR model is subject to a back-testing assessment. Back-testing detects cases of above-VaR loss and compares the frequency of VaR breaches to the given confidence level.

33 Financial Risk Management (Continued)

In back-testing, the Bank compares the 1-day VaR calculated on positions at the close of each business day with the actual revenues arising on the same positions on the next business day. These revenues ("back-testing revenues") exclude non-trading components, such as commissions and fees, but include revenues from intra-day trading (so called, "dirty back-testing"). If the result is negative and exceeds the 1-day VaR, a "back-testing exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a back-testing exception is expected, on average, one day out of a hundred, i.e. approximately three times a year.

The Bank uses an interest rate sensitivity analysis to assess interest rate risk for its banking portfolio, which consists of loans, deposits, interbank money market transactions, fixed-income held-to-maturity securities and interest rate derivatives and for its trading portfolio, which consists of fixed income trading securities and interest rate derivatives that hedge the exposure of fixed income trading securities. The Group creates an interest rate re-pricing gap for each portfolio by comparing the present market value of all future cash flows, calculated taking the current market interest rate that the Bank uses for internal pricing, to the value of all future cash flows in the current market increased by one basis point.

Limitation of trading positions

The Bank uses a set of position limits to prevent the concentration of certain financial instruments, including trading securities and open foreign exchange positions, as well as in the Bank's overall portfolio, in order to maintain the market value of the overall portfolio. The position limits are set for individual positions and for the overall portfolio and account for certain market conditions, including liquidity.

Currency risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RR and EUR/RR exchange rate fluctuations).

As part of managing currency risk, the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The control system also includes limits on Value at Risk (see the description of Value at Risk measure for details), and stop-loss limits, each monitored on a daily basis.

Foreign exchange risk management is done centrally by the Treasury Directorate for the Bank's Head Office and all regional and Moscow branches.

The Bank's Treasury Directorate undertakes daily aggregation of the currency position of the Bank and takes measures for maintaining of the Bank's currency position on a minimum level. The Bank uses swaps, forwards and USD futures contracts tradable on MICEX and RTS as the main instruments for hedging risk.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010:

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	277 551 857	213 619 146	1 186 828	9 589 839	72 335 722
US Dollars	168 865 651	124 098 054	22 567	(52 969 469)	(8 224 439)
Euros	28 351 541	79 187 679	127 941	50 419 999	(544 080)
Other	6 641 992	990 892	2 533	(5 700 500)	(51 933)
Total	**481 411 041**	**417 895 771**	**1 339 869**	**1 339 869**	**63 515 270**

33 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2009 is presented below:

In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Less fair value of currency derivatives**	**Currency derivatives**	**Net position including currency derivatives**
Russian Roubles	209 764 650	164 662 826	4 203 061	26 939 279	67 838 042
US Dollars	186 115 619	175 180 532	164 388	(19 776 352)	(9 005 653)
Euros	90 103 042	89 931 263	76	(2 624 608)	(2 452 905)
Other	887 322	815 575	-	(170 794)	(99 047)
Total	**486 870 633**	**430 590 196**	**4 367 525**	**4 367 525**	**56 280 437**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 36.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Bank calculates VaR for the Parent Bank monitoring, using EUR as the basis currency, and for local purposes the Bank performs the sensitivity analysis.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2010
In thousands of Russian Roubles	**Impact on profit or loss/equity**
US Dollars strengthening by 10%	(822 444)
US Dollars weakening by 10%	822 444
Euro strengthening by 10%	(54 408)
Euro weakening by 10%	54 408
US strengthening/Euro weakening by 10%	(876 852)
US weakening/Euro strengthening by 10%	876 852

	At 31 December 2009
In thousands of Russian Roubles	**Impact on profit or loss/equity**
US Dollars strengthening by 25%	(2 251 413)
US Dollars weakening by 25%	2 251 413
Euro strengthening by 25%	(613 226)
Euro weakening by 25%	613 226
US strengthening/Euro weakening by 25%	(2 864 639)
US weakening/Euro strengthening by 25%	2 864 639

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the group.

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 as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally through fixed rate loans, the amounts and terms of which differ from the amounts and terms of fixed rate or floating rate borrowings. In practice, interest rates are set for a short period of time. In practice, interest rates that are contractually fixed on both assets and liabilities are usually to reflect current market conditions.

The Market Risk Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
31 December 2010					
Total financial assets	357 185 744	34 234 469	64 663 990	26 136 279	482 220 482
Total financial liabilities	296 570 239	75 697 512	44 824 326	803 694	417 895 771
Net interest sensitivity gap at 31 December 2010	**60 615 505**	**(41 463 043)**	**19 839 664**	**25 332 585**	**64 324 711**
31 December 2009					
Total financial assets	366 370 182	26 126 721	68 435 868	26 979 779	487 912 550
Total financial liabilities	204 259 443	191 565 926	27 788 879	6 975 948	430 590 196
Net interest sensitivity gap at 31 December 2009	**162 110 739**	**(165 439 205)**	**40 646 989**	**20 003 831**	**57 322 354**

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity in terms of "present value to 1 basis point interest rate shift" which measures the impact of a 1 basis point rise of interest rates along the various maturities on the yield curve on the present value of the Bank's assets, liabilities and off-balance sheet instruments. The Parent Bank's market risk committee sets such limits for the Bank and Raiffeisen Leasing Russian Rouble, US Dollar and Euro positions and for the Bank and Raiffeisen Leasing overall exposure.

The Bank performs the sensitivity analysis for monitoring of bonds in banking book at fair value through profit and loss.

As of 31 December 2010, if interest rates at that date had been 200 basis points (bp) lower, with all other variables held constant, the economic value of the bank book would have been RR 1 221 694 thousand lower, mainly as a result of lower interest income on variable rate assets. If interest rates had been 200 basis points (bp) higher, with all other variables held constant, the economic value of the bankbook would have been RR 1 257 417 thousand higher, mainly as a result of higher interest income on variable rate assets.

As of 31 December 2009, if interest rates at that date had been 200 basis points lower, with all other variables held constant, the economic value of the bank book would have been RR 244 515 thousand higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. If interest rates had been 200 basis points higher, with all other variables held constant, the economic value of the banking book would have been RR 109 569 thousand lower, mainly as a result of higher interest expense on short-term and variable rate liabilities.

33 Financial Risk Management (Continued)

The table below summarizes sensitivities of fair value of the Bank's derivative portfolios to reasonably possible changes in interest rates applied at the balance sheet date, with all other variables held constant:

In thousands of Russian Roubles	**200 bp +**	**200 bp -**
Foreign exchange forward contracts	(6 179)	6 368
Interest rate swap contracts	118 647	(158 535)
Cross-currency swap contracts	99 663	(107 196)

The Group monitors interest rates for its financial instruments. The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities. The table below summarizes the data as of 31 December 2010:

	RUR	**USD**	**EUR**	**Other**
Assets				
Cash and cash equivalents	2.12%	0.09%	0.81%	-
Trading securities	8.19%	2.21%	3.42%	-
Other securities at fair value through profit and loss	1.85%	0.15%	-	-
Investment securities held-to-maturity	11.46%	-	-	-
Due from other banks	7.48%	0.91%	-	-
Loans and advances to customers				
- Corporate loans	10.16%	7.05%	7.88%	4.55%
- Retail loans	16.21%	11.04%	10.66%	-
- SME loans	15.92%	8.96%	-	-
- Finance lease receivables	20.02%	24.04%	-	-
- Public sector	9.17%	4.58%	-	-
Investment securities available for sale	13.96%	-	-	-
Liabilities				
Due to other banks	1.04%	0.67%	0.8%	1.25%
Customer accounts				
- Current/settlement accounts – Corporate	0.00%	0.00%	0.00%	0.00%
- Current/settlement accounts - Retail	0.01%	0.01%	0.01%	0.01%
- Current/settlement accounts - Public	0.00%	0.00%	0.00%	0.00%
- Term deposits - Corporate	2.86%	1.18%	1.44%	-
- Term deposits - Retail	6.15%	2.84%	3.51%	1.93%
Term borrowings from the Parent Bank	-	1.70%	5.48%	-
Term borrowings from other financial institutions	-	2.23%	-	-
Debt securities in issue	11.50%	-	-	-

33 Financial Risk Management (Continued)

The table below summarizes the data as of 31 December 2009:

	RUR	USD	EUR	Other
Assets				
Cash and cash equivalents	6.22%	0.16%	0.54%	-
Trading securities	9.59%	2.02%	4.24%	-
Other securities at fair value through profit and loss	9.50%	3.30%	-	-
Investment securities held-to-maturity	8.16%	6.82%	-	-
Due from other banks	0.00%	4.17%	0.77%	-
Loans and advances to customers				
- Corporate loans	15.23%	8.36%	8.54%	-
- Retail loans	17.93%	10.49%	10.53%	-
- SME loans	19.55%	9.92%	-	-
- Finance lease receivables	20.04%	21.73%	-	-
- Public sector	15.70%	-	-	-
Investment securities available for sale	13.50%	-	-	-
Liabilities				
Due to other banks	4.14%	1.71%	5.49%	1.25%
Customer accounts				
- Current/settlement accounts – Corporate	0.00%	0.00%	0.00%	0.00%
- Current/settlement accounts - Retail	0.01%	0.01%	0.01%	0.01%
- Current/settlement accounts - Public	0.00%	0.00%	0.00%	0.00%
- Term deposits - Corporate	5.71%	1.04%	0.56%	-
- Term deposits - Retail	9.41%	3.77%	4.38%	3.04%
Term borrowings from the Parent Bank	-	1.48%	5.74%	-
Term borrowings from other financial institutions	7.25%	2.39%	-	-
Debt securities in issue	13.53%	-	-	-

33 Financial Risk Management (Continued)

Normally the Bank does not pay any interest on current accounts maintained by corporate customers. However in certain cases the Bank may decide to serve interest on current account balances of a specific corporate customer in view of special agreements with this customer.

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

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

In thousands of Russian Roubles	**Russia**	**Austria**	**Other European Union**	**Other countries**	**Total**
Assets					
Cash and cash equivalents	60 594 432	16 489 458	3 006 510	4 188 457	84 278 857
Mandatory cash balances with the Central bank of the Russian Federation	2 698 403	-	-	-	2 698 403
Trading securities	49 208 549	-	4 405 057	-	53 613 606
Other securities at fair value through profit or loss	18 277 613	-	49 072	78 413	18 405 098
Due from other banks	3 132 553	18 317 877	-	274 283	21 724 713
Loans and advances to customers	258 791 201	1 649 029	12 302 821	10 820 868	283 563 919
Investment securities available for sale	10 617 267	-	-	469 305	11 086 572
Investment securities held-to-maturity	512 148	-	-	-	512 148
Derivatives and other financial assets	984 014	3 922 800	1 291 383	138 969	6 337 166
Total financial assets	**404 816 180**	**40 379 164**	**21 054 843**	**15 970 295**	**482 220 482**
Liabilities					
Due to other banks	15 579 330	1 923 389	1 842 874	1 189 633	20 535 226
Customer accounts	277 296 510	761 130	7 049 185	1 637 333	286 744 158
Term borrowings from the Parent Bank	-	81 169 487	-	-	81 169 487
Term borrowings from other financial institutions	827 623	1 140 484	1 683 439	2 007 359	5 658 905
Debt securities in issue	16 196 249	-	-	-	16 196 249
Derivatives and other financial liabilities	2 358 160	3 537 798	1 624 830	70 958	7 591 746
Total financial liabilities	**312 257 872**	**88 532 288**	**12 200 328**	**4 905 283**	**417 895 771**
Net balance sheet position	**92 558 308**	**(48 153 124)**	**8 854 515**	**11 065 012**	**64 324 711**
Credit related commitments (Note 35)	**112 118 240**	**6 297 829**	**2 577 621**	**2 191 386**	**123 185 076**

33 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

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

In thousands of Russian Roubles	Russia	Austria	Other European Union	Other countries	Total
Assets					
Cash and cash equivalents	48 662 649	87 546 567	2 779 955	6 244 798	145 233 969
Mandatory cash balances with the Central bank of the Russian Federation	2 608 971	-	-	-	2 608 971
Trading securities	34 705 753	-	4 483 288	145 872	39 334 913
Other securities at fair value through profit or loss	2 095 075	-	21 471	212 650	2 329 196
Due from other banks	44 344	30 478 855	-	30 197	30 553 396
Loans and advances to customers	234 381 611	1 872 823	5 221 441	3 052 654	244 528 529
Investment securities available for sale	10 085 068	-	-	578 745	10 663 813
Investment securities held to maturity	137 256	-	-	-	137 256
Derivatives and other financial assets	640 119	6 345 602	5 466 808	69 978	12 522 507
Total financial assets	**333 360 846**	**126 243 847**	**17 972 963**	**10 334 894**	**487 912 550**
Liabilities					
Due to other banks	17 644 044	1 877 017	419 299	859 392	20 799 752
Customer accounts	249 927 412	1 518 729	3 008 476	4 674 265	259 128 882
Term borrowings from the Parent Bank	-	123 036 036	-	-	123 036 036
Term borrowings from other financial institutions	-	-	5 430 788	2 544 853	7 975 641
Debt securities in issue	10 078 975	-	-	-	10 078 975
Derivatives and other financial liabilities	1 712 310	4 159 101	3 695 084	4 415	9 570 910
Total financial liabilities	**279 362 741**	**130 590 883**	**12 553 647**	**8 082 925**	**430 590 196**
Net balance sheet position	**53 998 105**	**(4 347 036)**	**5 419 316**	**2 251 969**	**57 322 354**
Credit related commitments (Note 35)	**64 552 758**	**1 355 826**	**2 859 310**	**264 254**	**69 032 148**

33 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, 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. Liquidity risk is managed by the Asset and Liability Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are:

- Instant liquidity ratio (N2 must be not less than 15% as required by the CBRF), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 91.5% at 31 December 2010 (at 31 December 2009 N2 of the Bank was 90.1%).

- Current liquidity ratio (N3 must be not less than 50% as required by the CBRF), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 94.5% at 31 December 2010 (at 31 December 2009 N3 of the Bank was 132.72%).

- Long-term liquidity ratio (N4 must be not more than 120% as required by the CBRF), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 78.26% at 31 December 2010 (at 31 December 2009 N4 of the Bank was 57.61%).

The Treasury department prepares the liquidity profile of the financial assets and liabilities. The Treasury department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position (aggregate and for major currencies) is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury department.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the balance sheet because the balance sheet amounts are based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows maturity analysis of non-derivative financial assets at their undiscounted amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

33 Financial Risk Management (Continued)

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

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

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	84 278 857	-	-	-	84 278 857
Mandatory cash balances with the Central Bank of the Russian Federation	2 698 403	-	-	-	2 698 403
Trading securities	53 613 606	-	-	-	53 613 606
Other securities at fair value through profit or loss	18 405 098	-	-	-	18 405 098
Due from other banks	12 549 148	8 718 553	621 274	-	21 888 975
Loans and advances to customers	57 284 594	89 663 988	174 897 561	73 745 452	395 591 595
Investment securities available for sale	469 305	11 353 699	-	-	11 823 004
Investment securities held to maturity	26 322	26 178	605 432	-	657 932
Gross settled swaps and forwards:					
- inflows	63 743 988	28 962 048	5 392 548	-	98 098 584
- outflows	(63 310 077)	(28 764 365)	(5 014 288)	-	(97 088 730)
Net settled derivatives	155 053	2 853 989	2 233 158	290 284	5 532 484
Other financial assets	646 548	-	-	-	646 548
Total financial assets	**230 560 845**	**112 814 090**	**178 735 685**	**74 035 736**	**596 146 356**
Liabilities					
Due to other banks	19 400 240	574 581	622 410	-	20 597 231
Customer accounts	206 319 910	46 734 161	37 020 853	-	290 074 924
Debt securities in issue	-	12 821 168	5 748 000	-	18 569 168
Term borrowings from Parent Bank and from other financial institutions	677 593	58 266 554	29 222 535	1 683 439	89 850 121
Gross settled swaps and forwards:					
- inflows	(30 820 836)	(7 663 886)	(3 916 640)	-	(42 401 362)
- outflows	31 156 859	7 967 458	4 025 500	-	43 149 817
Net settled derivatives	506 817	2 081 607	2 996 587	758 855	6 343 866
Credit related commitments before provision	16 204 468	65 869 324	31 449 187	9 662 097	123 185 076
Other financial liabilities	1 999 802	-	-	-	1 999 802
Total potential future payments for financial obligations	**245 444 853**	**186 650 967**	**107 168 432**	**12 104 391**	**551 368 643**
Liquidity gap arising from financial instruments	**(14 884 008)**	**(73 836 877)**	**71 567 253**	**61 931 345**	**44 777 713**

The above analysis is based on contractual maturities, therefore the entire portfolio of trading securities is classified within demand and less than three months based on Management's assessment of portfolio's reliability.

33 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	145 233 969	-	-	-	145 233 969
Mandatory cash balances with the Central Bank of the Russian Federation	2 608 971	-	-	-	2 608 971
Trading securities	39 334 913	-	-	-	39 334 913
Other securities at fair value through profit or loss	2 329 196	-	-	-	2 329 196
Due from other banks	39 247 605	12 703	26 376	-	39 286 684
Loans and advances to customers	57 384 409	72 354 071	141 937 099	84 554 654	356 230 233
Investment securities available for sale	-	1 350 000	12 700 000	-	14 050 000
Investment securities held to maturity	140 995	-	-	-	140 995
Gross settled swaps and forwards:					
- inflows	30 744 919	20 749 080	5 420 657	-	56 914 656
- outflows	(30 019 928)	(17 012 456)	(4 271 994)	-	(51 304 378)
Net settled derivatives	2 685 764	3 142 473	4 570 115	353 293	10 751 645
Other financial assets	438 430	-	-	-	438 430
Total financial assets	**290 129 243**	**80 595 871**	**160 382 253**	**84 907 947**	**616 015 314**
Liabilities					
Due to other banks	21 132 530	689 782	424 778	-	22 247 090
Customer accounts	198 366 993	52 429 347	13 750 786	149 223	264 696 349
Debt securities in issue	-	1 350 000	14 050 000	-	15 400 000
Term borrowings from Parent Bank and from other financial institutions	680 873	54 086 840	75 089 804	5 778 449	135 635 966
Gross settled swaps and forwards:					
- inflows	(44 407 500)	(14 351 937)	(1 537 353)	-	(60 296 790)
- outflows	44 773 041	16 889 458	1 737 084	-	63 399 583
Net settled derivatives	456 825	2 644 866	4 823 199	846 081	8 770 971
Credit related commitments before provision	10 452 274	37 420 024	15 000 615	6 159 235	69 032 148
Other financial liabilities	1 267 253	-	-	-	1 267 253
Total potential future payments for financial obligations	**232 722 289**	**151 158 380**	**123 338 913**	**12 932 988**	**520 152 570**
Liquidity gap arising from financial instruments	**57 406 954**	**(70 562 509)**	**37 043 340**	**71 974 959**	**95 862 744**

The above analysis is based on contractual maturities, therefore the entire portfolio of trading securities is classified within demand and less than three months based on Management's assessment of portfolio's reliability.

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 36. 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.

33 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors contractual maturities, which may be summarised as follows at 31 December 2010 and 31 December 2009:

In thousands of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2010					
Financial assets	223 405 842	88 683 854	136 168 782	33 962 004	482 220 482
Financial liabilities	229 447 278	112 004 171	73 957 189	2 487 133	417 895 771
Net liquidity gap based on contractual maturities	**(6 041 436)**	**(23 320 317)**	**62 211 593**	**31 474 871**	**64 324 711**
At 31 December 2009					
Financial assets	277 776 489	63 783 200	107 804 241	38 548 620	487 912 550
Financial liabilities	220 282 365	107 883 272	95 236 024	7 188 535	430 590 196
Net liquidity gap based on contractual maturities	**57 494 124**	**(44 100 072)**	**12 568 217**	**31 360 085**	**57 322 354**

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank 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 Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Operational Risk. In line with the proposed Basel II banking regulatory reforms, the Bank defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, persons and/or systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Examples of events that are included under this definition of operational risk are losses from fraud, computer system failures, settlement errors, model errors or natural disasters. An effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk.

Promptly detecting and addressing these deficiencies can substantially reduce the potential frequency and/or severity of a loss event. The Bank is focused on regular monitoring of its operational risk profiles and material exposures to operational losses. The Bank's system of the regular reporting of information to senior management and the Supervisory Board supports the proactive management of operational risk, which is the requirement of the Basel Committee.

Operational risks are managed according to the Parent Bank's policies and guidelines towards the management of operational risks. The Bank has local operational risk controllers who are responsible for supporting the collection of loss data and risk events, for performing and facilitating risk assessments, for carrying out scenario analysis and for reporting information relating to operational risk to Board Members, Operational Risk Committee, and the Parent Bank. Loss data are reported via a group wide platform with the aim of improving operations through data generated within the entire Parent Bank Group.

33 Financial Risk Management (Continued)

Operational risk management is stated in the formal document "Operational Risk Management Policy and Guidelines" and includes definition of operational risk (how the Bank understands this concept), steps to be performed for operational risk management, and structure, responsibilities and reporting lines. The Document is to be reviewed on regular basis by alteration of acting normative documents which regulate operational risk management processes and for the purposes to represent new practical approaches in operational risk management.

Operational Risk Committee. The Operational Risk Committee is devoted to cover non-financial risks such as Operational, Legal and Reputation risks. The Operational Risk Committee is an important part of risk management process, which covers the following areas or issues:

- "Operational risk Policy and Guidelines", compliance with Basel II, CBRF and the Parent Bank's requirements;
- Operational risk assessment maps on overall and product levels, high risk areas;
- Operational risk incidents with big losses occurred in the reporting period;
- High risks detected;
- Key Risk Indicator maps, cases of thresholds excess; and
- Prevention/mitigation actions to be taken.

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Austrian Banking Act which assumes major principles of the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining the calculation.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the CBRF statutory capital ratio has to be maintained above minimum level of 10%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Management believes the Bank meets all the requirements in relation to the minimum amount of regulatory capital set by the CBRF.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**2010**	**2009**
Net assets under Russian GAAP	56 476 630	54 786 580
Less: intangible assets and equity investments	(1 342 188)	(1 091 217)
Plus: subordinated debt	3 931 520	5 607 275
Plus: other	10 054 671	2 777 260
Total regulatory capital	**69 120 633**	**62 079 898**

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with the Austrian Banking Act which assumes major principles and requirements of Basel Accord is as follows:

34 Management of Capital (Continued)

In thousands of Russian Roubles	**2010**	**2009**
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings	40 528 331	33 726 021
Total tier 1 capital before deductions	**85 908 318**	**79 106 008**
Less: intangible assets	(11 777 347)	(11 617 573)
Total tier 1 capital	**74 130 971**	**67 488 435**
Tier 2 capital		
Subordinated debt	2 706 349	4 330 969
Total tier 2 capital	**2 706 349**	**4 330 969**
Total capital	**76 837 320**	**71 819 404**

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

In thousands of Russian Roubles	**2010**	**2009**
Tier 1 capital		
Share capital	43 268 888	43 268 888
Share premium	591 083	591 083
Additional paid-in capital	1 520 016	1 520 016
Retained earnings	40 528 331	33 726 021
Less: equity instruments	(469 305)	(578 745)
Total tier 1 capital before deductions	**85 439 013**	**78 527 263**
Less: goodwill	(10 700 290)	(10 700 290)
Total tier 1 capital	**74 738 723**	**67 826 973**
Tier 2 capital		
Revaluation reserve for securities available for sale	211 187	260 435
Subordinated debt	2 706 349	4 330 969
Total tier 2 capital	**2 917 536**	**4 591 404**
Total capital	**77 656 259**	**72 418 377**

The Group and the Bank have complied with all externally imposed capital requirements throughout 2010 and 2009.

The Bank manages capital ratios using different capital amounts, calculated in accordance with the above mentioned Capital Adequacy regulations.

35 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice. Management is of the opinion that certain losses could be incurred in respect of claims and accordingly has made provisions for the legal cases in these consolidated financial statements. Refer to Note 24.

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 position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

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 proceeding 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 interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2010 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 19 832 thousand (2009: RR 105 907 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

35 Contingencies and Commitments (Continued)

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

In thousands of Russian Roubles	**2010**	**2009**
Not later than 1 year	820 670	1 102 094
Later than 1 year and not later than 5 years	13 054	40 121
Later than 5 years	-	2 530
Total operating lease commitments	**833 724**	**1 144 745**

Compliance with covenants. The Group is subject to certain covenants related primarily to its other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's Management believes that the Group is in compliance with its covenants as at 31 December 2010 as well as at 31 December 2009.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees 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.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2010**	**2009**
Irrevocable undrawn credit lines	67 592 123	31 461 773
Overdraft facilities	14 088 199	10 248 193
Export letters of credit	2 354 821	622 179
Import letters of credit	6 946 223	8 582 324
Guarantees issued	32 203 710	18 117 679
Credit related commitments before provision	**123 185 076**	**69 032 148**
Less: Provision for credit related commitments (Note 23)	(1 643 011)	(746 268)
Total credit related commitments	**121 542 065**	**68 285 880**

35 Contingencies and Commitments (Continued)

The total outstanding contractual amount of 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. Fair value of guarantee contracts was RR 305 441 thousand at 31 December 2010 (2009: RR 222 738 thousand).

In thousands of Russian Roubles	2010	2009
Russian Roubles	76 596 516	43 461 640
US Dollars	37 807 781	16 883 929
Euro	8 763 326	8 686 579
Other	17 453	-
Total credit related commitments before provision	**123 185 076**	**69 032 148**

Assets pledged and restricted. Mandatory cash balances with the Bank of Russia in the amount of RR 2 698 403 thousand (2009: RR 2 608 971 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

As at 31 December 2010 restricted cash represents monetary funds in the amount of RR 92 838 thousand which collateralise settlements on irrevocable letters of credit (2009: RR 710 124 thousand).

As at 31 December 2010 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Note 7), which the Group has the right to sell or repledge in the absence of default of the counterparty was RR 10 971 360 thousand (31 December 2009: RR 10 436 442 thousand).

36 Derivative Financial Instruments

Foreign exchange and other 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. Derivatives 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.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

36 Derivative Financial Instruments (Continued)

		2010		2009	
In thousands of Russian Roubles	**Note**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange spot contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		596 771	1 938 201	2 839 874	1 684 575
- USD payable on settlement (-)		(2 416 862)	(800 440)	(2 518 672)	(1 168 915)
- Euros receivable on settlement (+)		322 644	726 148	260 295	563 972
- Euros payable on settlement (-)		(743 813)	-	(1 719 847)	(1 209 068)
- RR receivable on settlement (+)		2 061 775	-	2 290 682	641 738
- RR payable on settlement (-)		-	(1 869 717)	(1 145 805)	(514 580)
- Other currencies receivable on settlement (+)		542 124	152 181	-	-
- Other currencies payable on settlement (-)		(353 546)	(153 503)	-	-
Net fair value of foreign exchange spot contracts	17, 23	**9 093**	**(7 130)**	**6 527**	**(2 278)**
Foreign exchange forward and swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		12 035 259	20 858 351	25 757 748	5 016 701
- USD payable on settlement (-)		(77 580 788)	(12 138 381)	(16 776 696)	(37 942 614)
- Euros receivable on settlement (+)		40 330 467	12 661 888	-	-
- Euros payable on settlement (-)		(2 816 923)	(60 412)	(519 960)	-
- RR receivable on settlement (+)		40 911 803	5 213 034	18 080 906	37 531 157
- RR payable on settlement (-)		(11 412 612)	(21 359 673)	(22 822 466)	(5 041 871)
- Other currencies receivable on settlement (+)		-	-	-	-
- Other currencies payable on settlement (-)		-	(5 887 756)	(170 794)	-
Net fair value of foreign exchange forward and swap contracts	17, 23	**1 467 206**	**(712 949)**	**3 548 738**	**(436 627)**
Interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		3 798 292	2 297 816	5 994 989	4 806 234
- USD payable on settlement (-)		(1 131 991)	(6 513 179)	(3 300 245)	(9 737 431)
- Euros receivable on settlement (+)		924 814	271 847	2 059 863	7 546
- Euros payable on settlement (-)		(332 717)	(314 331)	(699 721)	(32 554)
- RR receivable on settlement (+)		1 326 578	980 330	1 888 767	1 349 094
- RR payable on settlement (-)		(958 368)	(1 590 286)	(1 242 464)	(1 681 183)
Net fair value of interest rate swap contracts	17, 23	**3 626 608**	**(4 867 803)**	**4 701 189**	**(5 288 294)**
Cross-currency interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		4 789 338	305 642	20 266 883	-
- USD payable on settlement (-)		(556 560)	-	-	(16 935 236)
- Euros receivable on settlement (+)		-	-	-	-
- Euros payable on settlement (-)		-	-	-	-
- RR receivable on settlement (+)		560 858	-	-	14 359 477
- RR payable on settlement (-)		(4 205 925)	(309 704)	(16 439 959)	-
Net fair value of cross-currency interest rate swap contracts	17, 23	**587 711**	**(4 062)**	**3 826 924**	**(2 575 759)**
Total net fair value of derivative financial instruments		**5 690 618**	**(5 591 944)**	**12 083 378**	**(8 302 958)**

36 Derivative Financial Instruments (Continued)

Positive fair value of foreign exchange options made up RR nil thousand (2009: RR 699 thousand) with the negative fair value amounted to RR nil thousand as well as of 31 December 2010 (2009: RR 699 thousand).

Total of net positive fair values of the derivative financial instruments in the amount of RR 5 690 618 thousand (2009: RR 12 084 077 thousand) was recorded within derivatives and other financial assets (Note 17). Total of net negative fair values of the derivative financial instruments in the amount of RR 5 591 944 thousand (2009: RR 8 303 657 thousand) was recorded within derivatives and other financial liabilities (Note 23).

As at 31 December 2010 derivative financial instruments included interest rate swaps with the contractual amount of RR 3 261 028 thousand (2009: RR 13 652 232 thousand) which were designated and qualified as hedging instruments in a cash flow hedge of the variable interest payment of one of the Group's borrowings. The Group has RR 3 261 028 thousand of floating rate deposits from the Parent Bank (2009: RR 13 730 867 thousand). The total amount of the fair value changes (profit) arising on those hedging instruments during 2010 and determined to be the effective portion of the hedge amounted to RR 472 038 thousand (2009: loss of RR 530 463 thousand) and the amount deferred in the cash flow reserve in equity is equal to RR 663 119 thousand (2009: RR 1 135 157 thousand) before tax.

The ineffectiveness was recorded in the consolidated statement of comprehensive income in respect of cash flow hedge in the negative amount of RR 529 542 thousand (2009: negative amount of RR 249 230 thousand). As at 31 December 2010 the positive fair value of these hedging instruments amounted to RR nil thousand (2009: nil), the negative value of these hedging instruments amounted to RR 1 299 494 thousand (2009: RR 1 018 780 thousand). During 2010 and 2009 some of cash flow hedge transactions were discontinued due to failing the hedge effectiveness test. However, forecast transaction for which hedge accounting had been used is still expected to occur, as at 31 December 2010 the Group has the negative amount of RR 403 367 thousand (31 December 2009: RR 488 018 thousand) kept in other comprehensive income in respect of these transactions. In 2010 the negative amount of RR 538 541 thousand (2009: RR 208 297 thousand) was recycled from equity during the year from discontinued hedge transactions.

The cash flows on the borrowings which are being hedged in this cash flow hedge are expected to occur and affect the consolidated income statement in the period from 2011 up to 2013 year. Accordingly, the fair value changes on the hedging derivatives will be recycled to the consolidated income statement during the same period.

As at 31 December 2010 derivative financial instruments included interest rate swaps with the contractual amount of RR 13 713 254 thousand (2009: RR 14 752 022 thousand) which were designated and qualified as hedging instruments in a fair value hedge of interest rate risk attributable to the term borrowings from the Parent Bank. The total portion of the fair value gains/losses attributable to the change of interest rates, which was determined as the effective portion of the hedge during 2010, amounted to RR nil thousand (2009: RR 94 994 thousand), while the ineffectiveness amounted to negative RR 442 754 thousand (2009: RR 11 400 thousand). Both these amounts were recognized in the consolidated income statement. As at 31 December 2010 the positive fair value of these hedging instruments amounted to RR 511 976 thousand (2009: RR 912 766 thousand), the negative fair value of these hedging instruments amounted to RR nil thousand (2009: nil).

The amount of the negative fair value adjustment attributable to the hedged risk and recorded in the balance of the term borrowings from the Parent Bank, which are being hedged, amounted to RR 442 754 thousand (2009: RR 11 400 thousand).

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, and is best evidenced by an active quoted market price.

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.

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss, and financial derivatives are carried on the consolidated balance sheet at their fair value which is determined based on market quotations.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010	2009
Loans and advances to customers – Note 11		
Loans corporate customers	0.89% to 8.18% p.a.	6% to 13% p.a.
Loans to individuals	7.5% to 20.4% p.a.	14% to 22% p.a.
Loans to small and medium entities	7.25% to 14.09% p.a.	14% to 17% p.a.
State and municipal organisations	3.21% to 7.85% p.a.	14% to 17% p.a.

Held to maturity financial assets. The fair value for investment securities held to maturity is based on quoted market prices.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The fair value of floating rate instruments is normally their carrying amount. 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 remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010	2009
Customer accounts		
Term deposits of legal entities	0.16% to 2.55%p.a.	0.1% to 4.6%p.a.
Term deposits of individuals	0.8% to 7.8% p.a.	1.2% to 10.2% p.a.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses a discounted cash flow valuation technique to measure the fair value of the interest rate swaps, which are not traded in an active market. However, in accordance with IAS 39, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is amortised on a straight line basis over the term of the interest rate swaps.

37 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments carried at amortised cost are as follows:

	2010		2009	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- Cash on hand	19 639 061	19 639 061	19 334 279	19 334 279
- Cash balances with the CBRF (other than mandatory reserve deposits)	24 349 214	24 349 214	14 540 451	14 540 451
- Correspondent accounts and overnight placements with other banks	29 424 164	29 424 164	71 579 719	71 579 719
- Placements with other banks with original maturities of less than three months	1 308 642	1 308 642	30 600 211	30 600 211
- Reverse sale and repurchase agreements with other banks with original maturities of less than three months	9 557 776	9 557 776	9 179 309	9 179 309
Mandatory cash balances with the Central Bank of the Russian Federation	2 698 403	2 698 403	2 608 971	2 608 971
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	15 104 374	15 104 374	30 444 750	30 444 750
- Long-term placements with other banks with original maturities of more than three months	6 620 339	6 620 305	108 646	108 646
Loans and advances to customers				
- Corporate loans	206 586 672	208 054 270	166 223 179	166 071 493
- Retail loans	71 042 357	70 927 812	71 110 089	67 041 830
- Small and medium entities loans	4 051 607	3 709 709	3 977 676	3 967 364
- Public sector loans	1 558 877	1 560 380	2 876 945	2 880 863
- Finance lease receivables	324 406	324 406	340 640	340 640
Other financial assets carried at amortised cost, including repurchase receivables				
- Corporate bonds	516 346	523 101	77 640	76 897
- Corporate Eurobonds	-	-	62 452	62 818
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**392 782 238**	**393 801 617**	**423 064 957**	**418 838 241**

37 Fair Value of Financial Instruments (Continued)

	2010		2009	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	14 800 075	14 800 075	2 823 029	2 823 029
- Short- term placements of other banks	4 910 050	4 910 050	17 839 634	17 839 634
- Long- term placements of other banks	825 101	824 706	137 089	135 112
Customer accounts				
- Current/settlement accounts of legal entities	68 785 155	68 785 155	64 532 216	64 532 216
- Term deposits of legal entities	57 022 981	57 120 507	49 343 871	49 432 954
- Current/demand accounts of individuals	66 147 355	66 147 355	52 681 818	52 681 818
- Term deposits of individuals	94 516 827	98 555 669	92 452 402	93 462 974
- Current/settlement accounts of state and public organisations	266 022	266 022	118 575	118 575
- Term deposits of state and public organisations	5 818	5 818	-	-
Debt securities in issue				
- Bonds issued on domestic market	15 114 566	15 774 589	10 078 975	10 078 975
- Promissory notes	1 081 683	1 081 683	-	-
Term borrowings from the Parent Bank	81 169 487	81 177 016	123 036 036	123 809 015
Term borrowings from other financial institutions				
- Asset backed securities	1 683 439	1 683 439	4 879 521	4 879 521
- Term borrowings from other financial institutions	3 975 466	3 975 454	3 096 120	3 095 999
Other financial liabilities				
- Provision for other credit related commitments	1 643 011	1 643 011	746 268	746 268
- Debit or credit cards payables	242 886	242 886	370 008	370 008
- Commissions on credit related commitments	49 405	49 405	58 386	58 386
- Trade payables	9 642	9 642	55 435	55 435
- Settlements on conversion operations	48 810	48 810	27 006	27 006
- Other	6 048	6 048	10 150	10 150
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**412 303 827**	**417 107 340**	**422 286 539**	**424 157 075**

37 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Russian Roubles	2010 Quoted price in an active market (Level 1)	2010 Valuation technique with inputs observable in markets (Level 2)	2009 Quoted price in an active market (Level 1)	2009 Valuation technique with inputs observable in markets (Level 2)
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Trading securities				
- Corporate bonds	31 233 102	-	14 876 257	-
- Corporate eurobonds	11 537 792	-	8 003 763	-
- Federal loan bonds (OFZ)	3 509 158	-	5 882 603	-
- EBRD bonds	4 400 238	-	4 479 384	-
- Municipal bonds	2 542 342	-	3 173 598	-
- Bonds of Central bank of Russia	386 155	-	2 915 404	-
- Corporate shares	4 819	-	3 904	-
Other securities at fair value through profit and loss				
- Corporate eurobonds	4 286			
- Bonds of Central bank of Russia	15 053 197			
- Corporate bonds	1 946 057	-	923 890	-
- Corporate shares	651 874	-	459 268	-
- Municipal bonds	418 374	-	492 275	-
- Federal loan bonds (OFZ)	237 044	-	199 744	-
- Bonds of EBRD	48 816	-	21 471	-
- Mutual funds	45 450	-	232 548	-
Investment securities available for sale	469 305	10 617 267	578 745	10 085 068
Derivatives and other financial assets carried at fair value				
- Foreign exchange forward contracts	-	2 064 010	-	7 382 888
- Interest rate swaps	-	3 626 608	-	4 701 189
- Other	-	646 548	-	438 430
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**72 488 009**	**16 954 433**	**42 242 854**	**22 607 575**

37 Fair Value of Financial Instruments (Continued)

In thousands of Russian Roubles	**2010** Quoted price in an active market (Level 1)	**2010** Valuation technique with inputs observable in markets (Level 2)	**2009** Quoted price in an active market (Level 1)	**2009** Valuation technique with inputs observable in markets (Level 2)
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE				
Derivatives and other financial liabilities				
- Interest rate swaps	-	4 867 803	-	5 288 294
- Foreign exchange forward contracts	-	724 141	-	3 015 363
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**-**	**5 591 944**	**-**	**8 303 657**

38 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies 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 or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

38 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

In thousands of Russian Roubles	Loans and receiva-bles	Trading assets	Assets designated at FVTPL	Available for sale financial assets	Held to maturity financial assets	Finance lease receiva-bles	Total
ASSETS							
Cash and cash equivalents	84 278 857	-	-	-	-	-	84 278 857
Mandatory cash balances with the Central Bank of the Russian Federation	2 698 403	-	-	-	-	-	2 698 403
Trading securities	-	53 613 606	-	-	-	-	53 613 606
Other securities at fair value through profit or loss	-	-	18 405 098	-	-	-	18 405 098
Due from other banks							
- Short-term placements with other banks with original maturities of more than three months	15 104 374	-	-	-	-	-	15 104 374
- Long-term placements with other banks with original maturities of more than three months	6 620 339	-	-	-	-	-	6 620 339
Loans and advances to customers							
- Loans to corporate customers	206 586 672	-	-	-	-	-	206 586 672
- Loans to individuals	71 042 357	-	-	-	-	-	71 042 357
- Loans to small and medium entities	4 051 607	-	-	-	-	-	4 051 607
- Loans state and municipal organisations	1 558 877	-	-	-	-	-	1 558 877
- Finance lease receivables	-	-	-	-	-	324 406	324 406
Investment securities available for sale	-	-	-	11 086 572	-	-	11 086 572
Investment securities held to maturity	-	-	-	-	512 148	-	512 148
Derivatives and other financial assets							
- Fair value of currency rate based financial derivatives	-	2 064 010	-	-	-	-	2 064 010
- Fair value of other financial derivatives	-	3 626 608	-	-	-	-	3 626 608
- Plastic cards receivables	631 733	-	-	-	-	-	631 733
- Trade receivables	14 815	-	-	-	-	-	14 815
TOTAL FINANCIAL ASSETS	**392 588 034**	**59 304 224**	**18 405 098**	**11 086 572**	**512 148**	**324 406**	**482 220 482**

As of 31 December 2010 and 31 December 2009 trading assets of the Group include derivatives designated as hedging instruments.

As of 31 December 2010 and 31 December 2009 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

As of 31 December 2010 and 31 December 2009 financial guarantees of the Group were carried at amortized cost.

38 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

As of 31 December 2010 and 31 December 2009 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In thousands of Russian Roubles	**Loans and receivables**	**Trading assets**	**Assets designated at FVTPL**	**Available for sale financial assets**	**Held to maturity financial assets**	**Finance lease receivables**	**Total**
ASSETS							
Cash and cash equivalents	145 233 969	-	-	-	-	-	145 233 969
Mandatory cash balances with the Central Bank of the Russian Federation	2 608 971	-	-	-	-	-	2 608 971
Trading securities	-	39 334 913	-	-	-	-	39 334 913
Other securities at fair value through profit or loss	-	-	2 329 196	-	-	-	2 329 196
Due from other banks							
- Short-term placements with other banks with original maturities of more than three months	30 444 750	-	-	-	-	-	30 444 750
- Long-term placements with other banks with original maturities of more than three months	108 646	-	-	-	-	-	108 646
Loans and advances to customers							
- Loans to corporate customers	166 223 179	-	-	-	-	-	166 223 179
- Loans to individuals	71 110 089	-	-	-	-	-	71 110 089
- Loans to small and medium entities	3 977 676	-	-	-	-	-	3 977 676
- Loans state and municipal organisations	2 876 945	-	-	-	-	-	2 876 945
- Finance lease receivables	-	-	-	-	-	340 640	340 640
Investment securities available for sale	-	-	-	10 663 813	-	-	10 663 813
Investment securities held to maturity	-	-	-	-	137 256	-	137 256
Derivatives and other financial assets							
- Fair value of currency rate based financial derivatives	-	7 382 888	-	-	-	-	7 382 888
- Fair value of other financial derivatives	-	4 701 189	-	-	-	-	4 701 189
- Plastic cards receivables	438 388	-	-	-	-	-	438 388
- Trade receivables	42	-	-	-	-	-	42
TOTAL FINANCIAL ASSETS	**423 022 655**	**51 418 990**	**2 329 196**	**10 663 813**	**137 256**	**340 640**	**487 912 550**

39 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Parent bank	Subsidia-ries of the Parent Bank	Associate	Members of the Managing Board	Other related parties
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0.00 % - 0.00 % p.a.)	2 372 873	16 017	-	-	-
Placements with other banks with original maturities of less than three months	-	-	-	-	-
Due from other banks (contractual interest rate: 0.00 % – 8.25 % p.a.)	19 273 895	311 881	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 0.76 % – 17.13 % p.a.)	-	1 648 270	1 449 328	52 854	-
Purchased intangible assets less accumulated depreciation	86 425	-	-	-	-
Derivatives and other financial assets	3 922 800	360	2 450	-	-
Investments in associate	-	-	1 058 323	-	-
Due to other banks (contractual interest rate: 0.00 % – 8.73% p.a.)	153 700	1 036 834	-	-	54
Customer accounts (contractual interest rate: 0.00 % – 3.60 % p.a.)	4 399	186 768	7 246 293	-	-
Term borrowings from the Parent Bank (contractual interest rate: 0.22 % – 6.25% p.a.)	81 169 487	-	-	-	-
Term borrowings from other financial institutions (contractual interest rate: 2.05% p.a.)	-	-	-	-	1 968 107
Other liabilities	314 266	7	893	118 251	1 851
Derivatives and other financial liabilities	3 537 791	2 042	-	-	-

The income and expense items with related parties for the year 2010 were as follows:

In thousands of Russian Roubles	Parent bank	Subsidia-ries of the Parent Bank	Associate	Members of the Managing Board	Other related parties
Interest income	528 899	25 752	81 826	7 327	9
Interest expense	(1 907 556)	(6 208)	(147 695)	-	(236)
Fee and commission income	28 561	13 672	4 624	-	30
Fee and commission expense	(124 412)	-	-	-	(196)
Gains less losses/(losses, net of gains) from trading in foreign currencies	9	22	1 304	-	-
Realized gains less losses from financial derivatives	1 354 258	(8 791)	2 528	-	-
Unrealized gains less losses from financial derivatives	(1 759 363)	(1 787)	(2 399)	-	-
Ineffectiveness from the hedge accounting	(86 788)	-	-	-	-
Administrative and other operating expenses	(254 879)	(7 813)	-	(242 123)	-
Other operating income	1 324	-	3 043	-	-
Share of profit of associate	-	-	6 682	-	-

39 Related Party Transactions (Continued)

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associate**	**Other related parties**
Guarantees issued by the Group at the year end	355 087	264 920	-	-
Guarantees received by the Group at the year end	1 271 853	418 828	-	61 162
Stand-by facilities issued by Parent Bank	4 456 808	-	-	-
Undrawn credit lines	-	146 457	4 802 365	-
Overdraft facilities	650 000	-	-	185 000
Interest rate swap agreements – notional amount as at the year end	99 936 700	-	-	-
Interest rate swap agreements - fair values as at the year end	(901 945)	-	-	-
Cross currency interest rate swap agreements - notional amount receivable as at the year end	4 157 228	-	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	3 299 443	-	-	-
Cross currency interest rate swap agreements - fair values as at the year end	579 112	-	-	-
Foreign currency derivative financial instruments – principal amount	62 078 288	69 056	-	-
Foreign currency derivative financial instruments –fair value	707 842	(124)	-	-

At 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Parent bank**	**Subsidia-ries of the Parent Bank**	**Associate**	**Members of the Managing Board**
Corresponding accounts and overnight placements with other banks (contractual interest rate: 0.00 % - 0.16 % p.a.)	57 142 475	2 238	-	-
Placements with other banks with original maturities of less than three months (contractual interest rate: 0.60% - 0.62% p.a.)	30 404 394	-	-	-
Due from other banks (contractual interest rate: 0.00 % – 0.95 % p.a.)	30 478 855	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 0.73 % – 16.95 % p.a.)	-	1 748 788	1 528 982	49 360
Purchased intangible assets less accumulated depreciation	122 467	-	-	-
Derivatives and other financial assets	6 345 602	105	2 450	-
Investments in associate	-	-	937 932	-
Due to other banks (contractual interest rate: 1.25 % – 8.73% p.a.)	830 122	280 742	-	-
Customer accounts (contractual interest rate: 0.20 % – 6.40 % p.a.)	-	2 866	6 821 438	-
Term borrowings from the Parent Bank (contractual interest rate: 0.17 % – 7.50% p.a.)	123 036 036	-	-	-
Other liabilities	338 017	-	4 526	47 872
Derivatives and other financial liabilities	4 159 075	-	-	-

39 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2009 were as follows:

In thousands of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associate	Members of the Managing Board	Other related parties
Interest income	846 064	16 514	235 924	6 560	-
Interest expense	(3 212 207)	(12 362)	(495 987)	-	(5 249)
Fee and commission income	33 630	24 519	4 108	-	-
Fee and commission expense	(75 262)	(6)	(34)	-	-
Realized gains less losses from financial derivatives	(1 085 701)	(23 043)	202 838	-	-
Unrealized gains less losses from financial derivatives	(3 028 853)	105	559 673	-	-
Ineffectiveness from the hedge accounting	(260 630)	-	-	-	-
Administrative and other operating expenses	(578 348)	-	-	(138 476)	-
Other operating income	7 603	-	3 221	-	-
Share of profit of associate	-	-	40 997	-	-

At 31 December 2009, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associate	Other related parties
Guarantees issued by the Group at the year end	361 192	237 153	-	-
Guarantees received by the Group at the year end	1 204 484	545 556	-	433 883
Stand-by facilities issued by Parent Bank	4 794 407	-	-	-
Undrawn credit lines	-	144 714	4 864 316	-
Overdraft facilities	650 000	-	-	185 000
Interest rate swap agreements – notional amount as at the year end	112 760 777	-	145 654	-
Interest rate swap agreements - fair values as at the year end	(884 507)	-	2 450	-
Cross currency interest rate swap agreements - notional amount receivable as at the year end	6 155 304	-	-	-
Cross currency interest rate swap agreements – notional amount payable as at the year end	5 827 820	-	-	-
Cross currency interest rate swap agreements - fair values as at the year end	204 450	-	-	-
Foreign currency derivative financial instruments – principal amount	17 882 015	3 000	-	-
Foreign currency derivative financial instruments –fair value	2 866 396	6	-	-
Foreign currency options – principal amount purchased	58 700	-	-	-
Foreign currency options purchased – fair value	195	-	-	-

The Bank’s immediate parent is Raiffeisen Bank International AG (2009: Raiffeisen International Bank-Holding AG). The Bank is ultimately controlled by Raiffeisen Zentralbank Osterreich AG (2009: Raiffeisen Zentralbank Osterreich AG).

39 Related Party Transactions (Continued)

Key management compensation is presented below:

	2010		2009	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	112 860	-	91 875	-
- Short-term bonuses	128 017	109 721	40 587	40 587
Share-based compensation:				
- Cash-settled share-based compensation	1 246	8 531	6 014	7 285
Total	**242 123**	**118 252**	**138 476**	**47 872**

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