Russian
Agricultural
Bank

Experience
Expertise
Opportunities

Annual Report
2010

Russian Agricultural Bank

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Key Financial Highlights 2010

Market Position

- First largest bank by authorized capital
- Second largest branch network in the Russian Federation
- Fourth largest bank by assets and capital
- Among top five Russian banks

Source: Central Bank of Russia, Banki.ru, RBC Rating, Expert RA

Credit Ratings

Fitch Ratings
- Issuer Default Rating – BBB, stable
- National Long-term Rating – AAA(rus), stable

Moody's
- Long-term deposit rating – Baa1, stable
- National scale rating, long-term – Aaa.ru

Forward looking statements

This report contains certain forward looking statements with respect to the financial condition, results of operations and businesses of Russian Agricultural Bank. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The statements are based on current expected market and economic conditions, the existing regulatory environment and interpretations of IFRS applicable to past, current and future periods. Nothing in this report should be construed as a profit forecast.

Key Financial Highlights

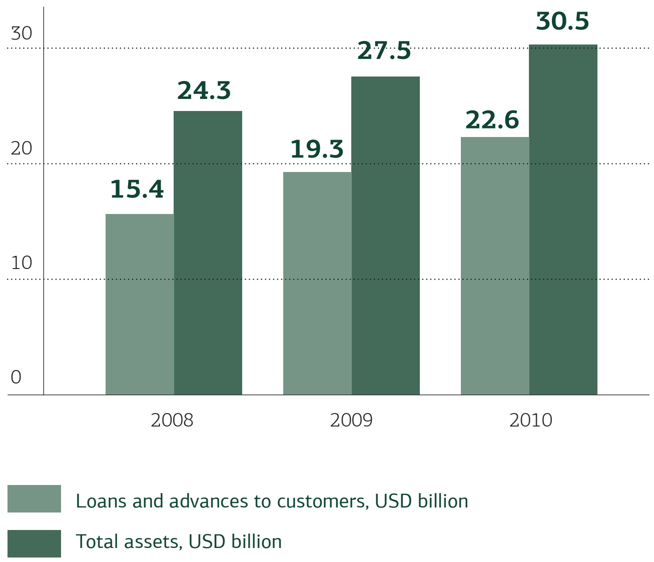
USD million	FY 2010	FY 2009	FY 2008
Summary of consolidated income statement			
Net interest income	1,693.7	1,160.0	904.1
Net interest income after provision for loan impairment	758.4	716.1	580.9
Profit before tax	24.0	27.8	113.5
Profit for the year	**12.1**	**8.3**	**69.9**
Summary of consolidated balance sheet			
Cash and cash equivalents	2,657.8	3,140.1	2,831.1
Mandatory cash balances with the Central Bank of the Russian Federation	113.8	98.3	32.8
Securities	2,115.5	2,179.7	2,310.6
Due from other banks	1,131.1	1,249.7	3,297.5
Loans and advances to customers	22,590.4	19,325.6	15,394.8
Premises and equipment	852.5	907.6	304.0
Other assets	1,076.9	567.9	101.3
Total assets	**30,538.0**	**27,469.0**	**24,272.1**
Due to other banks	3,463.8	6,349.5	8,274.4
Customer accounts	12,673.2	7,615.8	5,258.5
Promissory notes issued	324.0	415.6	335.1
Other borrowed funds	8,450.1	7,158.9	5,987.6
Syndicated loans	–	250.4	358.5
Derivative financial instruments	17.7	5.5	144.7
Other liabilities	224.0	319.3	57.0
Subordinated debts	1,527.1	1,533.4	1,550.0
Total liabilities	**26,679.8**	**23,648.4**	**21,965.8**
Total equity	**3,858.2**	**3,820.6**	**2,306.3**
Total liabilities and equity	**30,538.0**	**27,469.0**	**24,272.1**

Strong Capitalization

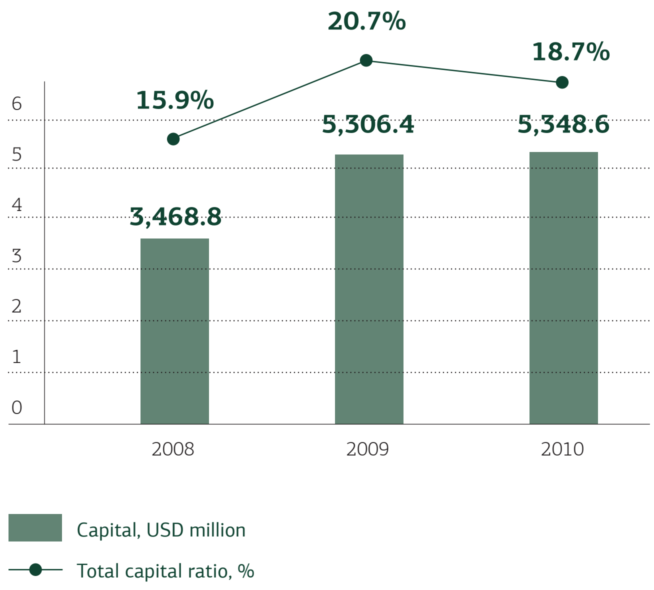
Capital Adequacy			
USD million, %	**FY 2010**	**FY 2009**	**FY 2008**
Tier I Capital	3,794.3	3,744.9	2,325.1
Tier II Capital	1,554.3	1,561.5	1,143.7
Total Capital	5,348.6	5,306.4	3,468.8
Total RWA	28,611.2	25,589.0	21,768.8
Tier I Capital / RWA	13.3%	14.6%	10.7%
Total Capital Ratio	**18.7%**	**20.7%**	**15.9%**

Source: Audited IFRS Financial Statements as of December 31st, 2008, December 31st, 2009 and December 31st, 2010.
CBR RUB/USD Exchange rates as of December 31st, 2008 – 29.38, December 31st, 2009 – 30.24 and December 31st, 2010 – 30.48

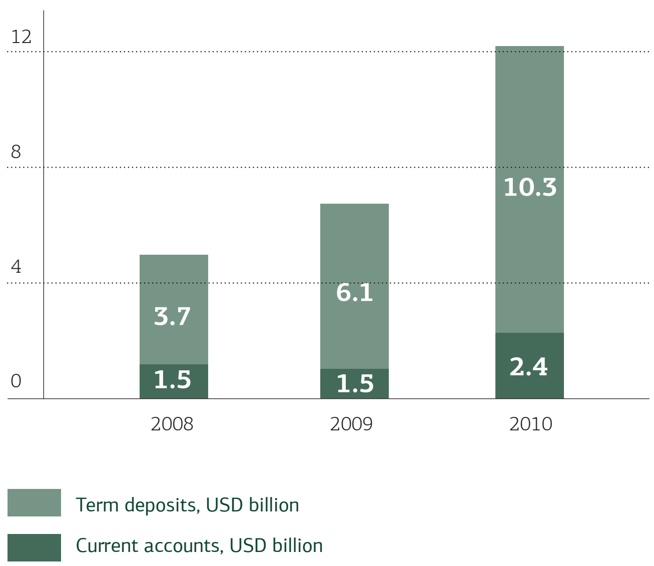
Strong Asset Growth



Capital Base



Deposit Growth



Source: Audited IFRS Financial Statements as of December 31st, 2008, December 31st, 2009 and December 31st, 2010.
CBR RUB/USD Exchange rates as of December 31st, 2008 – 29.38, December 31st, 2009 – 30.24 and December 31st, 2010 – 30.48

Annual Report 2010

Statement of the Chairman of the Supervisory Board

Russian Agricultural Bank was established in 2000 and it is a 100% State-owned bank.

Effective operation of Russian Agricultural Bank within the course of the last ten years materially impacted agricultural production growth, increasing industry competitiveness and leading to significant progress in solving problems that affect the Russian countryside.

With the help of financing extended by Russian Agricultural Bank a variety of successful investment projects have been implemented in Russia.

At present new plant breeding, animal breeding, poultry and fishery animal breeding, poultry and fishery facilities are being implemented; technical and technological modernization of production and processing industries are being carried out; the fleet of agricultural machinery is being renewed; and new forms of private-public partnerships are being introduced. This has strengthened the capacity of Russian agribusiness and has made it more competitive and attractive for long-term investment. The result is steady and dynamic demand growth for credit sources.

Over its operational history, Russian Agricultural Bank has become a reliable partner for Russian agribusiness. Despite the unstable financial market situation, Russian Agricultural Bank continued to strengthen its key performance indicators – loan portfolio, funding and equity capital. The Bank expanded its customer base and developed its regional branch network.

In 2010 agricultural producers faced difficult situation due to severe drought.

Taken into account the second straight year of drought observed in several Russian regions the Government of the Russian Federation aimed at the financial stability preservation of agricultural producers while elaborating the state support measures. Agricultural producers had an opportunity to roll over credit obligations while interest payments were compensated by the State.

Taken measures contributed to the maintenance of accumulated over the recent years potential for Russian agribusiness development.

Today, Russian Agricultural Bank is among Russia's top five banks. It is the fourth largest in terms of assets and capital. Russian Agricultural Bank is the key financial institution providing services to Russian agribusiness and has the second largest branch network in the country.

The Bank continues to actively implement comprehensive financial service programs, upgrade its loan portfolio management and risk management system, promote a deliberate financial policy, develop new relevant banking products and services, structure and expand its customer base, advance its information technology framework and develop its regional branch network taking into account the branches' performance evaluation.

Upgrading the efficiency of operations is currently the main target of Russian Agricultural Bank on the way to its further transformation into modern universal world-class financial institution.

Victor A. Zubkov

First Deputy Prime Minister
of the Russian Federation,
Chairman of the Supervisory Board
Russian Agricultural Bank

Statement of the Chairman of the Management Board

In 2010, Russian Agricultural Bank demonstrated positive dynamics for key performance indicators in most of its business directions, strengthened its position in the banking sector and ensured operational profitability.

During 2010, Russian Agricultural Bank increased its lending to agribusiness and issued more than 124 thousand loans totaling more than RUB 320 billion. The Bank's loan portfolio grew 18% and stood at RUB 688.5 billion in accordance with IFRS. The volume of corporate loans increased 22%, retail loans grew 28%.

For FY 2010, net profit was up 47% compared with the previous period and totaled RUB 369 million. Net interest income increased 1.47 times and reached RUB 51.6 billion.

Russian Agricultural Bank held the lead in the absolute increase in the volume of lending to small- and medium-sized enterprises. In 2010, this indicator grew 32%, significantly outpacing the growth in this segment for the market as a whole. As a result, the Bank was ranked second in terms of the share of lending to small- and medium-sized enterprises in its loan portfolio.

One of the main objectives of the Bank's business strategy is to expand the scale of lending to agribusiness and the rural population within the framework of the Federal Program on Agribusiness Development 2008-2012. This is done by financing grain purchase and commodity interventions, developing a land mortgage system and supporting the technical and technological modernization of Russian agribusiness. In 2010, the total volume of Russian Agricultural Bank's loans to agribusiness enterprises approached RUB 1 trillion.

During the reporting period, Russian Agricultural Bank took comprehensive measures to improve credit fund accessibility for customers. The Bank decreased interest rates several times during the year on various loan products for both corporate clients and individuals. In 2010, Russian Agricultural Bank expanded its product line, introduced new loan products for different categories of borrowers and simplified procedures for submitting documents. The volume of attracted customer funds grew 68%. The total number of the Bank clients increased 53% in 2010 and amounted to 2.5 million.

Russian Agricultural Bank formed a solid base for further development by optimizing the number of key management processes and enhancing the business focus of the regional branch network. Today, the Bank's network is the second largest among Russian banks – with more than 1,600 branches and additional offices operating throughout the country.

In 2011, Russian Agricultural Bank will continue to provide agribusiness enterprises with effective credit support. The Bank will also speed up work with small- and medium-sized enterprises and ensure that potential barriers for receiving a loan are eliminated. Russian Agricultural Bank plans to further expand its customer base in sectors such as: forestry, fishery, food processing and agricultural equipment production. This would provide the Bank with significant business growth. Russian Agricultural Bank plans to open more than 40 new points of sales, first in cities with populations of more than 100 thousand. The Bank will continue to develop its retail business, both in terms of lending and raising funds.

Achieving these goals will require a systematic approach. Russian Agricultural Bank intends to ensure that in addition to seeing the Bank as the leading financial institution for Russian agribusiness, customers will recognize Russian Agricultural Bank as a highly professional, reliable and efficient partner.

For 2011, the Bank's principal priorities will be developing a customer focus, further modernizing business processes and implementing modern IT-technologies. Following the strategy of the universal bank and actively using innovative solutions in its development, Russian Agricultural Bank will be focused on strengthening the capacity of Russian agribusiness and increasing its competitiveness.

Dmitry N. Patrushev

Chairman of the Management Board and CEO, Russian Agricultural Bank

Economic Environment

Macroeconomic climate

In 2010, the Russian economy continued to grow, following recovery which started in H2 2009. Year-on-year, GDP growth was 4.0%; industrial production growth increased 6.3%; the industrial production index – 8.2%, the processing industry – 11.8%, as compared with 2009.

Financial market fluctuations have calmed down from previous years; equities have gained, bond spreads have narrowed to pre-crisis levels, and the rouble has firmed up. The Government's gradual rouble-devaluation policy helped protect against speculative attacks on the national currency. Economic activity, on the whole, continues to rebound.

To a large extent, renewed economic growth is driven by increased investment demand. During the reporting period, capital investments increased 6.0%, and investment growth surged a significant 7.7%.

Companies have reported improved access to credit and less difficulty in servicing debt. Russian banks may still face additional strain from asset quality issues, as the lag in economic recovery in Russia may lead to more pressure on borrowers for debt servicing in 2011. However, the worst of the recession appears to be over in Russia and economic recovery seems more sustained.

During 2010, Russian foreign trade grew 30.6%, as compared to 2009 and stood at USD 646.8 billion, exports grew 31.2% and imports increased 29.7%. Trade balance remained positive and grew 33.7%.

In 2010, the Russian money market was defined by the gradual strengthening in the national currency, stabilization in the Bank's liquidity, reduction in interest rates and increased demand for domestic currency.

Table 1. Key Economic Indicators of the Russian Federation

Economic indicator	2008	2009	2010	2011F
GDP, USD billion	1,642.2	1,282.9	1,459.7	1,691.7
GDP growth, % y-o-y	5.6	-7.8	4.0	4.2
Industrial production index, % y-o-y	2.1	-9.3	8.2	6.2
Capital stock investment growth, %	9.8	-16.2	6.0	9.0
Consumer prices, % y-o-y	13.3	8.8	8.8	6.0-7.0
Central Bank policy rate, %	13.0	8.75	7.75	8.5
Budget balance, % of GDP	4.0	-5.9	-4.0	-3.1
Trade balance, USD billion	179.8	111.6	149.2	162.1
Current account, USD billion	102.3	49.5	72.6	83.9
Foreign reserves, USD billion	427.1	439.0	496.1	496.1
Foreign debt / GDP, %	29.8	38.1	33.5	32.7

Source: Russian Ministry of Economic Development, Business Monitor International

Table 2. GDP growth by main sectors (value added)

	2008	2009	2010
GDP growth, % y-o-y	**5.6**	**-7.8**	**4.0**
Tradable sector, % y-o-y			
Agriculture, forestry	8.5	1.4	-12.1
Extraction industries	0.4	0.3	4.8
Manufacturing	1.2	-15.6	13.4
Non-tradable sector, % y-o-y			
Electricity, gas, water production and distribution	1.0	-3.0	5.9
Construction	13.2	-14.6	-0.9
Wholesale and retail trade	8.4	-6.5	4.5
Transportation and communication	7.4	-8.4	7.0
Financial services	6.6	2.2	-3.0

Source: Federal State Statistics Service

On January 22nd, 2010, the international rating agency Fitch Ratings revised its outlook on Russia's sovereign rating from negative to stable, which reflects the agency's greater confidence in Russia's economic and financial stability. According to rating agencies, Russia weathered the crisis with lower-than-expected losses.

On September 8th, 2010, Fitch Ratings confirmed Russia's long-term and short-term issuer default ratings. The ratings outlook was revised from stable to positive.

The outlook revision reflects Fitch's belief that reduced inflation, a shift to a more flexible exchange rate policy, sizeable repayments of private sector external debt, banking sector stabilization and higher foreign exchange reserves should reduce the country's financial vulnerabilities.

Economic SWOT Analysis

Strengths

- Russia maintains enviable external account dynamics, with a robust current account surplus, limited foreign debt and high reserves. This will provide significant stability as the economy recovers from financial turmoil.
- Russia's large resource base will provide a strong foundation for foreign investment and export growth over the long term.

Weaknesses

- Economic dependence on the oil sector makes it particularly vulnerable to continuous declines in energy prices.
- The deterioration of Soviet-era infrastructure constrains private sector activity.

Opportunities

- Recovering the structural reform agenda, including support for small- and medium-sized enterprises (SMEs), restructuring the banking sector, administrative reform, and revamping 'natural monopolies' would go a long way towards developing the non-oil economy and upgrading long-term growth prospects.
- A USD 1 trillion public-private investment plan over the long term will considerably modernize Russia's transportation, communications, electricity and utilities infrastructure.

Threats

- The Russian economy is in transition, with large current account and fiscal surpluses to be significantly eroded. This will introduce new challenges to macroeconomic stability.

Source: Business Monitor International

Banking sector

For the banking sector, 2010 was a quite successful year. Russian banks have significantly increased their obligations. Therefore, a lack of liquidity quickly turned into excess liquidity.

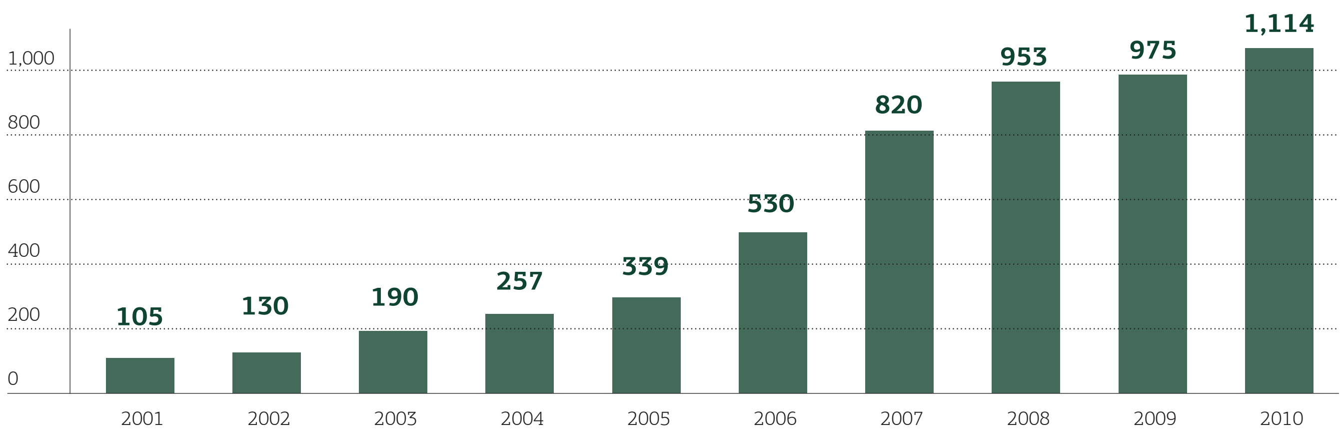
In 2010, the total assets of the Russian banking sector grew 14.9% and total capital increased 2.4%.

The share of securities in the banks' assets went from 14.6%, as of January 1st, 2010, to more than 18% as of the end of the year.

A relatively low re-financing rate, coupled with a substantial improvement in banking sector liquidity, contributed to the development of positive lending dynamics. In 2010, the banks' collective loan portfolio grew 12.6%, including retail loan portfolio growth of 14.3% and a corporate loan portfolio increase of 12.1%.

Throughout the reporting period, corporate deposits increased 16.4%, compared with 8.9% growth in 2009. Retail deposits were up 31.2%.

Chart 1. Russian Banking Sector Assets, USD billion



Source: Russian Central Bank

In 2010, NPL growth rate was 2.1%, against 3.7% in 2009. The NPL share in the loan portfolio decreased from 6.2% in 2009 to 5.7%.

The level of loan-loss provisions in the Russian banking sector was reasonably high – 12.1% of total loan portfolio at end-2010. Sufficient reserves, increased liquidity and high capitalization became the basis for improving the banking sector's credit ratings outlook to stable from negative by Moody's, and were among the key factors in increasing Russia's sovereign rating by Fitch Ratings to positive from stable.

Consolidated profit for the banking sector totaled RUB 573.4 billion (USD 18.8 billion) in 2010, which is 2.8 times more than the 2009 figure.

According to the Russian Central Bank's forecast, 2010-2011 credit growth is likely to resume at a pace of 15-20%. In the first place, it will be driven by corporate lending, stimulated by liquidity that is being built up by the banks and the lowest Russian Central Bank refinancing rate since 1992 (8.25% as of May 3rd, 2011). One of the principal reasons for the decline in the refinancing rate was incentive lending to the real economic sector. Banks are likely to focus on internal development and optimizing local market positions.

Agribusiness sector

2010 was a challenging year for Russian agribusiness due to the Q3 2010 drought, which adversely affected agricultural production and, consequently, the pace of agribusiness and related sub-sector development.

The Government provided relevant State support measures to agricultural producers affected by the drought in 2010:

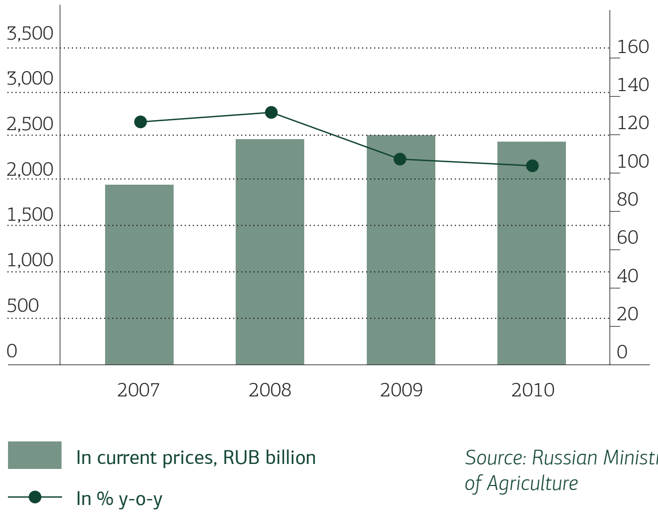
- Subsidy provisions from federal and regional budgets to regions that suffered the most, aimed at compensating for loan restructuring costs due to the drought;
- Direct subsidy provisions from federal and regional budgets to agribusiness producers most affected by the drought for recovery operations;
- Realization of the grain intervention fund on preferential terms;
- The provision of budgetary loans.

The Government tightened control over the timeliness and completeness of insurance payments, and imposed a ban on grain exports till the end of the year. This measure was aimed at stabilizing grain prices and creating reserves for the coming year.

In 2010, grain yield was 60.9 million tons. Taking into account available grain reserves of approximately 90 million tons, the total amount should be enough to insure against damage.

In 2010, gross agricultural production reached RUB 2,445 billion (USD 80.2 billion).

Chart 2. Agricultural Production Volume



Source: Russian Ministry of Agriculture

In 2011, total crop area forecast is 77 million hectares, which is 2 million hectares more than in 2010. The 2011 forecast grain yield is 85 million tons.

In 2011, the agribusiness sector is expected to continue sustainable growth. The planned amount of annual State support from the federal budget will exceed RUB 150 billion.

2011 Macroeconomic outlook

Today, economic and financial conditions in both the global and Russian economies have improved; the global economy is experiencing positive growth, but recovery is still expected to be sluggish and the pace of recovery is likely to be gradual.

Russian recovery will continue to strengthen in 2011, with the economy forecast to increase 4.3% (compared with 4.0% in 2010). Growth will increasingly be driven by private consumption and investment.

In terms of purchasing power parity, Russia's GDP ranks second in Europe – trailing only Germany. Natural resource prices will remain high due to growing demand, particularly in India and China. In turn, this should also promote growth in the Russian economy.

In 2011, the Russian banking sector is likely to demonstrate strong, but still limited recovery. Credit growth levels for Russian banks may remain below pre-recession levels. As Russia's economy moves away from the recession, banks' credit growth levels are likely to increase accordingly. On average, Russian banks will experience credit growth of 10-20% in 2011, ahead of 3-5% real Russian GDP growth.

Russia's medium- and long-term potential will be defined by continued diversification and institutional reform. Russian economic growth will depend on the development of hi-tech and innovative industries.

2010 Calendar and Key Events after the Reporting Date

2010 Calendar

January

- Fitch Ratings raised Russian Agricultural Bank's outlook on the long-term IDR to stable from negative and affirmed the Bank's other ratings.

February

- Russian Agricultural Bank (RusAg) was ranked fourth among Russia's 100 largest banks, in terms of assets and capital, based on a recent ranking by Interfax.
- RusAg and the Association of Farms and Agricultural Cooperatives of Russia signed the General Cooperation Agreement.
- The Government of the Russian Federation increased the Bank's authorized capital by RUB 825 million.
- The Bank completed an Issue of Series 10 and Series 11 bonds. Both issues were RUB 5 billion with a ten-year maturity term and coupon rates of 9%. Investors' demand for bonds exceeded RUB 40.7 billion.
- Russian Agricultural Bank's Series 10 and 11 bonds were rated at BBB/AAA(rus) by Fitch.

March

- Russian Agricultural Bank was named the second most reliable bank in Russia, based on a list compiled by Finance Magazine.
- The Bank opened a representative office in the Republic of Azerbaijan.
- RusAg issued RUB 30 billion of Eurobonds with a 7.5% rate and a 3-year maturity. The total book exceeded RUB 60 billion and closed more than 2 times over-subscribed, led by strong investor interest from Europe and Asia, as well as good Russian interest.
- Fitch Ratings assigned Russian Agricultural Bank's RUB 30 billion issue (with a 7.5% rate) of limited recourse loan participation notes a final long-term rating of BBB.
- Russian Agricultural Bank ranked third among Russia's 200 largest banks based on capital, according to a recent ranking by Kommersant Dengi.

April

- Russian Agricultural Bank attended the XXI Congress of the Association of Russian Banks, held in Moscow.
- Russian Agricultural Bank attended the Assembly of the Eurasian Agricultural Credit Association, held in Dushanbe, Tajikistan.

May

- Dmitry N. Patrushev appointed to the position of the Chairman of the Board and CEO of Russian Agricultural Bank.
- Russian Agricultural Bank and the Chamber of Commerce and Industry of the Russian Federation (RF CCI) signed a Cooperation Agreement.
- RusAg was ranked second among the most reliable banks in Russia, based on a list published by "Finance" Magazine.
- The Bank was ranked third among Russian banks in terms of the scale of its lending to small- and medium-sized enterprises, based on a listing published by "Finance" Magazine.
- Russian Agricultural Bank named fourth among Russia's largest banks in terms of assets, according to experts from "Finance" Magazine.

June

- Russian Agricultural Bank was named a winner of the annual Banking Premium in the category "For contributions to project implementation in the real sector of the economy." The award was established by the "Banking Business" Magazine and the "Agency Informbank" media holding, with the support of the Association of Regional Banks of Russia, the Association of Russian Banks and the Russian Union of Industrialists and Entrepreneurs.
- According to rankings compiled by "Kommersant", Russian Agricultural Bank ranked fourth among the largest banks in the Russian Federation (in terms of assets and capital).

July

- Russian Agricultural Bank is ranked number 196, based on capital, among the World's Top-1000 largest banks in a ranking published in the July 2010 issue of "The Banker" Magazine.
- "The Banker" Magazine ranked the Bank fourth among Russia's largest banks and sixth among the largest banks in Central and Eastern Europe.

August

- Russian Agricultural Bank ranked second among Russia's most reliable banks, in a list published by "Finance" Magazine.

September

- Fitch Ratings affirmed Russian Agricultural Bank's long-term Issuer Default Rating "BBB" with a stable outlook.
- The total number of payment cards issued by the Bank exceeded 700 thousand.

October

- Russian Agricultural Bank and the Government of the Chuvash Republic signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.
- Moody's assigned a long-term global local currency debt rating of Baa1 to RusAg's senior unsecured debt. The rating carries a stable outlook.

November

- Russian Agricultural Bank and the Russian Bank for Development (RBD) signed a Cooperation Agreement on financing small- and medium-sized enterprises, to ensure greater credit availability for the customer segment.
- Dmirty N. Patrushev, Chairman of the Management Board and CEO of Russian Agricultural Bank, was elected as a member of the Central Committee of the International Confederation of Agricultural Credit (CICA).
- A RUB 10 billion issue, with a 6.6% rate, 3-year on-exchange Series БО-06 bonds, with a put option in one-and-a-half years.
- Fitch Ratings assigned Russian Agricultural Bank's on-exchange Series БО-06 bonds a final rating of BBB (long-term local currency) and AAA(rus) (national long-term).

December

- The Government of the Russian Federation increased the Bank's authorized capital by RUB 1 billion.
- Russian Agricultural Bank was named a winner of the annual National Banking Premium in the category "Lending leader to the real sector of the economy." The award was established by the

Association of Russian Banks, the National Banking Club and the National Banking Magazine.
- The Bank's Series 08 and Series 09 bonds were included in the MICEX Stock Exchange's "A" quotation list. The listing indicates the Bank's reliability, information transparency and financial stability.
- Russian Agricultural Bank and the Government of the Republic of Mordovia signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.
- The Bank received a PCI DSS (Payment Card Industry Data Security Standard) compliance certificate, which indicates high security for payment card transactions.
- Andrey A. Alyakin was appointed Deputy Chairman and member of the Management Board of Russian Agricultural Bank.

Key Events after the Reporting Date

January 2011

- Moody's Investors Service affirmed Russian Agricultural Bank's ratings: Bank's financial strength rating (BFSR) – E+, long- and short-term foreign currency deposit ratings – Baa1/Prime-2, as well as a senior unsecured debt rating of Baa1 and the Bank's subordinated debt rating of Baa2. All these ratings carry a stable outlook. Moody's Interfax Rating Agency has affirmed Aaa.ru long-term national scale credit rating of the Bank.
- Russian Agricultural Bank and the Government of the Kaliningrad Region signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.

February 2011

- Russian Agricultural Bank and the Government of the Ulyanovsk Region signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.
- Russian Agricultural Bank and the Government of the Republic of Tatarstan signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.

March 2011

- RusAg engaged in a Eurobond issue of RUB 20 billion, with an 8.7% coupon rate, due March 2016. Despite volatile market conditions, the Issue had strong demand from more than 100 investors and represents the longest maturity for a Russian bank in a rouble-denominated instrument on international capital markets. The investors hailed from Europe, US offshore and Asia.
- Fitch Ratings assigned Russian Agricultural Bank's RUB 20 billion Eurobond issue a final rating of BBB.
- Russian Agricultural Bank and the Government of the Republic of Ingushetia signed a Cooperation Agreement on Implementing the Federal Program on Agribusiness Development.
- In a list published in the March 2011 issue of Forbes Magazine, the Bank ranked as Russia's third most reliable bank and fourth in terms of assets.
- Based on FY2010 results, Russian Agricultural Bank ranked fourth among the 100 largest banks in Russia in terms of assets and capital, according to a ranking compiled by Kommersant DENGI.

April 2011

- Russian Agricultural Bank successfully issued a RUB 12 billion tap on its rouble-denominated Eurobonds, which were placed March 2011. The amount of the offering now stands at RUB 32 billion with coupon rate of 8.7%, due March 2016.
- Russian Agricultural Bank ranked first among Russia's largest banks in terms of the absolute increase in its loan portfolio to small- and medium-sized enterprises, according to a list published by "Expert RA" rating agency.

Mission and Strategy Statements

Building on a Strong Record of Success

Mission of Russian Agricultural Bank:

- Ensuring the availability of affordable banking products and services for Russia's agribusiness enterprises and rural population;
- Contributing to the development and operation of Russia's credit and financial system;
- Fostering the development of Russia's agribusiness and rural areas.

Russian Agricultural Bank Key Strategic Areas:

Upgrading Business Efficiency
- Developing sales and the Bank's brand;
- Diversifying the lending system;
- Enhancing NPL management;
- Expanding and diversifying the Bank's funding sources;
- Developing commission services.

Improving Corporate Governance Efficiency
- Enhancing the organizational structure and decision-making processes;
- Developing a system of key performance indicators (KPIs);
- Instituting a personnel motivation and development system;
- Developing management accounting and reporting;
- Developing risk management;
- Advancing an internal control system.

Improving Operational Efficiency
- Optimizing headcount;
- Upgrading cost management efficiency;
- Developing the IT system by automating:
  - client relationships, operational services and lending processes;
  - the Bank's fund management;
  - control procedures, etc.

These objectives have been key to Russian Agricultural Bank (RusAg) since it was established in early 2000. Adhering to these strategic objectives and applying global best practices and technologies have made RusAg one of the Top-5 financial institutions in Russia.

To ensure the implementation of strategic objectives, the Bank endeavors to enhance operational efficiency and introduce innovations. Today, Russian Agricultural Bank has become a modern competitive financial institution and has proved its standing as a reliable partner for both Russian and foreign banks.

RusAg's strength will continue to be its ability to combine long-term client commitment, sound financial position, and extensive agribusiness knowledge, commitment on the part of the government, close relationships with local administrations, a solid reputation and widespread local presence.

Activity guidelines:

- Focusing on client needs – creating new financial solutions and compelling value add propositions to address clients' needs and promote relationship-based banking;
- Recognizing the importance of teamwork – working together across businesses and regions to deliver added value to clients, fostering a corporate culture rich in vitality and conductive to innovation;
- Demonstrating integrity and sound management – complying with laws and regulations, while maintaining the highest ethical standards;
- Maintaining a strong reputation – acting with professionalism, integrity and respect and serving as a reliable partner.

Financial targets:

- Maintaining a strong financial profile and competitive market position;
- Diversifying operations across regions and sectors;
- Optimizing costs.

Corporate development framework:

- Implementing modern banking and information technologies to upgrade efficiency and deliver high quality services;
- Developing capacity and maintaining high performance standards across the whole branch network, to ensure good banking practices and client services;
- Maintaining conservative policies for operation expansion management – controlling costs;
- Continuing to upgrade risk management standards.

RusAg focuses on offering its clients an original financial structure that closely matches client needs and concerns, and enables them to become long-term partners in a organization built on the values of proximity, responsibility and solidarity.

In 2010, Russian Agricultural Bank generated strong performance results based on its unique mandate for agribusiness lending in Russia, close and trusting relationships with the rural population, regional and local administrations and municipalities, a well-diversified product line, a wide distribution network with presence in key regions, a robust capital position, high quality assets, a well-managed balance sheet, high service quality level and a talented and highly experienced staff that shares a strong culture of teamwork and integrity.

Russian Agricultural Bank's achievements to date allow it to look at tomorrow's challenges clearly and confidently with the goal of becoming a universal client-oriented financial institution, holding a leading position in lending to agribusiness and related sectors.

Historical Milestones

A Solid Foundation for Long-term Growth

As a country with 10% of all the world's plowed fields, Russia has a deep appreciation of the importance of agriculture in its national economy.

Modern agribusiness production systems are capital intensive. Farms need seasonal access to capital for purchases, which is why a significant portion of capital used in agribusiness is borrowed. Credit can be a substantial production cost for farms, and its availability and use play an important role in maintaining agribusiness profitability. Thus, symbiosis develops between agricultural producers and lenders – the health of one determines the success of the other.

As in other countries, Russian agribusiness loans are issued based on a detailed analysis of various factors in the sector's current activity. Local financing methods are adjusted to meet the needs of both farmers and the sector as a whole. Agribusiness financing is adapted to seasonal financial needs, as determined by planting, harvesting and marketing cycles. Agribusiness loan options change and grow with the appearance of new and innovative products like seeds and chemicals.

For centuries, Russia was a peasant country and its agribusiness lending traditions are closely linked with this past. In fact, all Russian credit originated in agribusiness.

The modern Russian banking system began to evolve in the early eighteenth century. Initial borrowers were the government and landlords, and the first lenders were private entrepreneurs who extended exorbitantly expensive loans. Some of these loans had interest rates as high as 72%. Systematic flaws led to the development of our modern State-owned and commercial banks.

In 1882, the Russian Ministry of Finance established a special national rural bank, The Peasant Land Bank was created to reform rural Russian finance and to regulate the financial dealings between land buyers and sellers. The Peasant Land Bank was a great success, and by 1905, all financial issues related to land regulation were controlled by the Bank.

In 1885, the Noble Land Bank, another rural bank, was established with the express purpose of providing accessible lending to landlords, using their land as collateral. Both the Peasant and Noble Land Banks were managed by a single chairman and, naturally, had a very close business relationship.

During the Soviet period, roughly 90% of all long-term loans were extended to agribusiness. At that time, the sector included 35,000 offices across the USSR and employed 110,000 people.

Key Historical Events

2000

Established in 2000 by a Presidential Decree to implement State policy in agribusiness and stimulate rural development.

2001

Two State capital increases of RUB 430 million and RUB 2 billion.

Distributed compensation in the Federal Program "Reconstruction of the Chechen economy."

2002

Launched the lending program for personal household plots owners.

Obtained license to attract retail deposits.

State capital increase of RUB 994 million.

2003

Capital reached RUB 4.9 billion.

As a State Agent, the Bank embarked on a program to financially rehabilitate agricultural enterprises.

2004

Moody's Interfax Rating Agency assigned RusAg a rating on the national ratings scale.

First rouble-denominated bond issue.

2005

Moody's Investors Service and Fitch Ratings assigned RusAg investment grade ratings.

First USD 350 million Eurobond issue.

Capital increase of RUB 6.1 million.

2006

Ranked No 729 by The Banker.

No 2 in terms of branch network.

State Agent in the National Project on Agribusiness Development.

Capital reached RUB 20.9 billion.

More than 40% share in agribusiness.

Became one of the Top 10 largest banks in terms of total assets.

2007

Ranked No 472 by The Banker.

More than 50% share in agribusiness.

Named 2007 Best Financial Borrower in Central and Eastern Europe by Euromoney magazine.

No 6 in terms of net assets and shareholder equity.

Authorized capital reached RUB 27.7 billion.

2008

Ranked No 372 by The Banker.

No 4 based on capital and assets.

Key Bank in the Federal Program on Agribusiness Development 2008-2012.

Named the Best Local Trade Bank by Trade Finance Magazine.

Holds a 58% share in agribusiness.

Capital increases of RUB 2 billion and RUB 31.5 billion.

2009

Ranked No 276 by The Banker.

The second most reliable bank in the Russian Federation.

No 4 based on capital and assets.

Key Bank in the Federal Program on Agribusiness Development 2008-2012.

Capital increase of RUB 45 billion.

2010

Ranked No 196 by The Banker.

RUB 30 billion Eurobonds issue.

No 2 in terms of branch network.

No 4 based on capital and assets.

The second most reliable bank in the Russian Federation.

Capital increases of RUB 825 million and RUB 1 billion.

2011

RUB 32 billion Eurobonds issue.

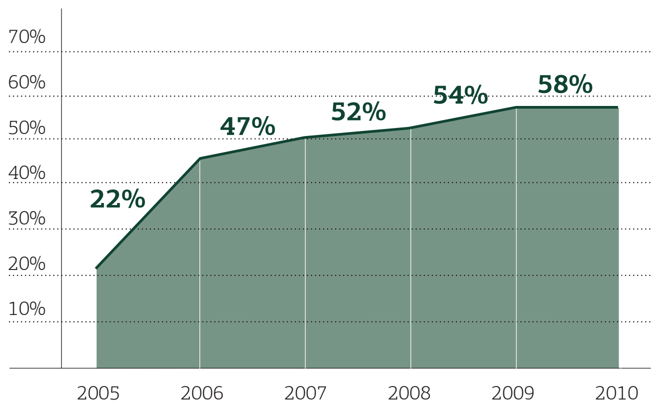
Key bank in the Federal Program on Agribusiness Development 2008-2012.

In 2000, the Russian Government established an entirely State-owned financial institution specializing in agribusiness lending – Russian Agricultural Bank (RusAg). The Bank provided both the rural population and agribusiness enterprises with access to lending and banking services in all areas of Russia. More than one quarter of the Russian population lives in rural, agricultural areas, and RusAg is specially designed to meet the crediting and financial needs of this key population. Russian Agricultural Bank has demonstrated impressive growth, increasing its presence via a natural, market-driven expansion of existing branches and the opening of new ones. Over the last decade, RusAg has grown to become one of Russia's top five financial institutions.

RusAg continuously develops its business relationships with financial institutions, international organizations and upgrades its products and services in accordance with international standards. The Bank has a wide and well-structured correspondent network, which it expects will increase even further.

Today, with the significant role that it plays in implementing federal programs on agribusiness development, RusAg has the second-largest regional branch network in Russia. Russian Agricultural Bank is the leading modernizing force in the strong, sustainable restoration of Russia's position as a global agriculture leader.

Chart 3. RusAg's Market Share in Russian Agribusiness Lending



Note: RusAg estimates

Management Board

Dmitry N. Patrushev
Chairman of the Board
and CEO

Boris P. Listov
First Deputy Chairman
of the Board

Andrey A. Alyakin
Deputy Chairman
of the Board

Victoria V. Kirina
Deputy Chairman
of the Board

Kirill Y. Levin
Deputy Chairman
of the Board

Dmitry G. Sergeev
Deputy Chairman
of the Board

Sergey A. Smirnov
Deputy Chairman
of the Board

Artem V. Shashkin
Deputy Chairman
of the Board

Corporate Governance

Transparency and business integrity

Corporate governance entails exercising authority, directing and controlling a financial organization to ensure that its goals are achieved. Russian Agricultural Bank (RusAg) adheres to the highest corporate governance standards to drive business performance. RusAg's corporate governance principles are designed to lead the Bank towards sustainable growth. RusAg actively ensures that its corporate governance practices are at the leading edge of global best practices.

Corporate governance is a dynamic process. RusAg regularly checks its corporate governance in light of new events, statutory requirements and developments in both domestic and international standards, and makes appropriate adjustments based on these checks.

Supervisory and Management Boards

The General Shareholders Meeting is the highest management and ultimate decision making body for RusAg. The Supervisory Board plays a governing role within the Bank. This means that the Board supervises policies pursued by the Bank's Management Board. As part of the task of achieving Bank objectives, strategy, business risks, the design and operation of internal risk management and control systems, the financial reporting process and compliance with laws and regulations are discussed at length and regularly tested. In addition, the Supervisory Board plays an advisory role in respect to the Management Board.

The responsibilities of the Management Board include: achieving the Bank's objectives as a whole, and particularly its policy, results, compliance with all relevant laws and regulations, the management of business risks and financing operations.

The Management Board reports on all these aspects to the Supervisory Board. Management Board members are appointed by the Supervisory Board.

The Chairman of the Management Board and CEO of Russian Agricultural Bank has the power to act in the name of the Bank and to represent it in front of third parties. The Chairman of the Management Board is appointed by the Supervisory Board.

Following Basel Committee recommendations to upgrade transparency and management efficiency, to strengthen support provided to the Bank's management, and to develop a new strategic vision in the current global environment, the Supervisory Board includes two Independent directors.

Supervisory Board

Victor A. Zubkov	First Deputy Prime Minister of the Russian Federation
Anatoly B. Ballo	Deputy Chairman of the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
Yuri A. Chikhanchin	Head of the Federal Financial Monitoring Service (Rosfinmonitoring)
Tatyana B. Kulkina	Secretariat Chief for Russia's First Deputy Prime Minister
Igor M. Rudenya	Departmental Director for the Russian Government
Alexander I. Sobol	Deputy Chairman of JSC Gazprombank
Dmitry N. Patrushev	Chairman of the Board and CEO, Russian Agricultural Bank

Management Board

Dmitry N. Patrushev	Chairman of the Board and CEO
Boris P. Listov	First Deputy Chairman of the Board
Andrey A. Alyakin	Deputy Chairman of the Board
Victoria V. Kirina	Deputy Chairman of the Board
Kirill Y. Levin	Deputy Chairman of the Board
Dmitry G. Sergeev	Deputy Chairman of the Board
Sergey A. Smirnov	Deputy Chairman of the Board
Artem V. Shashkin	Deputy Chairman of the Board

Committees and Commissions

The Supervisory Board has three standing committees:

The Audit Committee	Reviews in depth RusAg's accounts and monitors its risks and internal control environment.
The Strategic Planning and Development Committee	Sets and supervises general and priority strategic objectives, makes recommendations on dividend policy and the appraisal of RusAg's operational efficiency.
The HR and Remuneration Committee	Sets policy and approves remuneration for senior executives.

The Management Board is supported by numerous committees and commissions, including:

Committees (in alphabetical order)

The ALCO Committee

The ALCO Committee is headed up by the Deputy Chairman of the Management Board and includes the Managing Directors of the Treasury, Capital Markets, Financial Institutions, Finance and Planning and Marketing and Credit Management Departments, as well as the Chief Accountant; the Deputy Managing Directors of Risk Management, Branch Network Development and Legal Departments; and a representative from the Corporate Business Development Department. The ALCO Committee typically meets one time per week.

The ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on issues such as:

- Implementing the Bank's limits policy;
- Adopting internal procedures to regulate financial risk management;
- Approving the terms on which new funding is provided to RusAg and the use of this funding.

The ALCO Committee makes decisions independently, including on funds allocation between regional branches, setting limits and sub-limits for regional branches and personal limits for employees of the Head Office within the authority provided for by the Management Board.

The Branch Network Committee

The Branch Network Committee is headed up by the Deputy Chairman of the Management Board. Members of the Committee include: the Deputy Chairman of the Management Board and the Managing Directors of the Branch Network Development Department, Finance and Taxation, Asset Management, Planning and Economy and Human Resources Departments, as well as the Chief Accountant and Deputy Managing Directors of the Security and Administrative Departments.

The Branch Network Committee's activity is focused on:
- Implementing RusAg's branch network development policy;
- Delivering modernization proposals;
- Building an efficient branch network management system.

The Committee on the Implementation of Agribusiness Development Programs

The Committee is headed up by the Chairman of the Board and CEO. The Committee includes the Deputy Chairmen of the Board, a Member of the Board, the Deputy Chief Accountant, Managing Directors of the Treasury, Lending, Information Technology and Corporate Development Departments and representatives from the Human Resources, Finance, Retail Lending and Legal Departments.

The Committee was created to coordinate the activities of the Bank's units and regional branches on implementing Agribusiness Development Programs, starting from the National Priority Project on Agribusiness Development initiated in 2007 and continuing on with the Federal Program on Agribusiness Development 2008-2012.

The Corporate Development Committee

The Corporate Development Committee is headed up by the Deputy Chairman of the Management Board and includes the Deputy Chairman of the Board, the Managing Directors of the Strategic Development, Planning and Economy, Branch Network Development, Methodology and Credit Management Departments and the Chief Accountant and the Deputy Managing Directors of the Retail Lending and Legal Departments.

The Corporate Development Committee focuses on:
- Reviewing RusAg's development projects and the Bank's corporate development;
- Establishing and restructuring banking units;
- Updating IT development strategy;
- Developing an internal normative base;
- Updating existing banking technologies and adopting new ones.

The Corporate Ethics Committee

The Corporate Ethics Committee is headed up by the Deputy Chairman of the Management Board. Members include the Managing Director of the Human Resources Department and representatives of the Branch Network Development, Customer Relations and Communications Departments.

The Corporate Ethics Committee works to:
- Promoting corporate culture;
- Ensuring compliance with corporate ethics principles and rules.

The Credit Committee

The Credit Committee is headed up by the First Deputy Chairman of the Management Board and also includes the Deputy Chairmen of the Management Board, the Managing Director of the Methodology and Credit Management Department, the Deputy Chief Accountant and representatives of the Treasury, Planning and Economy, Risk Assessment and Control and Security and Legal Departments.

The Credit Committee is fully independent from the Lending Department.

The Credit Committee is responsible for approving terms of individual credit transactions and preparing proposals to upgrade the Bank's credit policy. Specifically, the Committee's main tasks include:
- Establishing and modifying criteria used by RusAg to analyze asset quality and asset classification by risk category;
- Developing procedures to create and utilize reserves;
- Setting minimum interest rates for the Bank's loans;
- Reviewing and analyzing the results of RusAg inspections carried out by external auditors, regulatory bodies and the Internal Control Service.

The Credit Committee meets as often as necessary.

In addition, RusAg has credit committees on the regional branch level and credit committees on the additional office level that approves the terms of individual credit transactions for regional branches and additional offices, respectively. Regional branch credit committees also approve credit transactions for additional offices that exceed established credit limits.

The Financial Accounting and Reporting Committee

The Financial Accounting and Reporting Committee is headed up by the Chief Accountant. The Committee is made up of the Managing Directors of the Operational, Accounting and Banking Operations Control Departments, the Deputy Chief Accountant, the Deputy Managing Directors of the Finance and Taxation, Cash and Non-commercial Operations Departments, and representatives of the Planning and Economy and Information Technology Departments and the Internal Control Service.

The Financial Accounting and Reporting Committee was established to coordinate activities and resolve disputes that arise in the course of solving problems related to financial and tax accounting, as well as drafting accounting and tax reporting, including:

- Developing the Bank's internal regulatory base concerning financial and tax accounting, preparing financial and tax accounting reports;
- Ensuring that the Bank complies with reporting requirements;
- Assessing the sufficiency of the existing accounting system;
- Upgrading accounting and reporting;
- Improving existing accounting and reporting practices and developing new methods;
- Exchanging information on the Bank's accounting and reporting system.

The IFRS Committee

The IFRS Committee is headed up by the Deputy Chief Accountant and includes the Managing Directors of the Treasury and Capital Markets Departments, and representatives of the Information Technology, Capital Markets, Risk Assessment and Control, Finance and Taxation, Planning and Economy, Accounting and Financial Reporting, International Operations, Methodology and Credit Management and Retail Lending Departments.

The following issues fall under the competency of the IFRS Committee:

- Coordinating the Bank's units financial reporting based on IFRS;
- Exerting operational control over financial statement preparation;
- Contacting the external auditor.

The Problem Loans Management Committee

The Problem Loans Management Committee is headed up by the Deputy Chairman of the Management Board and includes representatives of the Asset Management, Risk Management, Corporate Lending, Security and Legal Departments.

The Problem Loans Management Committee works on withdrawing problematic loans.

The Strategy Development Committee

The Strategy Development Committee is headed up by the Deputy Chairman of the Management Board, who serves as the Chairman and the Managing Director of the Planning and Economy Department, who serves as the Deputy Chairman. Other Committee members include representatives from the following departments: the Planning and Economy, Accounting and Financial Reporting, Human Resources, International Operations, Credit Management, Technological Development, Capital Markets, Retail Lending, Treasury and Branch Network Development Departments, and representatives from the Academy of National Economy under the auspices of the Government of the Russian Federation, who act as project advisors.

The Strategy Development Committee is responsible for managing, monitoring and coordinating the "RusAg Strategy Development" project.

The Technological Committee

The Technological Committee is headed up by the Deputy Chairman of the Management Board and includes the Managing Directors of the Information Technology, Strategic Development, Planning and Economy, Branch Network Development and Methodology and Credit Management Departments, as well as the Chief Accountant and representatives of the Customer Relations and Security Departments.

The Technological Committee focuses on the following tasks:

- Determining RusAg's IT development strategy;
- Updating existing banking technologies and developing new ones;
- Purchasing, designing and introducing new software and hardware to streamline the Bank's management technologies.

Commissions (in alphabetical order)

The Additional Social Security Commission

The Additional Social Security Commission includes representatives of the Administrative, Human Resources, Finance and Taxation, Accounting and Financial Reporting and Legal Departments. The Commission Head is the Deputy Chairman of the Management Board.

The Commission is responsible for additional perks and services offered to employees within the social security framework, including but not limited to the health of employees and their kids, compensation for sanatorium stays, recreation facilities and others.

The Nomination Commission

The Nomination Commission is headed up by the Deputy Chairman of the Bank's Management Board and includes the Advisor to the Chairman of the Board, the Managing Directors of the Human Resources, Branch Network Development, Internal Control Service and Methodology and Credit Management Departments and the Deputy Managing Director of the Security Department.

The Nomination Commission is responsible for:

- Carrying out ongoing succession planning;
- Offering recommendations on candidates to appoint to executive positions to head up offices and regional branches.

The Occupational Health and Safety Commission

The Commission is headed up by the Deputy Chairman of the Management Board and includes representatives of the Human Resources, Administrative, Legal, Cash and Non-Trade Operations, Information Technology and Security Departments.

The Occupational Health and Safety Commission has responsibility for training and testing employees' health and safety requirements.

The Operations Maintenance Commission

The Commission is headed up by the Deputy Chairman of the Management Board and includes the Managing Directors of the Finance and Taxation and Branch Network Development Departments, as well as representatives of the Planning and Economy, Legal and Administrative Departments.

The Operations Maintenance Commission is focused on strictly controlling expenses and complying with budgeted cost estimates.

The Pension Commission

The Pension Commission is headed up by the Deputy Chairman of the Management Board. Commission members include the Chief Accountant, the Head of the Advisory Group to the Chairman of the Management Board, Managing Directors of the Human Resources and the Finance and Taxation Departments, and the Deputy Managing Director of the Legal Department.

The Pension Commission is responsible for the non-governmental pension fund of the Bank's personnel.

The Remuneration Commission

The Remuneration Commission is headed up by the Managing Director of the Finance and Taxation Department, who serves as Commission Chairman. The Commission also includes the Head of the Internal Control Service, the Managing Director of the Human Resources Department, the Deputy Managing Directors of the Legal and Security Departments, and a representative from Accounting and Financial Reporting.

The Remuneration Commission allocates financial resources to pay salaries in light of the total number of employees and salary growth.

The Scholarship Commissions

The Commissions are headed up by the Deputy Chairman of the Management Board and includes representatives of the University or Academy and representatives of RusAg's Finance and Taxation, Human Resources and Legal Departments, as well as a representative from the Bank's Moscow Regional Branch.

RusAg has organized two Scholarship commissions in the Russian State Agrarian University (MTAA named after K.A. Timiryazev) and in the Finance Academy under the auspices of the Russian Government to select students and post-graduates to receive scholarships.

RusAg has a well-developed corporate governance system that is a key to corporate integrity and its market, as well as to organizational health and stability.

Management Discussion And Analysis

Performance Review

Strength, diversity and resilience

2010 was a year in which financial markets showed the first signs of improvement after the outflow of liquidity at the end of 2008 and the resulting economic downturn. Sharp declines in growth in 2009 were replaced by a return to real economic growth.

In 2010, positive dynamics in the Russian economy were achieved to a great extent by implementing State projects and expansionary government actions. This also contributed to national currency stability, a gradual recovery in consumer demand and renewed investment growth.

2010 was a mixed year for Russian Agricultural Bank (RusAg) and was marked by two significant facts.

- RusAg met goals set in its 2010 business plan, while the economy was in its recovery stage. The eventual outcome was profitable, controlled and balanced growth for the year;
- The Bank continued full scale support of the Russian agribusiness, though the drought in Q3 2010 impacted agricultural sector development.

RusAg's successful performance is based on a client-oriented, modernized and resilient mechanism for banking products and service provision. RusAg promotes the creation of a truly customer-centered culture. Aiming at upgrading customer satisfaction, RusAg establishes partner relationships with each client responding to individual needs and requirements and developing and rendering individual services.

RusAg strictly complies with all its obligations, provides high quality services and broadens the range of banking products and services offered to its clients. This allows the Bank to strengthen its market position by attracting new clients and increasing turnover.

RusAg's FY 2010 results confirmed its strong market position and client loyalty.

Growing Scale of Business:

- The second largest branch network in Russia, including: 78 regional branches and more than 1,500 additional offices;
- 58% market share in agribusiness lending in the Russian Federation;
- Ranked fourth, in terms of capital and assets, among the largest banks, according to Russian Business Consulting and Kommersant Magazine;

Table 3. Key Performance Indicators

	FY 2010	FY 2009
Authorized Capital	RUB 108.1 billion	RUB 107.0 billion
	USD 3.6 billion	USD 3.5 billion
Total Equity	RUB 117.6 billion	RUB 115.5 billion
	USD 3.9 billion	USD 3.8 billion
Total Capital	RUB 163.0 billion	RUB 160.5 billion
	USD 5.3 billion	USD 5.3 billion
Total Assets	RUB 930.8 billion	RUB 830.7 billion
	USD 30.5 billion	USD 27.5 billion
Loan Portfolio	RUB 688.6 billion	RUB 584.4 billion
	USD 22.6 billion	USD 19.3 billion
Profit before tax	RUB 733.0 million	RUB 840.0 million
	USD 24.0 million	USD 27.8 million
Profit for the year	RUB 369.0 million	RUB 251.0 million
	USD 12.1 million	USD 8.3 million
Personnel	36.1 thousand employees	33.1 thousand employees
Clients	170 thousand corporate	142 thousand corporate
	2,329 thousand retail	1,489 thousand retail

Source: Audited IFRS Financial Statements as of December 31st, 2009 and December 31st, 2010.
CBR RUB/USD Exchange rates as of December 31st, 2009 – 30.24 and December 31st, 2010 – 30.48

Table 4. RusAg Market Capitalization

Date		Capital injection, RUB million	Capital increase, RUB million
June	2000	375	375
March	2001	430	805
July	2001	2,000	2,805
December	2002	994	3,799
June	2003	850	4,649
September	2005	6,121	10,770
February	2006	493	11,263
May	2006	3,700	14,963
December	2006	5,908	20,871
December	2007	6,857	27,728
April	2008	2,000	29,728
August	2008	31,495	61,223
February	2009	45,000	106,223
February	2010	825	107,048
December	2010	1,000	108,048

Note: According to Russian Accounting Standards (RAS)

- Ranked number 196 in the Top-1000 World Banks listing, holds fourth position among Russia's largest banks and is ranked sixth among the largest banks in Central and Eastern Europe, according to The Banker Magazine.

The Bank is well placed for further organic growth, with broadly diversified businesses by asset class, region and client type.

Strong Capital Position

In 2010, RusAg's capital continued to grow from both federal and market sources.

In February 2010 and December 2010, RusAg's capital increased by RUB 825 million (USD 0.27 billion) and RUB 1 billion (USD 0.33 billion), respectively, and amounted to RUB 108.8 billion (USD 3.6 billion) as of YE2010 (according to IFRS).

The Government is committed to funding further capital increases for RusAg to support lending activity under the Federal Program on Agribusiness Development 2008-2012.

RusAg believes that capital strength and liquidity are two of its competitive advantages, ensuring that it is positioned to seize new opportunities for agribusiness support wherever they arise.

Upward Financial Trends

In 2010, RusAg demonstrated significant financial results: total assets amounted to RUB 930.8 billion (USD 30.5 billion) and the loan portfolio reached RUB 688.6 billion (USD 22.6 billion). RusAg has achieved strong asset growth (more than RUB 100 billion) in line with management expectations and objectives.

Assets and Liabilities

In 2010, dynamics of RusAg's asset structure (Chart 5) was characterized by positive changes that are associated with an increased share of corporate and retail loans (from 61.8% to 66.3%), which indicates a high level of customer credit loyalty.

Total loans and advances to customers accounted for 74% of the Bank's assets, cash and cash equivalents – 9.1%, financial instruments and securities – 8.6%, due from other banks – 3.7%, premises and other assets – 2.8% and 1.8%, respectively.

RusAg liabilities are reasonably diversified (Chart 6).

The most dominant positions in the liabilities structure are: customer accounts – 41%, issued securities – 28%, equity and due to other banks – 13% and 11%, respectively.

Chart 4. Strong Asset Growth

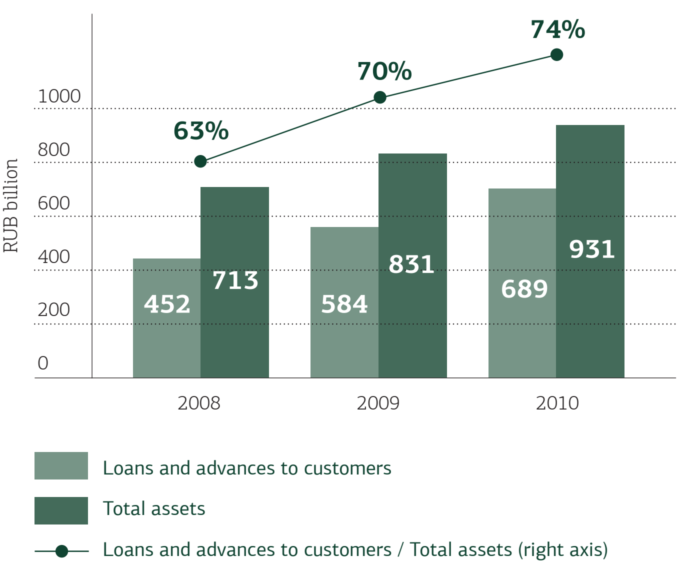
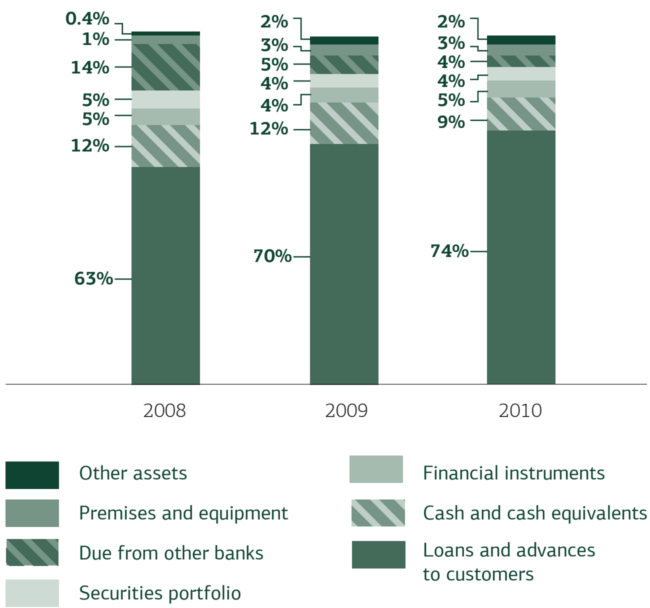


Chart 5. Asset Structure Dynamics



Income and Expenses

For FY 2010, net profit increased 47% compared with the previous period and stood at RUB 369 million. Net interest income increased 47% or RUB 16.5 billion (more than USD 500 million) to RUB 51.6 billion (USD 1.7 billion). This year-on-year increase was primarily due to an 18% increase in interest income on loans and advances to customers that amounted to RUB 97.7 billion (USD 3.2 billion), which represents 93% of RusAg's total interest income.

Investing in future profitable and sustainable growth is a priority for RusAg. In 2010, operating expenses remained particularly tightly controlled, with continued investment in new growth initiatives.

Interest expenses dropped 8% and stood at RUB 53.4 billion (USD 1.7 billion). Total administrative and other operating expenses grew 18% to reach RUB 23.6 billion. Staff costs accounted for 64% of the total net increase in administrative and other operating expenses.

RusAg focuses on balancing growth and returns with expenses to maximize operating efficiency and value creation.

Sustainable Lending Business

With a presence in 78 Russian regions and at every point in-between, RusAg is well positioned to support its customers wherever they do business.

From a financial standpoint, RusAg achieved significant results in loan portfolio growth, confirming its market share in major agribusiness segments and enhancing the quantitative and qualitative value of its customer base.

In the current situation in which many financial institutions have suspended lending activities and in particular have suspended lending to agribusiness, RusAg has consistently continued operations and has provided all necessary support to agribusiness and Russia's rural population.

In 2010, Russian Agricultural Bank demonstrated positive dynamics for its key performance indicators, in compliance with expressed management plans. The Bank's loan portfolio grew 18% and amounted to RUB 688.6 billion (in accordance with IFRS). The volume of corporate loans increased 22% and retail loans rose 28%.

RusAg maintains a high quality loan portfolio and continuously upgrades it. The Bank takes the most effective and sustainable types of loan pledges. Loan pledges greatly exceed loans extended.

In terms of lending to small- and medium-sized enterprises (SMEs), Russian Agricultural Bank was first in the absolute increase in lending volume. In 2010, it grew 32%, significantly outpacing the growth in this segment of the market as a whole. As a result, RusAg was ranked second in terms of the share of SMEs in its loan portfolio.

Chart 6. Liabilities Structure Dynamics

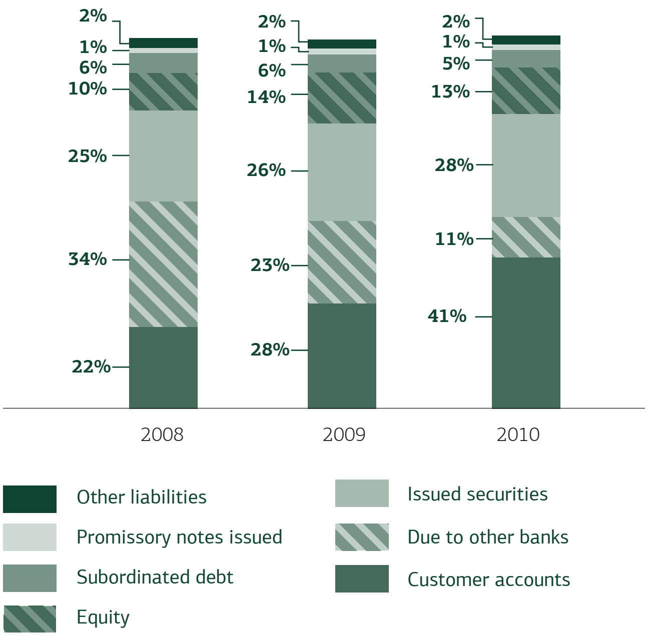
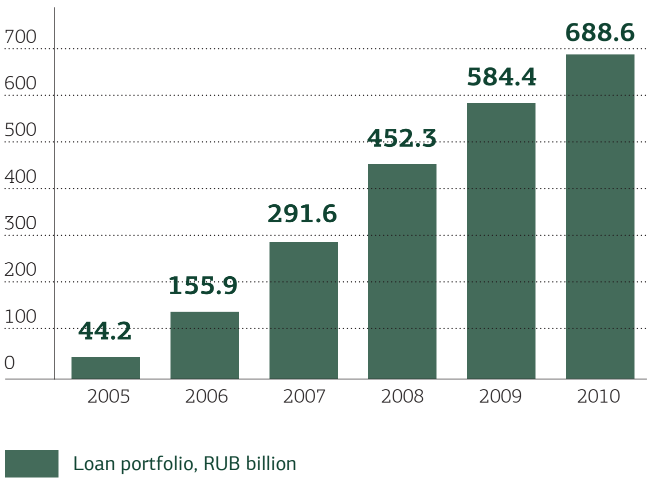


Chart 7. Loan Portfolio Dynamics



During 2010, the Bank increased its lending to agribusiness and issued more than 124 thousand loans totaling more than RUB 320 billion.

One of the primary objectives of the Bank's credit policy is to expand the scale of lending to agribusiness and the rural population within the framework of the Federal Program on Agribusiness Development, by financing grain purchases and commodity interventions, developing a land mortgage system and providing for technical and technological modernization of Russia's agribusiness. In 2010, the total volume of RusAg's financial support to agribusiness enterprises approached RUB 1 trillion.

The Bank's traditional conservative lending policy, coupled with rigorous criteria for identifying doubtful outcomes, allowed RusAg to limit non-performing loans to 5.5% (according to RAS) and to 7.6% (according to IFRS).

Lending diversification

Russian Agricultural Bank is the only government-owned bank in the Russian Federation exclusively focused on providing services to agribusiness and the rural population, which makes up 27% of Russia's total population.

RusAg's credit policy stipulates that at least 70% of the loan portfolio is devoted to agribusiness. In 2010, 83% of RusAg loans were extended to agribusiness. Upward trends were registered in both corporate and retail lending.

The Bank strengthened its market position by increasing lending to agribusiness sub-sectors and regions, in which the demand for banking products remains largely unsatisfied, via its network of regional branches and additional offices, as well as by upgrading the quality of banking services and broadening the range of products and benefits provided to customers.

In addition to strengthening its marketing and distribution capabilities, the lending business benefited from a diversified product range.

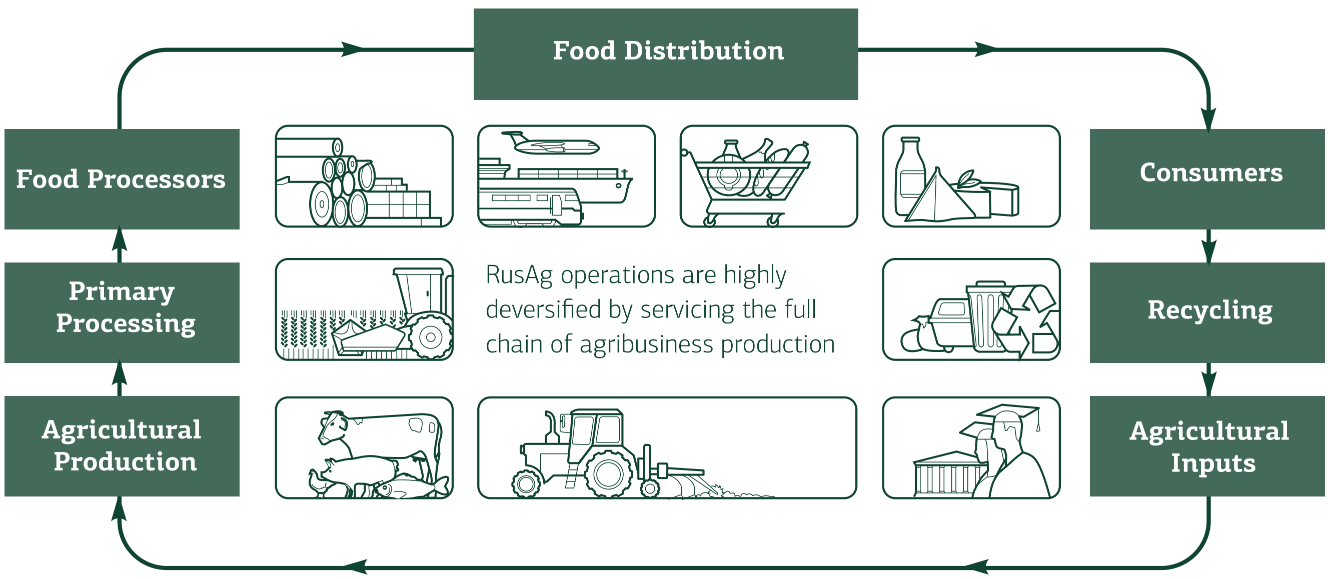
Agribusiness is a highly diversified sector with more than 20 sub-sectors and related industries.

The agribusiness focus provides multiple areas for lending, including the whole chain of agribusiness production (Scheme 1).

RusAg is also engaged in rural infrastructure development, mortgage lending and consumer lending, including loans designed to promote the implementation of modern environmentally-friendly technologies. RusAg has expanded on its special innovative lending programs, which are targeted at developing local handicrafts and agricultural specialties.

Russian Agricultural Bank will additionally provide large-scale credit and financial support to domestic agribusiness and the rural population.

Scheme 1. Agribusiness Production Chain



Corporate Lending

Lending to agribusiness producers, food and processing enterprises and wholesale and retail traders dominates RusAg's lending business. The share of loans to agribusiness enterprises in the Bank's total loan portfolio is 63% or RUB 467.9 billion (USD 15.4 billion).

In 2010, the total corporate loan portfolio climbed to RUB 660.6 billion (USD 20.2 billion), including lending for food interventions, which stood at RUB 44.5 billion (USD 1.5 billion), and investments in agricultural cooperatives, which were RUB 655 million (USD 21.5 million). The number of corporate clients increased 19%.

Russian Agricultural Bank offers agricultural producers additional lending programs to purchase grain-drying, feeding and milk and meat processing equipment, as well as second-hand, self-propelled harvesting, road-building, municipal and sprinkler machinery. RusAg also provides short-term lending programs for machinery and equipment traders.

RusAg supports the implementation of modern environmentally-friendly technologies and provides loans designed to foster bio-fuel production, drop irrigation and sewage treatment, etc. in agribusiness production and processing, with a special emphasis on livestock breeding and fishing industry development. RusAg has elaborated on special innovative lending programs focused on developing indigenous handicrafts and local agricultural specialties: reindeer breeding, yak breeding, horse breeding and aqua-culture development lending, etc.

By implementing a wide range of lending programs and offering a large-scale list of lending products, RusAg has developed a well-diversified corporate loan portfolio (Chart 8).

Dynamic lending growth is combined with the high performance of extended loans. More than 70% of the loan portfolio belongs to 1st and 2nd quality categories.

RusAg believes that the successful performance of the loan portfolio in 2010 was ensured in large part by updating in a timely and adequate manner methodological approaches to lending. Following recessionary trends, a list of programs, orders, rules and others on lending were brought into compliance with the market situation.

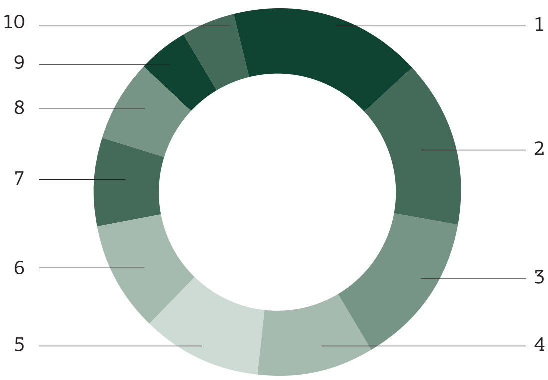
In 2011, RusAg is determined to continue focusing on agribusiness lending support by expanding the scale of its lending to agricultural enterprises and the rural population, ensuring that objectives outlined by the Government are achieved.

Cooperatives Development

The financial support of agricultural cooperatives is one of Russian Agricultural Bank's priority business activities. As a State agent for agribusiness development, RusAg assists the development of credit consumer cooperatives as an important part of rural economic and financial stabilization.

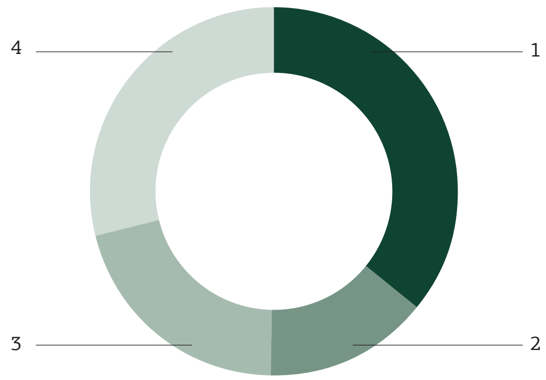
Chart 8. Loan Portfolio Diversification

Portfolio Breakdown by Sector



1 — Mixed plant and animal breeding, 17.2%
2 — Animal breeding, 14.7%
3 — Plant breeding, 13.6%
4 — Agribusiness service enterprises, 10.4%
5 — Other agribusiness enterprises, 10.4%
6 — Food and processing industry, 9.6%
7 — Other industries, 7.9%
8 — Personal household owners, 7.1%
9 — Trade enterprises, 4.6%
10 — Consumer lending, 4.5%

Corporate Portfolio Breakdown by Maturity



1 — Less than 1 year, 35.8%
2 — From 1 to 3 years, 14.5%
3 — From 3 to 5 years, 20.8%
4 — Over 5 years, 28.9%

RusAg's activities:

- Increase the capitalization of cooperatives and their loan portfolio;
- Develop SMEs in agribusiness;
- Receive fixed dividends;
- Minimize risks of micro-level financing.

RusAg also provides informational support to agricultural cooperatives, including legal and financial consulting services, through its network of regional branches and additional offices.

In 2010, Russian Agricultural Bank concluded 844 agreements with agricultural cooperatives for a total of RUB 4.2 billion (USD 138 million).

Agribusiness development considerably depends on agrimarket situations. To support the evolution of the agricultural production sales market and the formation of a distribution system for small businesses, RusAg extended its first loans to found and expand capacities for agricultural cooperatives markets.

Retail Lending

Russian Agricultural Bank offers a full range of lending services and products, in conjunction with professional advice and effective management. These services are available via multiple distribution channels, including regional branches, additional offices and operating cash desks.

In 2010, RusAg continued to dynamically develop its retail lending programs. The retail loan portfolio grew 28% (Chart 9) and reached RUB 85 billion (USD 2.8 billion). The number of retail clients increased 56%.

The growing retail portfolio is strengthened by RusAg's expanded branch network that covers almost the entire rural population.

In 2010, in accordance with priorities of RusAg's credit policy, the Bank developed a loan program associated with lending to personal household owners (comprising 42.6% of the retail loan portfolio) and social rural development.

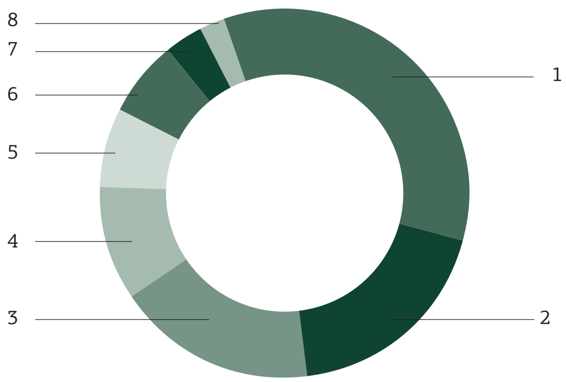
More than 50% of loans to personal household owners are used for animal breeding purposes, 14% for purchasing machinery and facilities, and 11% for seasonal field work.

Consumer lending continues to be the most in-demand product in rural areas. In 2010, Russian Agricultural Bank issued 132.5 thousand loans, which represented 42% of total loans for the current year.

The most popular retail lending programs include:

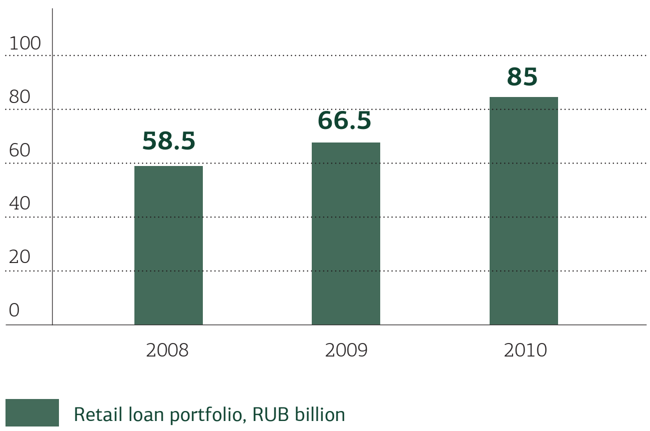
- "Pension" – extended more than 40 thousand loans. The significant increase in issuing this loan product is associated with a maximum focus on the selected target market segment and the lack of a competitive market supply;
- Mortgage loans for rural residents – more than 3 thousand loans;

Corporate Portfolio Breakdown by Region



1 — Central region, 34.6%
2 — Volga region, 18.8%
3 — South region, 17.5%
4 — Siberia, 10%
5 — North-West region, 7%
6 — North Caucasus, 6.6%
7 — Far East region, 3.4%
8 — Ural, 2.1%

Chart 9. Retail Loan Portfolio



- "Engineering services" and "Housing gasification" – approximately 4 thousand loans;
- "Gardener" – more than 1.5 thousand loans.

In 2010, RusAg introduced new retail programs – the "Automotive Lending Program," the "Successful Partner," the "Reliable Client" and others. During the year, the volume of lending to the above-mentioned programs reached RUB 2.1 billion, which represents 4.2% of the retail loan portfolio.

Increasing Customer Base

The principal goal of Russian Agricultural Bank's corporate governance is to offer clients an original financial structure that closely matches their needs and concerns, and to enable them to become long-term partners in a structure built on the values of proximity, responsibility and solidarity.

RusAg promotes creating a truly customer-centered culture to upgrade customer satisfaction and customer retention. The Bank does its best to ensure that its customers receive dedicated and personalized follow-up. It offers enhanced services, attractive solutions and advice in both banking services and in how to conduct business when necessary.

RusAg has extended its network to more than 1,600 points of sale throughout rural areas to provide all potential clients with access to financial services. RusAg's stability and reliability, as a government-owned institution, coupled with its competitive products and services are highly attractive to the rural population. Its customer-centered approach has allowed the Bank to attract new clients.

RusAg's clients are both corporate entities and individuals who reside in rural and urban areas. In 2010, the Bank attracted 27 thousand corporate clients – a 19% increase. The total number of corporate clients reached 169.5 thousand. The cash balance on corporate customers' current accounts grew 57% and equaled RUB 55.6 billion (USD 1.8 billion) compared to the previous year. The actual volume of corporate deposits grew 79% and reached RUB 202.7 billion (USD 6.6 billion).

Russian Agricultural Bank agribusiness market experience, along with those of its subsidiaries, makes its possible to attract deposits and savings from the rural population. The number of retail clients exceeded 2.3 million, which represents 56% growth year-on-year.

In 2010, RusAg's retail client deposit base again showed significant upward growth – a 1.5 times increase. Customer accounts grew to RUB 16.8 billion (USD 551 million) compared with RUB 10.8 billion (USD 354 million) in 2009.

With a very strong regional presence, RusAg provides banking services to individual clients, farmers, corporate customers and local authorities. Regional branches provide a full range of banking and financial products and services, including: corporate lending and retail lending, particularly

Chart 10. Dynamics of the Corporate Customer Base

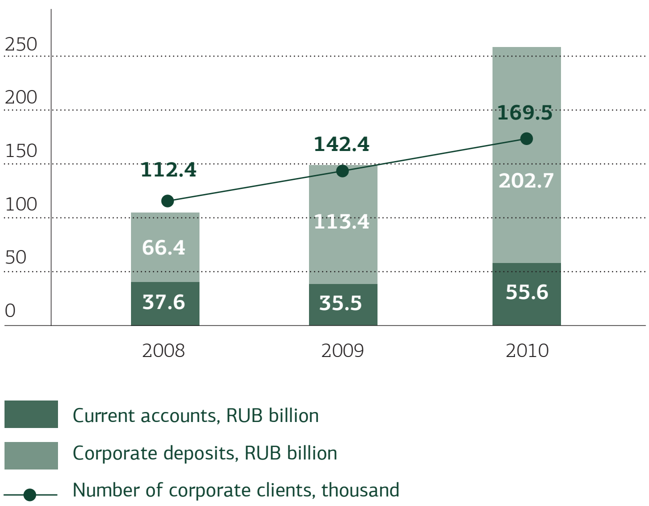
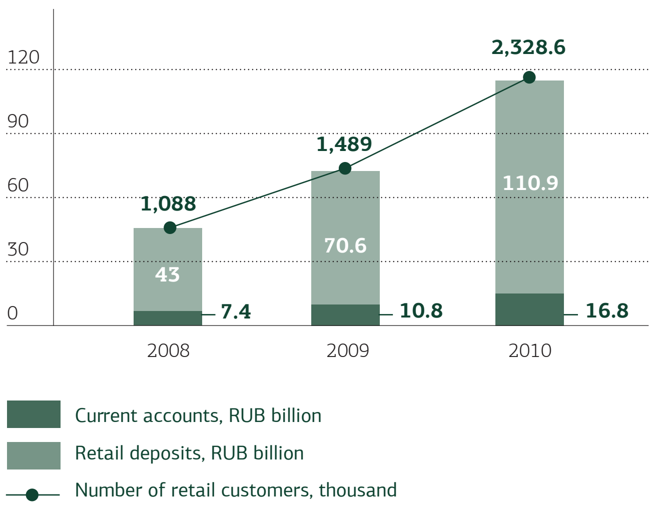


Chart 11. Dynamics of the Retail Customer Base



mortgage loans and consumer finance, access to payment systems and account maintenance and deposit taking, etc. These services are available through the local branch network and a range of supplementary channels, including additional offices and operating cash desks.

New Product Initiatives

Russian Agricultural Bank offers the full range of banking products and services, including loans, cash management services, payroll services and many other. The Bank serves not only agribusiness, but also other sectors of the economy, such as fishery, timber and other real economy sectors.

RusAg continuously provides its clients with new banking products and services. In 2010, the Bank continued offering innovative regionally-specialized lending programs focused on developing local handicrafts and agricultural specialties, which include reindeer and yak breeding, horse breeding and aqua-culture development lending and to support the implementation of modern environmentally-friendly technologies, including bio-fuel production, drop irrigation and sewage treatment.

Payment Cards

In 2010, Russian Agricultural Bank continued developing its payment card system, which became one of the Bank's flagship products and strengthened its market position. RusAg's extensive branch network promotes significant card distribution throughout the country.

Based on FY 2010 figures, the number of customers who owned RusAg payment cards exceeded 900 thousand, which is a 2.7 times year-on-year increase. The cash balance on cards grew more than 40% and totaled RUB 7 billion. Furthermore, the number of companies served by the Bank's payroll program exceeded 9 thousand (versus 4.4 thousand in 2009).

During the year, the number of RusAg ATMs increased 33%, from 1.8 thousand to 2.4 thousand; the ATMs also performed an expanded list of functions. The Bank also successfully received a PCI DSS certificate.

In 2010, Russian Agricultural Bank effectively implemented its new business-service – acquiring. The number of companies that accepted the Bank's cards for payment reached 1.5 thousand, compared to 343 in 2009. Transactions turnover stood at RUB 700 million (as compared with RUB 40 million in 2009). The number of transactions exceeded 600 thousand (versus 25 thousand in 2009).

Customer Service

In 2010, RusAg continued its efforts to upgrade customer satisfaction and consumer retention. The Client Relations Department does its best to allow customers to receive dedicated and personalized follow-up and to enable them to become long-term partners in a structure built on the values of proximity, responsibility and solidarity.

In 2011, Russian Agricultural Bank will launch comprehensive financial service programs, provide competitive new products and upgrade its loan portfolio management. The Bank will continue to conduct well-balanced financial policy and will further expand its client base. Special emphasis will be placed on upgrading the efficiency of RusAg's operations and infrastructure. Russian Agricultural Bank will make further progress towards achieving global standards for a multi-functional and universal financial institution.

Note: This section is prepaid under IFRS. Financial data is converted from RUB to USD using exchange rates quoted by Central Bank of Russia: RUB/USD December 31st, 2008 – 29.38, December 31st, 2009 – 30.24; December 31st, 2010 – 30.48.

Some detailed information on RusAg's business performance is reported under RAS as of January 1st, 2011.

Management Discussion and Analysis

International Operations

Resilience in turbulent markets

Today, Russian Agricultural Bank (RusAg) is widely known as a reliable banking partner to major global financial institutions, and its transparency has been lauded by the world's leading rating agencies. RusAg's international experience, its diversified investor base and strong governmental support have helped it strengthen its position on the international market.

Over the years, international operations have become an essential component of RusAg's business activity. In our globalized economy, RusAg obviously needs to keep abreast of global financial market developments.

2010 – H1 2011 highlights

- Ranked Number 196 in the Top 1,000 World Banks listing, fourth among Russia's major banks and sixth among the largest banks in Central and Eastern Europe, based on the July 2010 issue of The Banker magazine;
- Opened a Representative Office in the Republic of Azerbaijan;
- Issued RUB 30 billion and RUB 32 billion of benchmark Eurobonds in March 2010 and March 2011, respectively.

Russian Agricultural Bank has achieved significant commercial breakthroughs in most of its international business lines, primarily based on developing relationships with foreign financial institutions, investors, correspondent banks, export credit agencies and foreign agribusiness producers.

RusAg maintains strong relationships with all international financial market participants. International operations are an organic part of Russian Agricultural Bank's business model. Russian Agricultural Bank sees international operations development as a crucial investment in its future successful performance.

Correspondent Relations

RusAg has developed a strong and reliable network of correspondent banks that now includes more than a hundred banks around the world. RusAg guarantees strict compliance with its obligations under domestic and international agreements and contracts to which it is a party.

As a State agent for agribusiness development, RusAg has undertaken numerous measures aimed at developing bilateral relationships and expanding project financing. RusAg has signed cooperation agreements with numerous international financial institutions to finance technological upgrades for agribusiness companies and food processing industries.

To maintain financial stability in volatile markets, hedge specific currency-related risks and meet client demands with respect to Russian roubles, RusAg has signed a series of ISDA Master Agreements with top-ranked international banks, including: BNP Paribas Bank, Credit Agricole Corporate and Investment Bank, ING Bank N.V. and Barclays Bank PLC.

The ISDA Master Agreements shall reduce operational and legal risks for SWAP transactions and allow the Bank to broaden derivative relationships with its correspondents and strengthen its presence in relevant markets.

To further develop and enhance joint business opportunities, RusAg has signed confidentiality agreements with top-ranked international banks, including: the Royal Bank of Scotland, JP Morgan Chase Bank N.A., VTB Capital Plc., Deutsche Bank, EBRD and Goldman Sachs.

Trade and Structured Finance

In 2010, trade finance operations developed successfully, backed by the Bank's international cooperation network.

Russian Agricultural Bank engages in agribusiness trade and structured financing. The Bank arranges the type of loans that are critical for large-scale investment projects, facilitating long-term financing based on future cash flows. In international finance, RusAg's customers, in particular, expect financing arrangements to be accompanied by highly professional advice and effective management. By combining classical trade products with a professional, individualized approach to customers, RusAg is intentionally transitioning from simple lending relationships towards structured solutions.

RusAg offers a wide range of trade related services, including:

- Import L/C;
- Export L/C;
- Deferred payment;
- Reimbursement authorization;
- Reimbursement undertaking;
- Guarantee operations;
- Import document collection;
- Export document collection;
- Clean collection;
- Post – finance.

RusAg is intensifying its activity in the import-export financing sphere and cooperates with leading global export credit agencies to cover risks. ECAs provide government-backed loans, guarantees and insurance coverage for both commercial and political risks. As of now, RusAg is accredited by and maintains relationships with nineteen major ECAs.

ASHRA	Israel
ATRADIUS	the Netherlands
CESCE	Spain
COFACE	France
ECGD	the UK
EDC	Canada
EGAP	The Czech Republic
EKF	Denmark
EKN	Sweden
Ex-Im Bank	the USA
Eurler Hermes	Germany
FINNVERA	Finland
KUKE	Poland
OeKB	Austria
ONDE	Belgium
NEXI	Japan
SACE	Italy
SERV	Switzerland
Sinoshure	China

Structured finance transactions ensure highly efficient banking operations, since they do not multiply national currency inflation. Project finance transactions are an additional source of the Bank's non-interest income.

During the reporting period, Russian Agricultural Bank focused on upgrading trade finance operational efficiency and achieved significant results in this area. The volume of documentary operations, such as LC and guarantees, demonstrated significant growth. In 2010, the Bank arranged 79 letters of credit for imports and advised on 76 letters of credit for exports totaling USD 318.2 million. Foreign banks issued 66 advance payment guarantees in favor of RusAg's clients.

Capital And Money Markets

The Bank's debt capital markets business offers a comprehensive range of debt instruments to reduce risks by placing funds on the market and to raise additional funds, through REPO operations, rouble-denominated bonds, loan participation notes and trading in Russian Government and municipal debt securities, corporate debt securities, promissory notes and equities.

In 2010, RusAg was an active player on both international and domestic capital markets and arranged several successful borrowings.

In February 2010, Russian Agricultural Bank placed Series 10 and Series 11 non-convertible, interest-bearing bond

Table 5. Trade Finance Projects

$43,315,500.00 "Smolenskpischtorg," Ltd. (GC[1] Dominant) Raw sugar delivery from Brazil	**€21,071,000.00** "Tambovskaya Sugar Company," Ltd. Sugar factory construction	**€8,900,000.00** OJSC "MKK Kaliningradsky" Modernization of the meat-canning plant	**$55,000,000.00** "EcoNiva-Tekhnika," Ltd. Purchase of foreign agricultural machinery	**$53,000,000.00** "AST," Ltd. Purchase of foreign agricultural machinery
€6,311,250.00 "Povolzhskaya Agricultural Company," Ltd. Purchase of foreign agricultural machinery	**€3,590,000.00** CJSC "Evropeyskaya Agrotekhnika" Purchase of foreign agricultural machinery	**CHF 2,600,000.00** "Kened Food," Ltd. Equipment purchase for metal can production	**€2,229,500.00** "Agrofirma Aleksandrovskaya," Ltd. Purchase of sewing-machines	**$52,459,000.00** "OPTIMA-SAKHAR," Ltd. (GC Dominant) Raw-sugar delivery from Brazil
$11,530,000.00 OJSC "Zhelezobeton", Purchase of processing equipment	**€2,102,500.00** "Grafital," Ltd. Purchase of packaging equipment	**€6,700,000.00** "Bashkirsky Poultry Complex of M.Gafuri," Ltd. Purchase of poultry equipment	**€5,800,000.00** Poultry farm "Akashevskaya," Ltd. Purchase of poultry equipment	**€2,260,000.00** CJSC "SPA[2] Severny Standart" Construction of a biological waste recycling plant
$10,000,000.00 "Yupiter-9," Ltd. Purchase of foreign agricultural machinery	**$1,200,000.00** "Megafrut," Ltd. Banana deliveries from Ecuador	**€1,904,000.00** OJSC "DENEB" Purchase of soft drink filling line	**€1,970,000.00** GC "SAKHO" Purchase of agricultural equipment	**€1,311,000.00** "Teplichnoe," Ltd. Purchase of greenhouse equipment
€4,500,000.00 "Siberian Farms," Ltd. Purchase of dairy unit machinery	**€11,700,000.00** OJSC "Olhovatsky Sugar Plant" Purchase of foreign agricultural machinery	**€1,407,000.00** "Krasnogvardeisky Milk Plant," Ltd. Purchase of milk processing equipment	**RUB 648,000,000.00** CJSC "Kievo-Juraki AIC[3]" Pig complex construction	**€4,999,835.50** CJSC "Orelselprom", (CJSC "Mosselprom") Pig complex construction
€3,400,000.00 "Kommunar," APC[4] Purchase of dairy unit machinery	**€8,400,000.00** "Krasnaya Gorka," Ltd. Poultry complex and slaughter facility construction	**€25,000,000.00** Confectionary plant "Krasnaya Zarya," Ltd. Confectionary plant reconstruction	**€5,200,000.00** "Centarion," Ltd. Construction of recreational hotel facilities in Anapa	**€3,655,000.00** OJSC "Buinsky Elevator" Purchase of seed production equipment
€2,500,000.00 Animal plant "Starodvorsky," APC Purchase of pedigreed livestock	**€3,280,000.00** "Zagorsky Broiler," Ltd. Purchase of poultry equipment	**€6,100,000.00** Pig complex "Maksimovsky," Ltd. Pig complex construction	**€2,092,500.00** "Agrobureau AEC[5]" Ltd. Purchase of foreign agricultural machinery	**€1,400,000.00** "Ayaks-Agro Company," Ltd. Purchase of foreign agricultural machinery
$34,500,000.00 "Sinee More," Ltd. Purchase of fresh-frozen fish / canned goods delivery	**€1,600,000.00** CJSC "Krasny Oktyabr" Purchase of pedigreed livestock	**€9,000,000.00** "Chekhovsky Sad," Ltd. Purchase of equipment for a glasshouse complex	**€1,180,000.00** "Vologodskiye Fuel Bio-technologies," Ltd. Purchase of equipment for wood processing	**€2,330,000.00** "Kutuzovskoe," Ltd. Purchase of agricultural equipment
€1,780,000.00 "Viktoria," Ltd. Purchase of equipment for wood processing	**$3,600,000.00** "KuzbassAvto," Ltd. Purchase of vehicle sets	**€1,430,000.00** Pig complex "Maksimovskiy," Ltd. Purchase of pedigreed livestock	**$8,000,000.00** Trading house "OGO-Produkty" Grain sales	**$4,000,000.00** "Urozhay," Ltd. Purchase of agricultural machinery and equipment

Notes: [1] Group of Companies; [2] Scientific Production Association; [3] Agro-Industrial Complex; [4] Agricultural Production Cooperative; [5] All-Russian Exhibition Center issues that were traded on the MICEX Stock Exchange. Both issues have a value of RUB 5 billion and mature in 2020 with a 9% coupon rate. Investors' demand for these bonds exceeded RUB 40 billon.

In March 2010, RusAg issued RUB 30 billion in Eurobonds with a coupon rate of 7.5% and a 3-year maturity. The total book value exceeded RUB 60 billion. In total, the Bank has issued more than ten successful Eurobonds. There is always strong demand for RusAg's loan participation notes in different regions, due to the Bank's unique position in the Russian banking sector, its well-defined business strategy, the State's strong commitment to developing RusAg and positive market conditions.

In November 2010, RusAg issued RUB 10 billion in on-exchange Series БО-06 bonds with a maturity date of 2013, a coupon rate of 6.6% and a put option in 1½ years.

For debt instruments, including bonds and REPO, and for hedging products, such as interest rate, currency and commodity derivatives, RusAg will continue to diversify its product range and strengthen distribution capabilities.

Covenants

RusAg ensures strict compliance with its obligations under domestic and international agreements and contracts to which it is a party. In particular, the Bank abides by all mandatory financial ratios, as well as by covenants and other debt financing agreement requirements.

- The State's share in RusAg's capital ≥ 50% + 1 share;
- The capital adequacy ratio (under IFRS): ≥ 8%;
- Capital adequacy (per CBR) ≥ minimum required by Russian law (currently – 10%);
- Other economic ratios and requirements, including current, short- and long-term and total liquidity ratios conforming to values prescribed by Russian law;
- Long-term, unsecured, unsubordinated debt obligation ratings are ≥ Baa3 by Moody's and BBB – by Fitch;
- RusAg does not enter into transactions to sell, lease, transfer or otherwise dispose of any asset for which the book value exceeds 10 percent of the Bank's total assets; it also ensures that none of its material subsidiaries do so;
- The Bank discloses all information required under its contractual obligations;
- No overdue taxes;
- The Bank is not in default on any of its contractual obligations.

RusAg complies in a timely manner with all its obligations even in the current tight financial conditions. This allows the Bank to receive optimum credit agreement terms from foreign financial institutions.

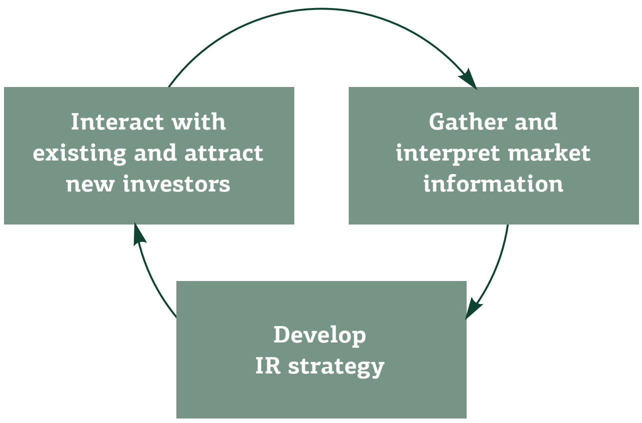
Investor Relations

Reliable investor relationships are essential to broaden access to global capital markets. RusAg maintains contacts with analysts and (particularly) investors to ensure that they receive in-depth information regarding the Bank's business activities.

The Bank's investor relations policy prioritizes information availability on RusAg's business development and outlook. Carrying out a policy of openness and transparency, RusAg ensures that its investors and analysts have correct and complete information about the Bank, thus encouraging the creation of strong and long-lasting relationships.

In 2010, RusAg conducted numerous investor relations events. This included a series of road shows and non-deal road shows, coinciding with the release of financial reports. In addition to numerous discussions with investor groups and one-on-one meetings, the Bank regularly holds due diligence meetings. RusAg offers a wealth of information on its Investor Relations web site. Coupled with Board members willingness to answer investor and analyst questions, these transparency measures help foster comfortable relationships with the international banking community.

Scheme 2. The Investor Relations Cycle



RusAg's web site contains the Bank's Charter and internal regulations, annual and quarterly reports, financial statements (consolidated and interim), rating information and other relevant data. RusAg also provides information in the form of presentations and press releases, as well as holding press conferences and meetings with investors, media and other individuals.

The Bank has significantly improved its transparency vis-à-vis capital markets. RusAg will continue to make every effort to further optimize investor relations in 2011.

International Business Council Membership

RusAg is an active member of the US-Russia Business Council, the Canada Eurasia Russia Business Association (CERBA), the Russian-Chinese Business Council and the International Confederation of Agricultural Credit (CICA), which enhances the Bank's potential to further develop its business and foster international cooperation in agribusiness lending.

RusAg participates in Bi-lateral Inter-governmental Commissions on Economic, Scientific and Technological Cooperation with Hungary, Israel, Norway, the Netherlands and Turkmenistan, co-chaired by the First Deputy Prime Minister and Chairman of the RusAg's Supervisory Board Viktor A. Zubkov. The Bank also participates in Inter-governmental Commissions on Trade and Economic Cooperation with Australia, Greece, and Mongolia. RusAg's participation in these commissions enables it to expand its involvement in the global economic environment and to generate additional international partnerships.

RusAg's representatives also contribute to the Association of Russian Banks' Committee on International Activity, where it exchanges experience and best practices.

These affiliations allow RusAg to establish new business contacts and reinforce existing relationships with international organizations and investment funds, all while obtaining and analyzing the latest market intelligence.

Ratings

RusAg's financial standing is regularly assessed by Moody's and Fitch Ratings international rating agencies. The Bank's ratings are quasi-sovereign and are of investment grade.

Fitch

Long-term Issuer Default Rating	BBB, stable
Short-term Issuer Default Rating	F3
Individual rating	D
Support rating	2
Support rating floor	BBB
National long-term rating	AAA(rus), stable
Senior unsecured debt rating	BBB
Subordinated debt rating	BBB-

In January 2010, Fitch Ratings upgraded Russian Agricultural Bank's outlook on the long-term IDR from negative to stable and confirmed the Bank's other ratings.

In September 2010, Fitch Ratings confirmed RusAg's long-term IDR at BBB with a stable outlook.

Moody's

Long-term deposit rating	Baa1, stable
Short-term deposit rating	Prime-2, stable
Financial strength rating	E+, stable
National scale rating, long-term	Aaa.ru
Senior unsecured debt rating	Baa1
Subordinated debt rating	Baa2

In October 2010, Moody's assigned a long-term global local currency debt rating of Baa1 to Russian Agricultural Bank's senior unsecured debt. The rating carries a stable outlook.

Management Discussion and Analysis

Facilitating Rural Development

The State Agent for Agribusiness Development

Russian Agricultural Bank (RusAg) is an institution that holds a unique position in the market, fostering sustainable agribusiness sector development in Russia. Through its regional branches and additional offices, RusAg has one of Russia's widest financial distribution networks and offers a highly diversified range of financial services and products.

Russian Agricultural Bank assists the Government of the Russian Federation in implementing federal policy in the agribusiness sector and is a State Agent for implementing agribusiness development programs.

RusAg is a core participant in all agribusiness innovative lending programs, including:

- fishery, fish farms, aqua-culture and mari-culture;
- timber and wood processing industry;
- environmentally friendly technologies: bio-fuel, drop irrigation and sewage treatment;
- the development of indigenous handicrafts and unique local agricultural features: reindeer breeding, yak breeding and horse breeding.

RusAg is one of the core participants (among financial institutions) in federal projects and programs. RusAg has Cooperation agreements for implementing federal programs and supporting agribusiness with the administrations of Russia's major republics and regions.

Federal Program on Agribusiness Development

The Federal Program on Agribusiness Development 2008-2012 reflects a new advanced level of implementing agribusiness policy on the federal level.

Objectives of the federal program include:

- the steady development of rural areas;
- upgrading work and living standards for the rural population;
- improved competitiveness of domestic agriculture, backed by financial incentives;
- accelerated development of key agribusiness sub-industries;
- re-cultivation, protection and continued use of crop lands.

Russian Agricultural Bank is one of the principal financial institutions supporting implementation of the Federal Program.

In 2008, the Bank signed a Cooperation Agreement with the Russian Ministry of Agriculture to implement the Federal Program on Agribusiness Development.

According to the Agreement, the Bank provides loans to a wide range of agricultural producers, including farmers, personal household plot owners and credit consumer cooperatives. RusAg also introduced special lending programs to develop engineering infrastructure in rural areas.

In 2008-2009, RusAg became a key bank for implementing state policy to stimulate dairy and meat production.

In 2010, RusAg financially supported agribusiness enterprises at all stages of the production cycle: from primary agricultural production, storage and processing, to final output. It was outlined as one of the priority directions for the Federal Program on Agribusiness Development 2008-2012.

Financial Support for the Federal Program on Agribusiness Development

Initially, the Russian Government allocated budgetary funds of RUB 551 billion (USD 22 billion) to support the Program execution. An additional RUB 855 billion (USD 34 billion) will come from budgetary institutions and external sources.

Russian federal budgetary expenditures for Program implementation in 2008 totaled RUB 76.3 billion (USD 2.6 billion), in 2009 – RUB 100 billion (USD 3.4 billion), and in 2010 – RUB 120 billion (USD 3.8 billion).

In 2010, RusAg extended more than 120 thousand loans totaling RUB 329 billion (USD 11.2 billion) in the course of Program implementation, including RUB 121 billion (USD 4.1 billion) for seasonal field works and RUB 38 billion (USD 1.3 billion) to farms and personal households.

As of January 1st, 2011, the Bank provided financial support for investment projects for constructing and modernizing livestock and poultry production units for more than RUB 27 billion, which is a 26% increase compared with 2009.

For the period from January 1st, 2008 to January 1st, 2011, total loans extended by the Bank for the Federal Program stood at RUB 925 billion (USD 31.6 billion).

Lending to individuals involved in agribusiness production

Lending to personal household plot owners and farmers is one of the most in demand of RusAg's retail programs. It is an important aspect of financial support for Russian agribusiness. The growing scale of RusAg's financial support endows the Bank with additional responsibility for agribusiness social and economic development, as well as for the social welfare of rural areas.

Lending to individuals involved in producing agricultural products on household land plots is done by providing fixed interest rate loans for a period of up to five years. The aim of these loans is to develop the production, processing and distribution of agri-products.

In accordance with RusAg's 2010 Lending Policy, the Bank has actively developed loan programs for household plots owners, farmers and the social development of rural areas. To achieve this, RusAg extended over 315 thousand loans totaling RUB 48.7 billion in 2010, which represents a 61.4% increase from 2009.

In 2010, the Bank executed more than 96 thousand loan agreements with personal household plots owners in the amount of RUB 20 billion. More than 6 thousand loans worth RUB 18.6 billion were extended to farmers – a 28.3% increase compared with 2009.

Lending to Agricultural Cooperatives

As part of its participation in the State Program on Agribusiness Development, Russian Agricultural Bank participates actively in lending to existing and newly created agricultural consumer and credit cooperatives. Loans extended as part of this program bear interest at fixed rates. In 2010, RusAg extended 844 loans to agricultural cooperatives in for the total amount of RUB 4.2 billion.

Social and Sustainable Lending

Russian Agricultural Bank conducts its business with a focus on the living standards of rural populations, resilient agricultural enterprise growth and the sustainable development of rural infrastructure.

RusAg is involved in sustainability programs focused on social aspects. These programs are designed to provide affordable financing to agribusiness companies, to improve their financial performance so that the rural population benefits.

The Bank has implemented a list of socially important programs aimed at the sustainable and comprehensive development of the agribusiness sector. The Bank participates in sustainability programs focused on social aspects and initiated by the Government.
RusAg is engaged in:

- **"Sel'skoye Podvorie" Program** involves lending to individuals residing in small towns and rural areas who are involved in agricultural production. In 2010, RusAg extended the application of this program to individuals in urban environments as well;
- **Financing grain purchases and commodity interventions** as part of the price stabilization program. According to the Supervisory Board decision, to implement the program, RusAg budgeted RUB 3.2 billion for grain purchases. As of January 1st, 2011, the Bank purchased 9.6 million tons of grain;
- **Implementing the Federal Law "On the Financial Rehabilitation of Agricultural Enterprises."** RusAg regularly monitors the financial standing of enterprises participating in the rehabilitation program. As of January 1st, 2011, more than 5.2 thousand restructuring agreements have been executed – totaling RUB 18.5 billion;
- **Recovering loans extended from 1992 to 2000 from the Russian federal budget and extra-budgetary sources to legal entities engaged in agribusiness.** In 2010, RusAg recovered RUB 630.6 million. The total amount of loans recovered within the framework of this program reached RUB 6.8 billion;
- **Automotive Lending Program.** In April 2009, RusAg launched an automotive lending program for individuals purchasing cars manufactured in the Russian Federation. The program is based on the Decree of the Russian Government "On adoption of regulations on granting subsidies from the federal budget in 2009 to the credit organizations of the Russian Federation in connection with loans extended in 2009 to individuals for purchase of cars". The maximum amount of such loans cannot exceed 85% of the purchase price of the car. The loans are extended in roubles. The purchased car is pledged as collateral.

Subsidized Lending

RusAg is a key participant in the federal and regional programs under which agricultural producers receive compensation in the form of a subsidy from federal and/or regional budgets for a portion of their interest costs.

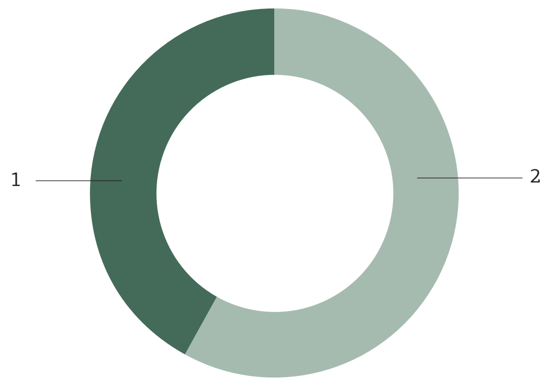
For a borrower to receive compensation from the appropriate budget, a loan must be granted to agricultural producers, farmers, SMEs, agricultural cooperatives or personal household plots, for the purchase of agricultural machinery or equipment, seeds, fodder, fertilizers or other similar products required for seasonal work and other products in compliance with a list approved by the Russian Ministry of Agriculture. The borrower must also have a good credit history and be in good financial condition.

Borrowers are eligible for interest subsidies amounting to:

- Corporate enterprises: federal subsidies of 80% of the Russian Central Bank's refinancing rate; regional subsidies of 20% of the refinancing rate; livestock meat and dairy production – federal subsidies of 100% of the refinancing rate and greater than or equal to 3% regional subsidies.
- Individuals and farmers: federal subsidies of 95%

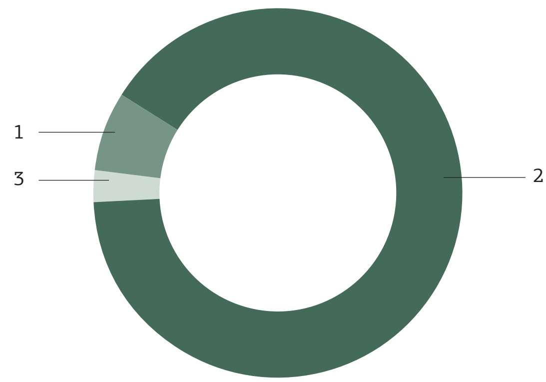
Chart 12. Subsidized Corporate Loans – Share and Sources

Subsidized loans – share in loan portfolio



1 — Regular loans, 42%
2 — Subsidized loans, 58%

Subsidized loans – sources



1 — Federal subsidies, 7.1%
2 — Federal and regional subsidies, 90.3%
3 — Regional subsidies, 2.6%

Source: RusAg information according to RAS of the refinancing rate and the remaining 5% is compensated by regional budgets.

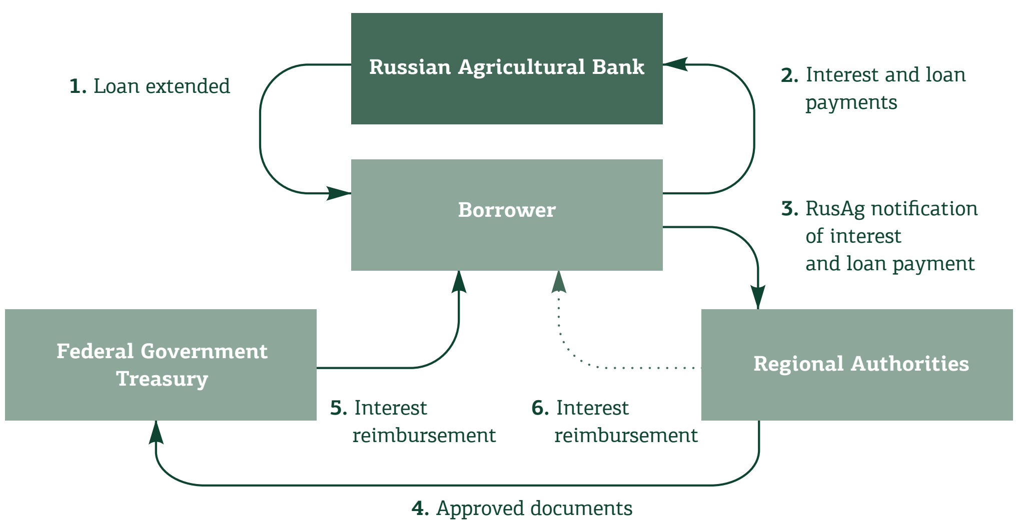
Subsidy calculations are based on the Russian Central Bank's refinancing rate – which is currently set at 8.25%.

Depending on the purpose of the loan and the borrower category, loans subject to subsidies may have a maturity of up to ten years.

Subsidized lending allows RusAg to upgrade the quality of its loan portfolio; on-time payments on subsidized loans are stated in the Law as a condition to compensate borrowers' interest expenses by the State (Scheme 3).

In 2011, RusAg will continue to provide existing products and services and will also launch new banking products and services that promote the sustainability and resilience of the country's agribusiness and the social development of rural Russia.

Scheme 3. Subsidized Lending Procedures



Management Discussion and Analysis

2011 Outlook

Taking on new business opportunities

In 2011, the global economy will continue to recover. The Russian economy and its financial system are also expected to demonstrate an upward trend. Russian Agricultural Bank (RusAg) will strive to follow this economic recovery and to show impressive financial results in 2011.

RusAg fully retains its manageability and finds itself on solid footing. In 2011, Russian Agricultural Bank will proceed to extend credit and financial resources to agricultural producers and rural populations and to increase credit availability. The Bank's priority will be to continue financially supporting agribusiness entities in line with the Federal Program on Agribusiness Development 2008-2012.

In the mid-term, RusAg's lending policy priorities include:

- Lending to backbone entities, which receive State support;
- Financing seasonal field work;
- Lending to infrastructure development projects (including: export deliveries and grain market transactions) for storage, transportation, trans-shipment and processing;
- Housing construction in rural areas;
- Foreign currency lending with a view to increasing the export of agricultural goods;
- Funding investment projects under implementation.

While maintaining stable upward dynamics, RusAg ensures high levels of financial strength to protect the interests of its shareholder, clients and investors.

Another RusAg priority for 2011 is lending to agricultural consumer cooperatives. By evolving an agricultural consumer cooperatives system, the Bank contributes to the development of market infrastructure servicing farms, personal households and SME's and satisfying their demand for available funds, agri-products distribution and processing.

RusAg has initiated and will further advance loans designed to promote the implementation of modern environmentally friendly technologies, such as bio-fuel production, drop irrigation and sewage treatment, etc. in agribusiness production and processing with a special emphasis on livestock breeding and fishing industry development. RusAg has elaborated on specialized lending programs focused on developing indigenous handicrafts and local agricultural specialties – for example, reindeer breeding, yak breeding and horse breeding, etc.

The Bank will facilitate the development of a land mortgage lending system that will employ the significant potential of the land market in commercial and financial turnover.

RusAg will further enhance its payment card business development. The Bank will promote the on-line banking service “Internet office,” effectively expanding the range of services provided. Through its extensive branch network, RusAg will promote the major distribution of payment cards throughout the country.

RusAg will adhere to the following client service development strategy:

- Upgrading client service quality;
- Expanding the product and service range;
- Centralizing data and information infrastructure;
- Optimizing business processes;
- Further cooperating with municipal, regional and federal authorities to elaborate on and implement agribusiness development programs;
- Engaging in additional IT development to provide for the extensive client database and perfect client service.

Activity will be focused on further upgrading client relationships and delivering high-quality services to them.

To promote solid and sustainable operations and carry out functions outlined by the Russian Government, the Bank will pay special attention to the following areas:

- Upgrading lending quality and the efficiency of overdue loans repayment, preventing NPL growth;
- Increasing the profitability of the Bank’s transactions;
- Promoting cost optimization;
- Expanding the client base and stimulating deposit-based growth;
- Enhancing risk management and the Bank’s IT system.

Russian Agricultural Bank is facing large-scale, demanding challenges. The State has great expectations that the Bank will lend to agribusiness. At the same time, the Bank strives to ensure its own reliability and stability. Therefore, RusAg will focus its efforts on resolving these dual tasks in the coming year.

Controls and Procedures

Modern and Comprehensive

Russian Agricultural Bank's business model combines comprehensive internal control, risk management and disclosure controls and procedures with a strong, profitable and growing business, particularly in corporate and retail lending, and an expanding customer base, which is a key to the Bank's stable development.

Internal Control

Internal control is an important management tool, defined as all procedures and mechanisms undertaken by the Supervisory Board, the Management Board, Heads of business units and Bank employees to manage and control operations and risks of all kinds, as well as to ensure that all transactions are carried out in compliance with laws, regulations and internal and ethical standards.

The internal control system and procedures can be classified by their purpose:

- Financial performance, based on the effective and adequate use of the Bank's resources and protection against the risk of loss;
- The timely provision of comprehensive, accurate information required to make decisions and manage risks;
- Compliance with internal and external regulations;
- The prevention and detection of fraud and error;
- The accuracy and completeness of accounting records and the timely presentation of reliable accounting and financial information.

The Internal Control Service adheres to principles of consistency, independence, neutrality and professional competencies and monitors and assesses compliance with internal procedures across all levels of RusAg management on a daily basis. The Internal Control Service reports directly to the Supervisory Board and provides recommendations on the efficiency of risk management procedures.

In September 2010, the Service has launched a monthly based monitoring of the main activities of the branch network and head office departments primarily in terms of credit transactions, which allows, in addition to traditional forms of audit, to provide the Bank's management with the status of operations in a real-time mode. As well, in 2010, Internal Control Service implemented new activities – information technology audit and staff and administrative expenses monitoring.

Russian Agricultural Bank follows the principle of independence for the Internal Control Service.

Risk Management

Effective risk management is fundamental to RusAg's success. The principal goals of risk management are ensuring that outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance. This ensures that there is an appropriate balance between risk and reward.

RusAg's risk management system is updated on a regular basis to comply with business development and international best practice standards.

Risk Management Principles

- Conduct risk assessments independently from business divisions;
- Centralization of risk management due to a significant transfer of risks-taking powers to the regional level;
- Formalized and documented risk evaluation, procedures monitor and control;
- Engage in quantitative and qualitative risk appraisal;
- Continuously monitor risk;
- On an ongoing basis, distribute information on accepted risks to management bodies, committees and department heads.

Reconsidering the Risk Management Structure

Russian Agricultural Bank introduced changes in the Risk Management organizational and staff structure to ensure higher efficiency and control ongoing operations.

The reconsidered risk management structure will include the following divisions:

- Credit risk methodology and analysis;
- Credit risk assessment;
- Control;
- Financial market risk assessment;
- Consolidated risk.

The number of risk managers in the Bank will increase to 339 (up from 247 in the previous year), including staff increases in regional branches – from 202 to 250.

Risk Management at the Regional Branch Level

- Standardizing independent risk management and monitoring;
- Identifying risks and Head Office-Regional Branch interactions;
- Conducting regular trainings for risk managers;
- Coordinating and supporting regional branch risk managers, video/call-conferences;
- Creating a system for assessing risk managers' performance efficiency;
- Improving regional risk-manager control.

The area of operation for risk managers was expanded due to a larger coverage of business processes and analyzing loan applications from additional offices.

2009-2010 Risk Management Elaboration Procedures

- Elaborating on lending procedures and minimizing credit risks;
- Revising the Risk Management Policy;
- Interacting with credit history bureaus;
- Maintaining loan monitoring quality;
- Vertically coordinating Risk Management functions in regional branches;
- Intensely controlling credit risk levels of partner banks;
- Toughening up requirements of the securities portfolio;
- Limiting open FX positions on the volatile market.

Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to the Bank. Credit risk management principles include:

- Centralized risk management system;
- Formalized and documented risk evaluation, controlling and monitoring procedures;
- Selected priorities for credit projects depending on lending targets, loan repayment sources, borrower's financial standing and credit history, etc.;
- Diversifying the loan portfolio and limiting credit risks;
- Realistic risk assessment of loan loss provisions;
- Mandatory collateral: type of property, property rights, personal guarantees or third party guarantees whenever appropriate;
- Regularly engaging in risk monitoring.

RusAg's credit risk management and control system is based on preliminary, current and future credit risk control. To minimize credit risk, loan portfolio concentration for an individual branch must not exceed 15% of the Bank's total loan portfolio. Credit risks are allocated between regional branches based on the volume of agribusiness production in the Region and on the level of cooperation with local administrations. RusAg's regulatory acts define the general procedure and main principles of lending. The decision to extend a loan involves a set of approved steps (Scheme 4).

The Bank applies an IFRS-based risk assessment approach, which corresponds with international best practice standards and is used to prepare corresponding audited financial statements.

On a quarterly basis, qualitative indicators of RusAg's loan portfolio are assessed and broken down by groups of loans with identical risk characteristics (credit rating) and classified as loans with or without evidence of impairment.

Market Risk refers to the potential loss resulting from unfavorable market conditions, which can arise due to changes in market prices and rates, including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices.

Market risks include

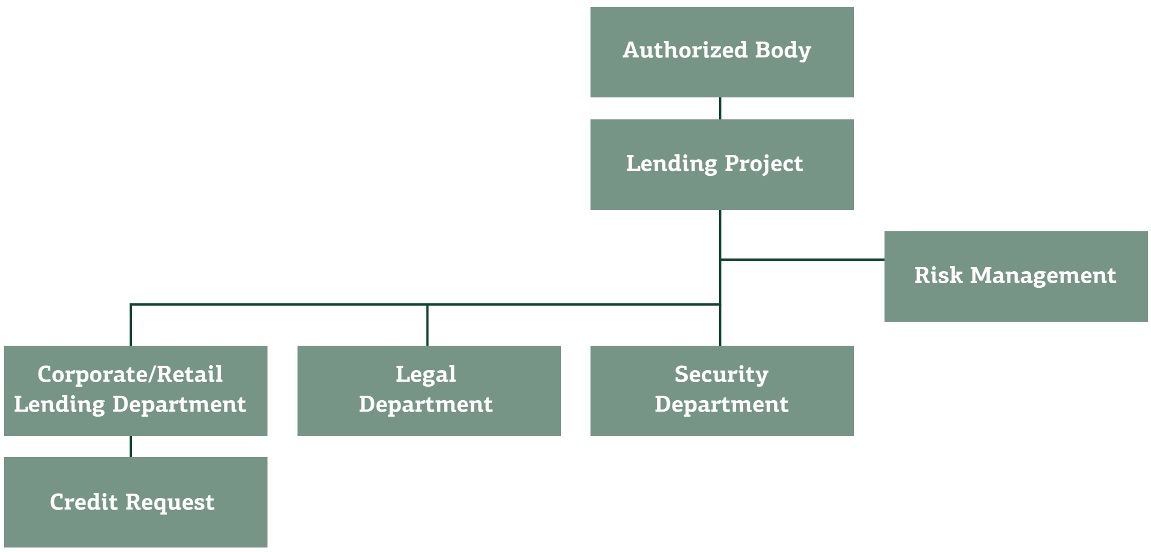
- *Interest rate risk*
  The risk of loss due to: changes in the level, slope and curvature of the yield curve; interest rate volatility; and mortgage pre-payment rates.
- *Liquidity risk*
  The risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. The objective of liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due, and that wholesale market access is coordinated and disciplined.
- *Foreign exchange risk*
  The risk that the value of an investment will change due to changes in currency exchange rates.
- *Stock risk*
  The risk caused by changes in the stock price due to market volatility.

Russian Agricultural Bank uses a comprehensive set of quantitative tools to monitor and manage risks. As a matter of policy, the Bank continually assesses the appropriateness and reliability of these tools in light of the changing risk environment.

The key elements in the Bank's system for assessing and managing market risks are establishing clear target figures for the assets and liability structure based on size, term, profitability/cost; the procedure for establishing and firmly controlling compliance with limits on the Bank's acceptance of market risks; diversifying operations; and evaluating the economic capital necessary to cover market risks.

The market risk assessment is carried out as an aggregate by the securities portfolios and also by instruments.

Scheme 4. Loan Decision-Making Procedure



Market Risk Management Procedures

- Detecting and assessing risks, including stress-testing by the Expected Shortfall method (the value of expected losses in monetary terms, in case the VAR is above the mark);
- Risk response and control via:
  - the normative regulation of operations;
  - diversifying operations;
  - setting limits (limits on issuers, portfolio limits and stop loss limits).
- Risk hedging;
- Loan Loss Reserves;
- Risk monitoring.

Managing market risk is carried out by the Management Board and the ALCO Committee, within the limits of their authority. Operating control and the analysis of RusAg's market risks, as well as the development of the market risk management policy and limits maintenance, is managed by the Treasury, the Capital Markets Operations Department and the Risk Appraisal and Control Department.

The Bank plans specific measures in case of unfavorable changes in:

- The market value of trading portfolio financial instruments and derivative financial instruments;
- FX rates;
- Interest rates and subsequent losses.

Specific components of the Bank's risk management system are preventive measures to maintain the Bank's continuous operation and preserve capital.

Operational Risk is the risk of loss, whether direct or indirect, that the Bank is exposed to due to external events, human error or the inadequacy or failure of processes, procedures, systems or controls.

Russian Agricultural Bank has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled and is taken in compliance with principles established by the regulatory acts of the Russian Central Bank and the Basel Committee on Banking Supervision.

Operational risk management includes

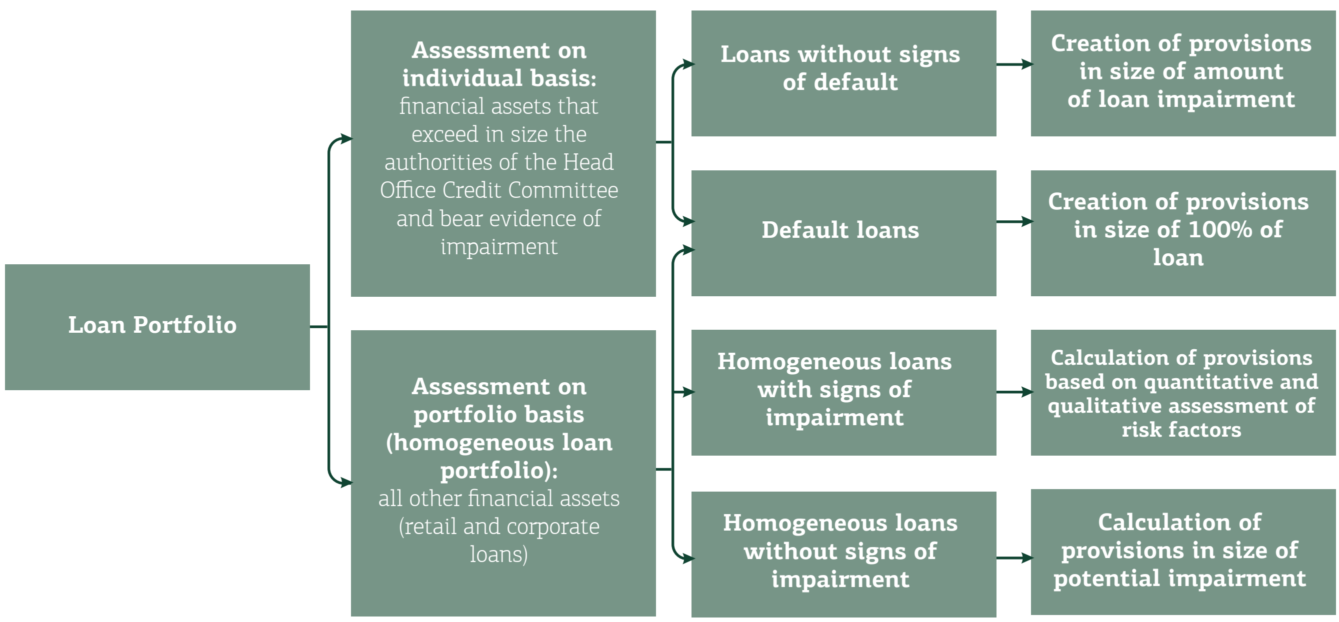
- Detecting and assessing risks;
- Risk appraisal – qualitative and quantitative;
- Risk monitoring;
- Risk minimization (neutralization) and control.

To identify operational risks, RusAg has developed a classification of operational risk events and the facts of losses caused.

Operational risk events are classified by

- Sources (factors) of risk;
- Objects of risk;
- Forms of potential losses.

Scheme 5. Loan Portfolio Analysis



To minimize operational risks and ensure business continuity, Russian Agricultural Bank introduced an Emergency Business Continuity Plan, which is regularly tested at regional branches.

The Bank's activity is subject to various internal and external operational risks. The current level of the Bank's operational risk is assessed as allowable and does not endanger the Bank's financial stability.

Legal Risk is a potential for loss arising from uncertainty surrounding legal proceedings, such as bankruptcy. The Bank's legal risk management policy is aimed at minimizing potential losses by ensuring compliance with Russian regulatory legal acts and the countries of non-resident clients and counterparties, with internal documents of the Bank and AML provisions.

Reputational Risk is the risk that negative publicity regarding the Bank's activity or business practices will adversely affect its revenues, operations or customer base, or require costly limitations or other defensive measures. Reputational risk management policy is aimed at ensuring the safekeeping and maintenance of the Bank's business reputation with its clients, regulatory and supervisory authorities, financial market participants and State and local government authorities.

The Bank approved risk evaluation and management system regulations, which define the goals, objectives and principles of risk evaluation and the management system, as well as risk classification. In the context of these regulations, a number of internal documents have been developed that specify risk management methods applied in the Bank's divisions. Risk management regulations and procedures are revised and updated regularly. The system is integrated into RusAg's strategy and business planning processes.

Decision-making

Decision-making authorities are allocated among RusAg management bodies to assure appropriate risk management (Scheme 6).

Scheme 6. Risk Management Policy and Procedures

Credit Risk Management

Implementation

Supervisory Board

Management Board

Credit Committee
ALCO Committee
NPL Management Committee

Regional Branches

Additional Offices

General Shareholders Meeting approves major deals and related party transactions, according to the effective legislation of the Russian Federation

Supervisory Board approves policy on key issues of the Bank's operation and authorizes loans that exceed USD 130 million (RUB 4 billion) per borrower or a group of related borrowers

Management Board authorizes loans or sets individual limits for a borrower or a group of related borrowers up to USD 130 million (RUB 4 billion)

Credit Committee authorizes loans up to USD 65 million (RUB 2 billion)

Risk Management Departments (groups) operate in regional branches. Regional risk managers report directly to the head office

Loan portfolio of any branch cannot exceed 15% of RAB's total loan portfolio

Individual borrower limits at branch level are set at USD 1.3-30 million (RUB 40-930 million) and are adjusted on a regular basis

Efficient risk management is achieved with the balanced distribution of responsibility on decision-making between the Bank's management bodies

The Supervisory Board is responsible for the following procedures related to risk management policy:

- Defining the general risk management policy and annual control plan, to ensure that it is consistent with the business strategy;
- Reviewing reports prepared by the Internal Control Service;
- Approving large-scale lending transactions that exceed the authority of the Management Board;
- Setting limits on inter-bank and securities market transactions based on business units and Risk Management Committee proposals.

The Management Board approves policies on reserves, financial risk management and credit risk management related to transactions with affiliated parties, lending transactions that exceed the limits of Credit Committee authority or the authority limits of regional branches.

The ALCO Committee reviews proposals to be considered by the Bank's Management Board and prepares materials for the Management Board on limit policy implementation, internal procedures for financial risk regulation and fund allocation. The ALCO Committee makes decision independently, including fund allocation between regional branches, setting limits and sub-limits on regional branches within the authorities provided for by the Management Board.

Credit Committee responsibilities include:

- Approving terms for individual lending transactions in excess of limits established by regional branches;
- Preparing proposals to upgrade credit policy;
- Establishing and modifying criteria for asset quality and asset classification by risk category, reserve policy and minimum interest rates;
- Reviewing results of inspections carried out by external auditors, regulatory bodies and the Internal Control Service.

Credit committees are established at the regional branch and additional office level. At the regional branches, the credit committees approve lending transactions of additional offices that exceed their limits. Credit committees are independent from the Lending Departments of the Head Office and regional branches.

Preventing Money Laundering, Corruption and Terrorism Financing

RusAg takes its responsibility to preserve the integrity of the financial system, and its own operations, very seriously. According to Russian laws and regulations, as well as international recommendations, Russian Agricultural Bank is committed to complying with high Anti-money Laundering standards and requires management and employees to adhere to these same standards. RusAg set up an anti-money laundering policy and guidelines designed to prevent, detect and combat money laundering and terrorism financing.

To increase risk management efficiency and maintain its strong business reputation, the management of Russian Agricultural Bank has extended measures to combat money laundering to all of its structural units, business lines, banking products and services.

Russian Agricultural Bank undertakes measures to identify its clients through the "Know Your Client" program. The Bank identifies and examines all clients who receive banking services. RusAg collects all necessary data and documents to identify its clients.

The criteria for evaluating the risk level of a client's potential involvement in legalizing proceeds from criminal activity and financing terrorism are set by the Bank's Rules of Internal Control. If the Bank considers the risk of a client's involvement in legalizing proceeds from crime and financing terrorism to be high, it will pay special attention to all transactions on the client's accounts.

All information received during client identification and the ultimate account beneficiary is regularly updated either as any changes are revealed or according to the risk level for the client's involvement in legalizing proceeds from criminal activities (money laundering) and financing terrorism.

When establishing correspondent relationships, Russian Agricultural Bank inquires whether the correspondent bank implements a policy to combat the legalization of proceeds from criminal activities (money laundering) and financing terrorism, including client identification carried out by the correspondent bank and its KYC program implementation.

If the correspondent bank does not implement these measures, Russian Agricultural Bank will refrain from establishing correspondent relationships with these institutions.

Russian Agricultural Bank does not establish or maintain correspondent relationships with non-resident banks that have no permanent governing bodies in the countries in which they are registered. RusAg also prevents establishment of correspondent relations with non-resident banks if there is evidence of their accounts being used by banks with no permanent governing bodies in countries where they are registered.

On a daily basis, Russian Agricultural Bank monitors all operations via a special automated banking system and, in accordance with Russian legislation, forwards information about transactions that are subject to anti-money laundering control to the Federal Financial Monitoring Service.

If a party, either an individual or legal entity, performing a banking transaction, is known to be involved in extremist activities, the Bank suspends these operations.

Control divisions of the Bank's Head Office, regional branches of the Bank of Russia and the external auditor of Russian Agricultural Bank regularly perform issue-related checks on the way that the Bank and its regional branches establish and implement anti-money laundering control.

Adhering to RusAg's Anti-money Laundering Policy is the responsibility of all the Bank's employees. RusAg has an ongoing, formal compliance program to train and update respective employees on all indicated facts to prevent money laundering and terrorism financing. Anti-money laundering policy applies to both the Head Office and regional branches.

Effective risk management and optimized security systems meet the highest anti-money laundering standards and enable RusAg to identify, analyze and assess potential threats and to take appropriate measures to avoid these risks.

Further initiatives in 2011 include elaborating on new supervisory tools, regularly engaging in procedural reviews and raising awareness and conducting training programs for all staff throughout the branch network and in the Head Office. These measures will further enhance the effectiveness of RusAg's risk management and Anti-money Laundering systems.

Information Technology

Russian Agricultural Bank (RusAg) considers information technology to be an integral part of its operations and is committed to continue investing in information technology to support the efficiency of the growing scale of its operations and to ensure that the Bank maintains the highest possible management standards and degree of transparency.

The development of RusAg's information technology system is based on current IT strategy, which establishes core principles including:

- IT system implementation using an innovative industry-specific technological base;
- Maximum centralization of applications supporting key business processes;
- Single integrated environment;
- Development of a unified corporate information space.

RusAg maintains a strong and secure operating platform, which allows it to adapt to business environment fluctuations and to ensure safe and steady operation.

Information support is among the key factors driving the Bank's overall performance and operating results. The successful implementation of integrated design and comprehensive IT solutions heavily depend on an efficient technology landscape and the availability of IT resources.

Today, RusAg employs modern IT architecture for the banking sphere, standards and processes to upgrade efficiency and render high quality services, develop and upgrade personnel professionalism and maintain unified high performance standards throughout the whole branch network. Thus, RusAg ensures the well-structured management of all its activities.

Pillars of RusAg's current IT system include:

- Unified information technology system ABS-Biscuit – single platform for the head office, regional branches and additional offices, which allows RusAg to conduct real-time operations;
- Diasoft systems for accounting and handling security operations;
- System of providing distance banking services;
- Card processing;
- Reserve servers to back-up main system records.

A unified core banking platform ensures information consistency across all banking units and helps to maintain high data quality. It is therefore essential to ensure that the Bank effectively meets risk management requirements.

RusAg currently uses the unified information technology system, ABS-Biscuit, which serves as a single platform for head office, regional branches and additional offices and allows RusAg to conduct some operations on a real-time basis. Each branch and additional office within RusAg's regional network can currently receive or provide business operation information on-line.

The unified banking platform ensures information consistency across all banking units and has the potential to manage the growing scale of RusAg operations.

To ensure the safety of collected data, RusAg uses systems that keep back-up records of each operating day on reserve servers; these records are kept in specialized storage. RusAg's information technology systems are integrated with back-up of communication and power supply systems.

The Bank also actively works to integrate various applications based on the unified IBM WebSphere software platform. In February-May 2010, the IBM WebSphere and transport sub-system IBM WebSphere MQ were deployed in the head office and all regional branches.

Thus, to date, RusAg has built a complete infrastructure and created all technical conditions necessary for implementing and supporting centralized information systems.

Key IT upgrade projects:

- Automated HR management system (SAP ERP HCM);
- Lending products sales system;
- Development of an integrated platform (IBM WebSphere);
- Funds management system;
- Automated financial reporting process acc. to IFRS;
- Instant money remittance system;
- Automated fund management (Kondor+);
- Electronic storage of banking documents;
- Score card calculation;
- Customer relationships management system (Oracle Siebel CRM).

Implementing these projects will allow RusAg to upgrade the quality of services provided to clients, introduce new banking products, increase the efficiency of resources used, enable further reductions in operating risks and ensure the transition to new capital adequacy assessment methods, based on Basel II, without strangling business growth.

The projects are focused on upgrading management and control systems; centralizing information and information infrastructure; increasing labor capacity efficiency; and upgrading the quality of client services.

Russian Agricultural Bank continues to invest in IT development to ensure operational efficiency. The strategic IT development plan includes 15 inter-related projects, the total value of which exceeds USD 20 million.

RusAg's IT system employs software solutions from leading Russian and foreign IT companies and modern integration technologies, and has the capacity and potential to manage the Bank's growing scale of operations and increased number of clients.

Regional Perspective

Proximity and Diversity

In 2010, Russian Agricultural Bank (RusAg) finalized constructing its regional branch network, which is Russia's second largest branch network. It provides the rural population and agribusiness enterprises with access to banking services.

The Bank's regional branch network covers Russia's entire territory. RusAg is principally focused on providing credit and financial services to rural regions; the population of these regions accounts for 27% of Russia's total population.

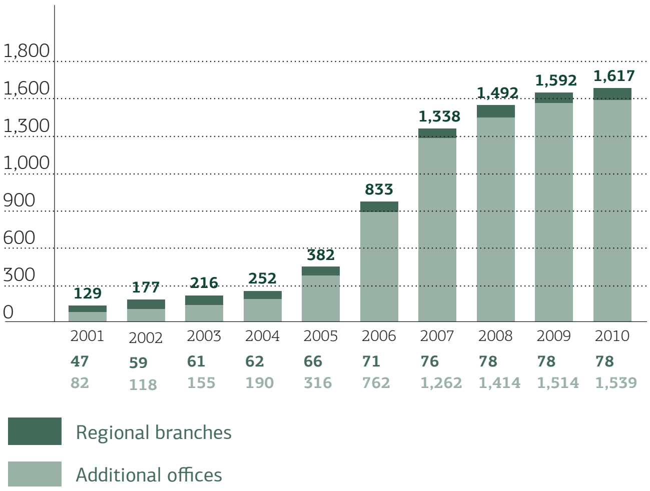
RusAg believes that rural areas provide business development opportunities. In regions, the Bank expands its presence, where it is deemed to be economically beneficial, through the organic growth of existing branches.

Russian Agricultural Bank pursues a strategy of sustainable, profitable growth due to a unified approach to structuring relationships between the head office, regional branches and additional offices.

As of January 1st, 2011, Russian Agricultural Bank had 78 regional branches and 1,539 points of sale including 1,480 additional offices, 28 operational cash desks and 30 out-of-office cash counters in municipal entities (see Chart 13). In 2010, RusAg opened 25 additional offices. In rural settlements RusAg is represented by 404 authorized officials of regional branches.

Russian Agricultural Bank has four representative offices in Belarus, Tajikistan, Kazakhstan and Azerbaijan.

Chart 13. Dynamics of Branch Network Development



RusAg's expansion was built upon well managed organic growth of the branch network, guided by unsatisfied market demand for banking and financial services. Office development is based on the economic efficiency of the Bank's regional presence and an in-depth analysis of the region, the number of potential clients and financial service demand.

In 2010, RusAg devoted significant energy to upgrading customer satisfaction, including approaching clients in the region of residence, optimizing banking hours and delegating extra authority to additional offices.

Expansion risks are well managed – RusAg provides training programs for its staff across all levels; head office employees conduct branch trainings.

RusAg sets a high value on developing official relationships with regional and local administrations. Regional branches and additional office openings are supported by the administrations, as they enhance agribusiness development in these regions. During 2010, the Bank signed numerous cooperative agreements aimed at agribusiness development with administrations in constituent republics, regions and districts of the Russian Federation, including agreements within the framework of implementing the Federal Program on Agribusiness Development.

Through its wide-spread branch network, RusAg participates in financing various regional programs aimed at the economic and social development of constituencies of the Russian Federation. The extensive branch network allowed Russian Agricultural Bank to win a 58% market share in the country's agribusiness lending.

In 2010, expansion and optimization of RusAg's regional branch network were focused on:

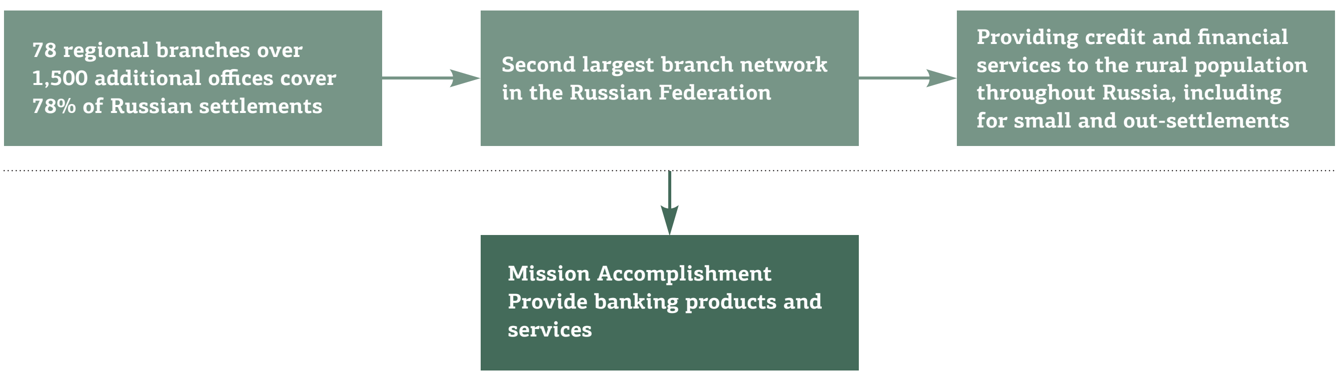
- Establishing regional branches and additional offices in each rural Russian district;
- Opening operational cash-desks in small settlements;
- Supporting the development of agricultural credit consumer cooperatives in accordance with legislation (consulting, refunding, etc.);
- Supporting the establishment of land mortgage agencies and rural infrastructure.

Russian Agricultural Bank made all necessary changes to achieve its goals. Today, RusAg's regional branch network covers the entire territory of the Russian Federation. Credit and financial services are available to residents of small settlements and agricultural credit consumer cooperatives have received a material impulse for the further development.

In 2011, RusAg's regional branch network will emphasize:

- Additional enhancement of client service quality;
- Enlarging and unifying the range and availability of banking products and services for clients;
- Approaching clients in the region of residence;
- Upgrading operational efficiency;
- Facilitating client cooperation;
- Additionally developing the land mortgage system and rural infrastructure;
- Supporting domestic machinery and equipment producers.

Scheme 7. RusAg Core Competitive Advantage



Human Resources Policy

People and Values

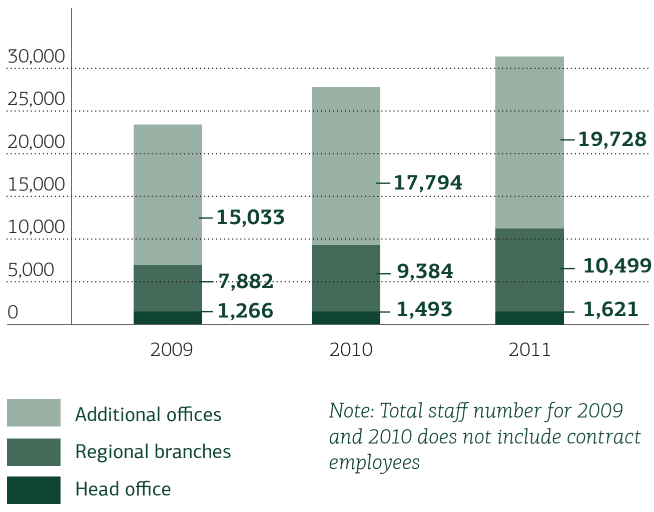
People are Russian Agricultural Bank's most valuable asset. Effectively managing people is fundamental to business success. Precisely for this reason, the Bank views an efficient human resources policy as a strategic objective underlying dynamic long-term development.

Human resources management is based on core human resources policy objectives including but not limited to: corporate policy and culture, a unified standard of good banking practice performance, a sophisticated HR appraisal system, a diversified training program, a personnel succession plan, a personnel motivation system and personnel adaptation.

In 2010, the total number of the Bank's employees was 31,848, compared with 28,682 in 2009. Historically, 95% of personnel growth is due to branch network expansion. As of January 1st, 2011, approximately 94.8 % of the Bank's employees are located in regional branches and additional offices.

The increase in the number of RusAg's employees was primarily due to implementing the Bank's growth initiatives. Active regional network development has resulted in RusAg's policy to recruit qualified human resources in each region. RusAg maintains high recruiting standards. More than 70.8% of personnel have higher education and the average employee age is 37 years old. RusAg pays special attention to recruiting and developing necessary human resources in each region in which it operates to continue providing services with close ties to the local community. In the near future, RusAg expects

Chart 14. Changes in RusAg's staff numbers



Note: Total staff number for 2009 and 2010 does not include contract employees the number of Group employees to increase further in line with the expansion of the Group's regional branches and additional offices.

RusAg has elaborated on an efficient Recruitment Policy which includes the following steps:

- Long-term identification of demand for the Bank's new recruits;
- High requirement standards;
- Professional experience;
- Personnel search in professional databases, via headhunting agencies for executive positions and in cooperation with leading regional universities;
- Candidate appraisal and selection;
- Recruitment of promising individuals;
- Trainee programs for university students with the potential for further employment;
- Ongoing candidate monitoring in Moscow and the regions;
- A data pool of candidates and professional sources for candidates search has been established;
- Special adaptation program for newly employed workers.

Recruitment

Russian Agricultural Bank considers the quality and commitment of its personnel to be one of the key factors for future development. RusAg seeks employees with banking industry knowledge, as well as an understanding of both the agricultural sector and lending to borrowers operating in various sub-sectors of the agricultural sector.

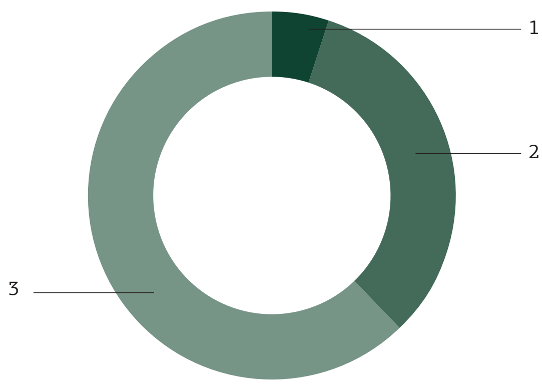
The rapid growth in RusAg's activities, regional branches and additional offices, as well as the nature of its business, requires staff to regularly develop their knowledge and skill sets.

Hiring is done on a competitive basis and primarily focuses on maintaining a balance between experienced professionals and young specialists to work in the Bank's team. Only with talented, vigorous and well-qualified people can the Bank achieve its market leadership ambitions on the domestic market. This explains why RusAg employs and retains highly-educated and gifted students from the best agricultural universities. The Bank has a strong, talented and experienced management team. RusAg emphasizes hiring people to managerial positions who have profound expertise and significant banking experience. Russian Agricultural Bank has established a special Nomination Commission, which conducts ongoing succession planning and recommends candidates to appoint to executive positions in the head office and regional branches.

Learning and Development

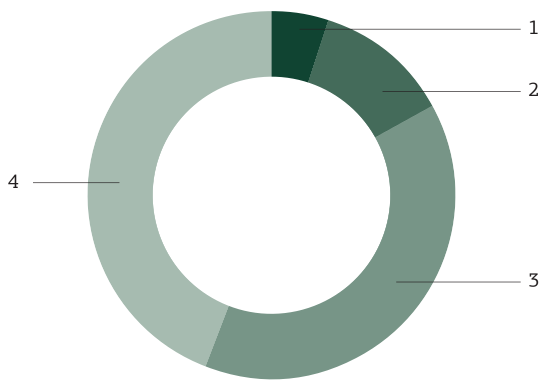
The Bank promotes talent management and leadership development, understanding that both capabilities are important factors in ensuring high-quality client services and long-term business success. In 2011, RusAg management development programs will continue to shape talented future leaders.

Chart 15. RusAg staff structure by number



1 — Head office, 5%
2 — Regional branches, 33%
3 — Additional offices, 62%

Chart 16. RusAg staff structure by age



1 — Aged over 55, 5%
2 — Aged under 25, 12%
3 — Aged 25-35, 39%
4 — Aged 35-55, 44%

The Bank promotes talent management and leadership development, understanding that both capabilities are important factors in ensuring high-quality client services and long-term business success. In 2011, RusAg management development programs will continue to shape talented future leaders.

Russian Agricultural Bank organizes training courses and seminars for employee development and plans to continue and further develop employee education and training programs. RusAg has launched education programs for the Heads and Deputy Heads of its branches at the Russian Public Service Academy. Executives from RusAg's additional offices can take courses at banking schools (colleges) of the Russian Central Bank. RusAg also seeks to recruit students with strong academic records and to achieve this, the Bank has entered into an agreement with the Moscow Timiryazev Agricultural Academy to identify potential recruits.

RusAg uses both internal and external educational and training activities for its employees. Internal education and training programs include specialized programs to upgrade the relevant skills of particular groups of employees, seminars, conferences and forums, which are complemented by training in respect to particular banking products and management programs, IT training, round table discussions, case studies and role playing and mentoring.

Internal training is organized based on the Corporate University training centers, in close cooperation with leading educational institutions, both regional and in Moscow: the Russian Academy of Civil Service under the auspices of the Russian President; the International Industry Academy; the Orel Banking School (College) of the Bank of Russia; the Saint Petersburg Banking School (College) of the Bank of Russia; the Kazan Banking School (College) of the Bank of Russia; and the Omsk Banking School (College) of the Bank of Russia. An experience exchange program is organized in cooperation with Credit Agricole (France).

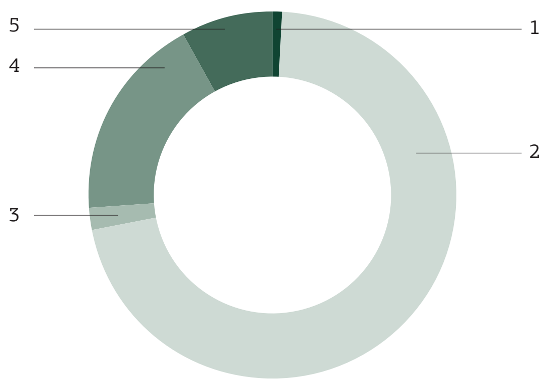
Corporate University

Russian Agricultural Bank is convinced that education is the most effective tool for fostering social and economic progress. In 2008, the Bank launched the Corporate University, which offers a series of newly designed business-focused training and development programs for employees.

Within the framework of the Corporate University, 6 training centers are operating in the Krasnodar, Orel, Tver, Tatarstan, Novosibirsk and Chechen regional branches. During the reporting period, these regional learning centers provided educational and training programs for 9,358 RusAg employees.

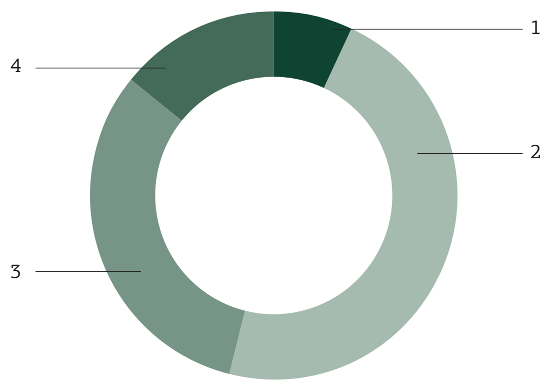
In August 2009, RusAg set up a distance education and training system for its employees via the Bank's Learning Portal. As of January 1st, 2011, 76 distance learning courses and 240 professional tests on major Bank activities (developed with the participation of independent business units) were posted on the Learning Portal.

Chart 17. RusAg staff structure based on education



1 — Postgraduates, 1%
2 — University graduates, 71%
3 — University students, 2%
4 — Specialized secondary, 18%
5 — Secondary, 8%

Chart 18. RusAg staff structure based on length of work



1 — Over 20 years, 7%
2 — Up to 3 years, 47%
3 — From 3 to 10 years, 32%
4 — From 10 to 20 years, 14%

Distance training increased 65% times to 130 thousand courses taken by 19,331 employees.
In 2010, 2,066 RusAg employees were involved in external education and training activities, which represents a 64% increase compared with 2009.

In 2011, RusAg will further strengthen university projects related to the innovation and development of new banking products and technologies.

Helping employees unlock their full potential – by giving them opportunities to learn and advance their career goals – is a RusAg priority. The Bank has developed an employee succession plan to ensure continuous development and operation expansion. The Succession Pool is a strategic Bank resource. RusAg performs a set of employee development activities included in the succession pool:

- The Development Program for employees included in the succession pool;
- Identifying areas for further development;
- Elaborating on the Individual Development Plan;
- Implementing the Individual Development Plan;
- Appraising the readiness of career reservists to move into an executive position.

Performance Management

RusAg ensures ongoing employee-manager dialogue. All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. This process supports staff development, links behavior to corporate values and helps ensure that employees have the necessary skills to meet clients' needs and implement RusAg strategic goals.

Corporate Culture

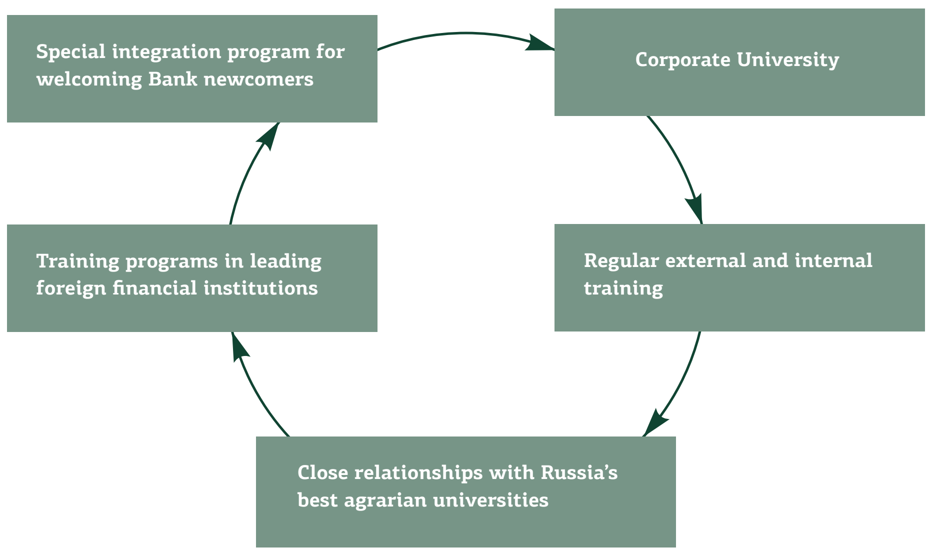
Given the Bank's intensive development and the increase in staff numbers, special emphasis is put on promoting a corporate culture that unifies the Bank's staff and strengthens team spirit. In the framework of developing corporate culture, promoting and optimizing the staff motivation system, RusAg follows the Corporate Conduct Code that outlines rules of good conduct that staff members are expected to abide by.

The development of RusAg's corporate culture will contribute to the professional advancement of each employee based on his or her competencies, loyalty and commitment to the Bank.

RusAg makes all mandatory contributions to the Russian Social and Pension Funds in accordance with applicable Russian legislation so that pensions are duly provided to former employees. At the end of 2004, RusAg established its own pension fund, the APK Fund, which is organized as a defined contribution scheme.

Russian Agricultural Bank provides its employees with social support payments using funds accumulated in a special social welfare fund. Payments are made on occasions such as the death of an employee's family member and are designed to provide targeted social

Scheme 8. Learning and Development



support. There is no trade union for RusAg employees and it has not entered into any collective employment agreements with any trade unions.

Engaging, developing and retaining a value add workforce is a priority for Russian Agricultural Bank. In 2010, the Bank continued to invest in its personnel. RusAg strives to ensure that its personnel have the skills and experience necessary to meet client needs and to expand the Bank's operations. Today, RusAg employs a talented team dedicated to the Bank's principal goals.

RusAg's wide range of businesses, career opportunities throughout Russia and its open and collaborative culture provide a platform for individual success of its employees.

In 2011, RusAg aims to increase its competitive advantages by nurturing and strengthening its personnel, by ensuring that conditions will help employees fully unlock their talents and potential to better meet client needs and deliver results for the Bank.

Corporate Responsibility

Sustainability and Social Engagement

Russia has long-lasting traditions of patronage and philanthropy. To keep up with the best Russian traditions, Russian Agricultural Bank (RusAg) participates in various events, aimed at supporting socially significant projects and the most vulnerable segments of society.

RusAg's overall strategic approach to sustainability is determined by the Bank's mission and envisages the following goals:

- Provide accessible, innovative and effective banking products and services for agricultural commodity producers and the Russian rural population;
- Implement governmental socio-economic and lending policies in agribusiness and Russian rural areas;
- Facilitate domestic and foreign investment, as well as innovation, in the Russian agribusiness sector;
- Ensure sustainable development of agribusiness and Russian rural territories.

This approach is outlined in RusAg's lending policy, its participation in local initiatives and in the range of financial products offered to clients. Sustainability also plays an important role in determining business plans and realignments.

RusAg financially supports socially-oriented projects that present new business opportunities for the rural population. By developing and supporting agribusiness, RusAg contributes to Russian food security.

RusAg provides loans to promote the implementation of modern environmentally friendly technologies like bio-fuel production, drop irrigation, sewage treatment, etc. in agribusiness production and processing with a special emphasis on livestock breeding and fishing industry development. RusAg has initiated specialized lending programs oriented at developing indigenous handicrafts and local agricultural specialties – e.g. reindeer breeding, yak breeding and horse breeding, etc.

RusAg provides affordable housing to young specialists in rural areas and extends student loans to rural youth wanting to receive their education at specialized colleges and universities that prepare agriculture specialists. RusAg plans to encourage these loan programs and to facilitate financial support for the most underfinanced industries and population groups, resulting in agribusiness development and improvement in rural living standards.

Sponsoring and supporting social, cultural and sporting activities is an integral part of a broader communication strategy with society as a whole. Regional branches support and sponsor various regional social, sports and charity programs.

Corporate Social Responsibility reflects Russian Agricultural Bank's commitment to its customers, shareholders, employees and to the communities that RusAg services. The Bank's commitment leads it to perform in line with the highest governance and ethics standards; provide products and services that meet increased customer expectations; attract and retain well-qualified employees; support communities; and lessen any environmental impact from RusAg's business practices.

Social Responsibility

Russian Agricultural Bank, together with its employees, seeks to positively influence the social and environmental wellbeing of the rural areas in which it operates, and of rural communities that make up to 27% of Russia's total population. The Bank does this via social programs.

In 2010, RusAg promoted innovative lending programs for fishery, fish farms, livestock plant production and the timber and wood processing industry. To develop local trades and native agricultural trends like stag breeding, yak breeding and horse breeding, RusAg has designed specialized lending programs.

Since August 2003, Russian Agricultural Bank has participated in implementing the federal program on Social Development of Rural Areas till 2010, insofar as it concerns building houses and roads and providing gas to rural areas.

Investing in human capital is an important aspect of the Bank's activity. In 2010, RusAg has granted numerous scholarships. To manage these projects, two Scholarship Commissions were organized at the Bank – at the Russian State Agrarian University and at the Finance Academy under the Government of the Russian Federation.

RusAg gives students from rural regions an opportunity to start their banking careers. With this purpose in mind, sixteen special Student Financial Teams were organized for students at Russian agribusiness universities. Team members had the opportunity to work in RusAg's regional branches.

RusAg facilitates financial support for the most underfinanced industry and population, generating agribusiness development and upgrading rural living standards.

Employee Responsibility

Russian Agricultural Bank pays special attention to ensuring comfortable working conditions for its employees – seeing it as part of its social obligations. To this end, the Bank provides its personnel with pension insurance and voluntary medical insurance on special terms.

Given the intensive development of the Bank's activity and increased head count, a special emphasis is placed on promoting a corporate culture that unifies the Bank's staff and strengthens team spirit. To promote corporate culture and control compliance with principles and ethical rules, RusAg established a Corporate Ethics Committee. Within the framework of corporate culture development and promotion and the optimization of the staff motivation system, RusAg follows the Corporate Conduct Code that outlines rules of behavior for the Bank's employees.

Developing RusAg's corporate culture, as well as to solve the other abovementioned HR policy tasks, contributes to the professional advancement of each employee based on his or her competencies, loyalty and commitment to the Bank.

Russian Agricultural Bank's Corporate University is responsible for upgrading employees' professional knowledge and systematizing the training process. It supports the development of distance education and provides methodological support for employees to obtain new skills and knowledge. The Corporate University launched its activities with an orientation seminar "Introduction of the Bank to a new employee," which is now organized on a regular basis. Providing orientation training and gaining personnel loyalty to the Bank are key aspects of these trainings.

RusAg ensures an ongoing employee-manager dialogue. All employees participate in a year-round performance management process that assesses individual achievements, skills and knowledge. RusAg implements a special employee-succession plan under which successful employees can be promoted. This process supports staff development, links behavior to corporate values and helps ensure that employees have the skills required to meet clients' needs and to implement RusAg's strategic goals.

Employee engagement supports workforce retention and performance. RusAg believes that good health and good employability are the basis for a successful career. Employees are actively engaged via communication and participating in different events including the Bank's social, cultural and sports activities.

RusAg tries to create a comfortable environment for each team member to communicate "Agrocredit" magazine is an important internal communication tool for the Bank. The Bank's magazine provides its employees with an opportunity to gain a better understanding of the Bank's mission and strategy, its organization, regional branch performance and recent events and developments and see them as an integral part of the whole Bank's network.

In 2010, RusAg aims to strengthen its competitive advantage by developing conditions that will help people unlock their full potential.

RusAg takes its responsibilities very seriously and is committed to working for the greater social good via different social programs, donations and sponsorship in diverse areas of society, particularly in the agribusiness sector.

Charity

Russian Agricultural Bank's charitable activities are not only and not simply an integral part of its social corporate responsibility or just a corporate culture element. It is also not just an ordinary obligation or one of the Bank's activity areas.

RusAg's charitable activity is driven by two factors: primarily, by the common intrinsic drive and commitment of the Bank's team and management for charity, and, secondly, by the availability of financial resources to implement charitable projects.

The Bank's financial solidity allows it to pay particular attention to arranging charitable events. Naturally, there are a great number of projects, in which people need a helping hand. Starting in 2002, the Bank has provided financial support to projects implemented in various spheres of the country's social and economic life.

In selecting spheres for charitable work, the Bank places a priority on social significance. While developing its charitable activity policy, the Bank decides on charitable initiatives that are related to key priorities of the country's social and economic development and are defined by the Bank's shareholders – namely, developing the health care and education system, preserving the country's cultural and historical heritage and promoting spirituality in society.

Russian Agricultural Bank implements charitable programs in the sphere of education in the form of personalized scholarships granted by the Bank to the most talented students and post-graduates at universities that specialize in training agribusiness staff throughout the whole country.

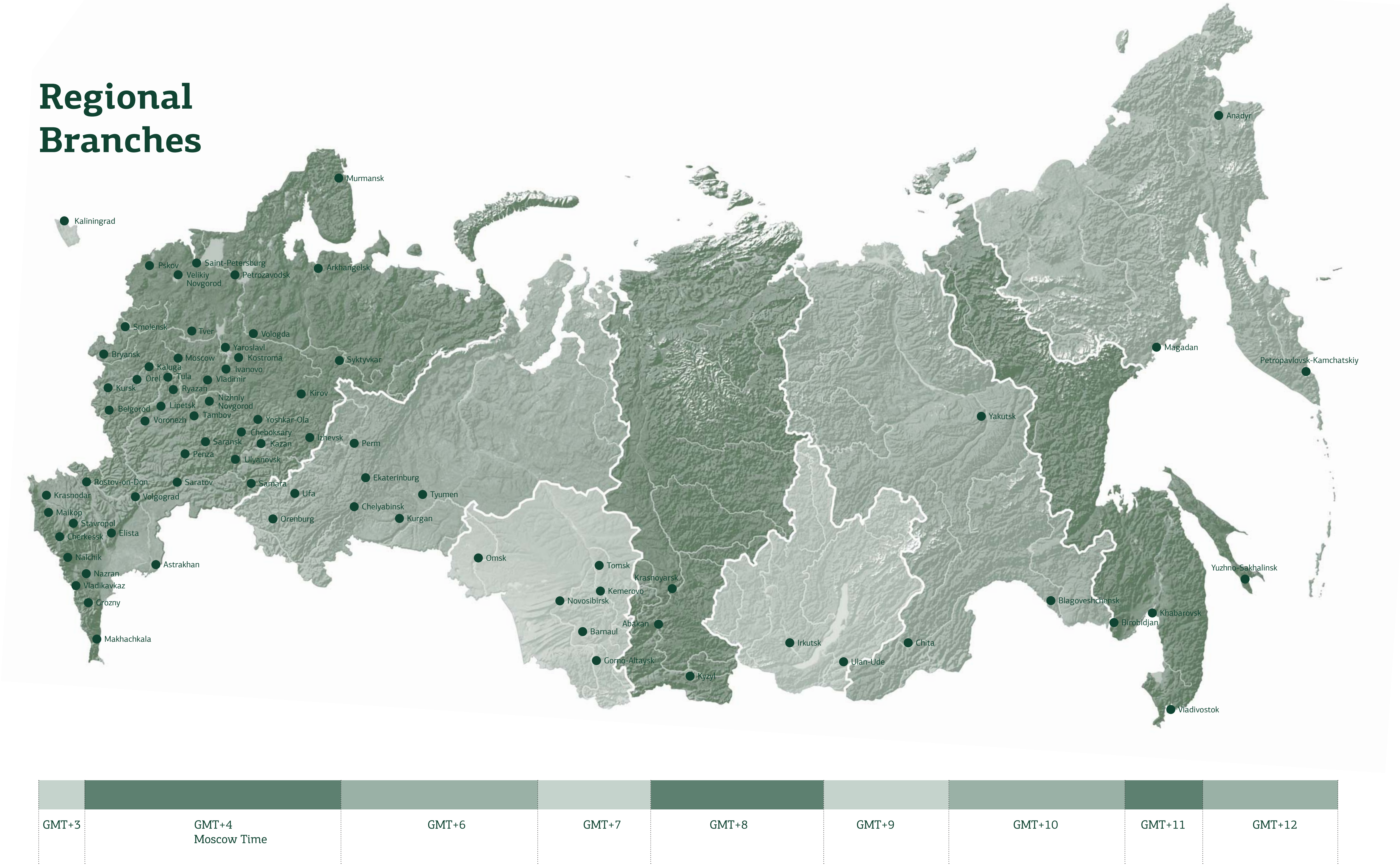
RusAg's charitable initiatives in the health care sphere imply financial assistance to upgrading medical institutions that employ the latest medical science and technological innovations.

RusAg's charitable activity also extends to society's spiritual life. The Bank strives to contribute to preserving the country's cultural and historical heritage. Thus, in 2009, the Bank joined the project to finance reconstruction of the New Jerusalem Stauropegial Friary Monastery. This initiative is a major contribution to further developing national identity.

In addition to the engagement of the Bank and its employees, RusAg also provides its clients with the opportunity to contribute to charitable causes. Any organization or individual can contribute to the process of restoring this unique historical and cultural monument that is universally important by making charitable donations to restore the Monastery in all Russian Agricultural Bank offices.

In its efforts to fully contribute to addressing the most pressing social problems, RusAg has never sought publicity. However, the Bank's employees feel a sense of satisfaction that many significant social projects have been implemented specifically with the assistance of the Russian Agricultural Bank and that they keep the ball rolling.

Regional Branches



Regional Branches Addresses

Adygea Regional Branch
Reg. № 3349/12 of September 27, 2000
385000, Maikop, 24 Krasnooktiabrskaya St.
Tel: +7 (8772) 52-30-24
Fax: +7 (8772) 57-12-01
E-mail: Director@adg.rshb.ru

Altay Regional Branch
Reg. № 3349/18 of December 18, 2000
656015, Altai Territory, Barnaul, 80B Lenin Ave.
Tel/Fax: +7 (3852) 35-69-39
E-mail: bank@altay.rshb.ru

Amur Regional Branch
Reg. № 3349/23 of December 18, 2000
675000, Blagoveshchensk, 142 Lenin St.
Tel: +7 (4162) 22-18-00
Fax: +7 (4162) 22-18-01
E-mail: referent@amur.rshb.ru

Arkhangelsk Regional Branch
Reg. № 3349/48 of October 4, 2001
163000, Arkhangelsk, 34 Karl Libchnecht St.
Tel/Fax: +7 (8182) 65-38-42
E-mail: info@arh.rshb.ru

Astrakhan Regional Branch
Reg. № 3349/17 of December 18, 2000
414000, Astrakhan, 34 Sverdlov St.
Tel: +7 (8512) 63-28-02
Fax: +7 (8512) 63-28-00
E-mail: office@astr.rshb.ru

Bashkir Regional Branch
Reg. № 3349/62 of April 26, 2004
450008, Ufa, 70 Lenin St.
Tel/Fax: +7 (3472) 73-54-32
E-mail: info@bash.rshb.ru

Belgorod Regional Branch
Reg. № 3349/30 of April 10, 2001
308015, Belgorod, 49 Pushkin St.
Tel/Fax: +7 (4722) 23-50-23
E-mail: BRF@belg.rshb.ru

Bryansk Regional Branch
Reg. № 3349/69 of September 14, 2006
241007, Bryansk, 1/5 Begitskaya St.
Tel: +7 (4832) 68-19-22
Fax: +7 (4832) 68-19-65
E-mail:dir@bryansk.rshb.ru

Buryatia Regional Branch
Reg. № 3349/59 of August 1, 2002
670034, Ulan-Ude, 32 Korabelnaya St.
Tel/Fax: +7 (3012) 28-71-00
E-mail: bank@bur.rshb.ru

Chechen Regional Branch
Reg. № 3349/34 of April 10, 2001
364051, Grozny, 10/77 Revolution Ave.
Tel: +7 (495) 228-14-40
Fax: +7 (8712) 22-28-01
E-mail: erihanov@rshb.ru

Chelyabinsk Regional Branch
Reg. № 3349/78 of 07.08.2008
454090, Chelyabinsk, 35 Lenin Ave.
Tel: +7 (351) 263-78-51
E-mail: bank@chel.rshb.ru

Chita Regional Branch
Reg. № 3349/47 of 04.10.2001
672039, Chita, Ingodinsky Administrative District, 21 Alexandro-Zavodskaya St.
Tel: +7 (3022) 36-99-10
Fax: +7 (3022) 36-99-85
E-mail: referent@chita.rshb.ru

Chukotka Regional Branch
Reg. № 3349/77 of 07.04.2008
689000, Anadyr, 47 Lenin St.
Tel: +7 (427-22) 2-88-65
Fax: +7 (427-22) 2-02-55
E-mail: director@chukotka.rshb.ru

Chuvash Regional Branch
Reg. № 3349/11 of 27.09.2000
428032, Cheboksary, 31 President's Blvd.
Tel: +7 (8352) 66-24-64
Fax: +7 (8352) 58-37-48
E-mail: RF@chuvashia.rshb.ru

Dagestan Regional Branch
Reg. № 3349/4 of 27.09.2000
367010, Makhachkala, 54a Gamidov Ave.
Tel: +7 (8722) 51-71-01,
Fax: +7 (8722) 51-71-02
E-mail: referent@dag.rshb.ru

Gorno-Altaysk Regional Branch
Reg. № 3349/70 of 06.10.2006
649000, Republic Altay, Gorno-Altaysk,
68 Kommunistichesky Ave.
Tel: +7 (38822) 2-47-49
E-mail: director@galtay.rshb.ru

Jewish Regional Branch
Reg. № 3349/29 of 22.03.2001
679000, Birobidjan, 6 Komsomolskaya St.
Tel/Fax: +7 (42622) 4-02-84
E-mail: referent@bir.rshb.ru

Ivanovo Regional Branch
Reg. № 3349/38 of 29.05.2001
153012, Ivanovo, 44 Suvorov St.
Tel: +7 (4932) 32-54-17
Fax: +7 (4932) 41-41-42 (int. 1007)
E-mail: ivrshb@ivanovo.rshb.ru

Irkutsk Regional Branch
Reg. № 3349/66 of 13.10.2005
664040, Irkutsk, 180 Rozy Luxembourg St.
Tel: +7 (3952) 44-24-00
Fax: +7 (3952) 44-24-52
E-mail: director@irk.rshb.ru

Ingush Regional Branch
Reg. № 3349/42 of 21.06.2001
386100, Nazran, 13 Moskovskaya St.
Tel: +7 (8732) 22-08-01
Fax: +7 (8732) 22-53-12
E-mail: office@ing.rshb.ru

Kabardino-Balkaria Regional Branch
Reg. № 3349/44 of 26.06.2001
360030, Nalchik, 10A Kouliev Ave.
Tel: +7 (8662) 47-77-94
Fax: +7 (8662) 40-00-13
E-mail: kbr@kbal.rshb.ru

Kaliningrad Regional Branch
Reg. № 3349/55 of 06.03.2002
236008, Kaliningrad, 51V Alexander Nevskiy St.
Tel: +7 (4012) 55-62-01
Fax: +7 (4012) 55-62-71
E-mail: info@klngd.rshb.ru

Kalmyk Regional Branch
Reg. № 3349/36 of 20.04.2001
358003, Elista, 87 Yuri Klykov St.
Tel/ Fax: +7 (84722) 2-46-16
E-mail: elista@kalmyk.rshb.ru

Kaluga Regional Branch
Reg. № 3349/27 of 13.02.2001
248001, Kaluga, 9A Kirov St.
Tel: +7 (4842) 57-50-03
Fax: +7 (4842) 57-11-68
E-mail: director@kaluga.rshb.ru

Kamchatka Regional Branch
Reg. № 3349/53 of 08.02.2002
683023, Petropavlovsk-Kamchatskiy,
63 Pobedy Ave.
Tel: +7 (4152) 49-02-15
Fax: +7 (4152) 49-02-18
E-mail: post@kamchatka.rshb.ru

Karachay-Cherkessia Regional Branch
Reg. № 3349/31 of 10.04.2001
369004, Cherkessk, 19 Kavkazskaya St.
Tel/Fax: +7 (87822) 6-03-32
E-mail: Hadzhieva@karacherk.rshb.ru

Karelia Regional Branch
Reg. № 3349/21 of 18.12.2000
185910, Petrozavodsk, 50 Pervomaiskiy Ave.
Tel/Fax: +7 (8142) 70-34-57
E-mail: public@karel.rshb.ru

Kemerovo Regional Branch
Reg. № 3349/56 of 06.03.2002
650099, Kemerovo, 8a Sovetskiy Ave.
Tel: +7 (3842) 34-60-30
Fax: +7 (3842) 34-60-32
E-mail: office@kemerovo.rshb.ru

Khabarovsk Regional Branch
Reg. № 3349/75 of 01.10.2007
680000, Khabarovsk, 22 Shevchenko St.
Tel/Fax: +7 (4212) 31-66-52, 31-56-58
E-mail: priem@hab.rshb.ru

Khakasia Regional Branch
Reg. № 3349/37 of 20.04.2001
655017, Abakan, 72 Chertygashev St., Liter a4
Tel/Fax: +7 (3902) 22-33-60
E-mail: office@hakas.rshb.ru

Kirov Regional Branch
Reg. № 3349/22 of 18.12.2000
610017, Kirov, 5 Gorkiy St.
Tel: +7 (8332) 57-96-45
Fax: +7 (8332) 54-16-99
E-mail: mail@kirov.rshb.ru

Komi Regional Branch
Reg. № 3349/74 of 05.06.2007
167000, Syktyvkar, 112/1 Pervomayskaya St.
Tel/Fax: +7 (8212) 44-83-79
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Kostroma Regional Branch
Reg. № 3349/51 of 11.01.2002
156000, Kostroma, 6 Mira Ave.
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Krasnodar Regional Branch
Reg. № 3349/3 of 27.09.2000
350038, Krasnodar, Central District,
2 Korolenko St.
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Reg. № 3349/45 of 27.07.2001
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E-mail: rshb@kurgan.rshb.ru

Kursk Regional Branch
Reg. № 3349/32 of 10.04.2001
305004, Kursk, 12 Sadovaya St.
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Lipetsk Regional Branch
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Magadan Regional Branch
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302030, Orel, 60 Dubrovinskiy Emb.
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E-mail: dir@yar.rshb.ru

Glossary

ALCO – Asset and Liability Management Committee.

AML/CFT – Anti-money laundering/combating the financing of terrorism.

Automated teller machine (ATM) or automatic banking machine (ABM) – a computerized telecommunication device that provides financial institution's client with an access to financial transactions in a public space without needing a cashier, human clerk or bank teller. At most modern ATMs, the customer is identified by inserting a plastic ATM card with a magnetic strip or a plastic smart card with a chip, that contains a unique card number and some security information (for example, an expiration date). Authentication occurs when the customer enters a personal identification number (PIN). By using an ATM, customers can access their bank accounts to make cash withdrawals.

Basel II – Revised capital adequacy framework of the Basel Committee, which replaced the former Basel I regulations, especially in terms of calculating the regulatory risk position.

Capital adequacy ratio – Key figure for banks expressed as a %; the ratio between capital according to Basel II and their regulatory risk position comprised of credit risks, market risks and operational risks. The minimum total capital ratio to be complied with is 8%.

Cash flow statement – Calculation and presentation of cash flow generated or consumed by a company during the financial year, as a result of its business, investing and financing activities, as well as the reconciliation of cash and cash equivalent (cash reserve) holdings at the beginning and end of a financial year.

Collateral – Assets pledged as security for a loan or other obligation. Collateral can take many forms, such as cash, highly rated securities, property, inventory, equipment and receivables.

Cost/income ratio – The ratio of operating costs and general expenses to net income. The lower the cost/income ratio, the more efficiently a company operates. It is also called the "efficiency ratio".

Credit risk – Risk that customers may not be able to meet their contractual payment obligations.

Derivative products – Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all types of derivative instruments.

Foreign exchange contracts – Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined exchange rate.

Hedging – A strategy under which transactions are effected to protect against the risk of unfavorable price movements (interest rates, prices and/or commodities). International Financial Reporting Standards (IFRS) are standards, interpretations and the framework adopted by the International Accounting Standards Board (IASB) to ensure globally transparent and comparable accounting and disclosure.

International Financial Reporting Standards (IFRS) are standards, interpretations and the framework adopted by the International Accounting Standards Board (IASB) to ensure globally transparent and comparable accounting and disclosure.

Impairment – An unscheduled write-down of the value of assets, such as loans and advances, securities, intangible assets, and property and equipment in the amount by which the amortized cost or cost minus depreciation exceeds the amount recoverable on the market.

Investor relations – Systematic and continuous two-way communication between companies and both current and potential capital providers. Information is supplied on major corporate events, financial results, business strategy and capital market expectations of management. One objective of investor relations activities is to ensure that corporate equity is appropriately valued by the market.

IT – Information Technology.

KYC program – "Know Your Client" program to identify clients within the framework of the Rules of Internal Control.

London Inter-Bank Offered Rate (LIBOR) – The short-term interest rate that creditworthy international banks charge each other for loans.

Liquidity risk – Risk to earnings and capital arising from a bank's potential inability to meet matured obligations without incurring unacceptably high losses.

Market risk – Arises from the uncertainty surrounding changes in market prices and rates (including interest rates, share prices, foreign exchange rates and commodity prices), the correlation among them and volatility levels.

Netting agreements – Contracts between two parties in which under certain circumstances – e.g. insolvency – mutual claims from outstanding business can be offset against each other. Including a legally binding netting agreement reduces the default risk from a gross to a net amount.

Net interest margin (NIM) – Measures the difference between interest income generated by banks or other financial institutions and interest paid out to their lenders (for example, deposits), relative to asset amounts. It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of assets on which it earned income in that time period (average earning assets).

Operational risk – Potential to incur losses related to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, projects, external influences and customer relationships. This definition includes legal and regulatory risks.

Payment card – Also known as a bank card or check card; it is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic cheque, as funds are withdrawn directly from either the bank account or from the remaining card balance. Payment cards can also allow instant cash withdrawals, acting as an ATM card to withdraw cash and as a cheque guarantee card.

Rating – Standardized assessment of the creditworthiness of companies, countries or debt instruments issued by them, based on standardized qualitative and quantitative criteria carried out by specialized agencies. The rating process is the basis for determining default probability, which in turn calculates capital needed to back credit risks.

REPO transactions – Abbreviation for repurchase agreements; these are combinations of spot purchases or sales of securities and the simultaneous forward sale or repurchase of these securities in an agreement involving the same counterparty.

Return on average assets – Annualized income divided by average assets.

Return on average equity – Annualized income divided by average equity.

Risk – Financial institutions face numerous different types of risks that expose them to possible losses. These risks include credit risks, market risks, operational risks, liquidity and funding risks, reputation risks, regulatory and legal risks, environmental risks, insurance risks, strategic risks, competitive risks and systemic risks.

Risk-weighted assets – Calculated using weights based on the degree of credit risk for each counterparty class. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before appropriate risk weights are applied.

Russian Accounting Standards (RAS) – Standards, interpretations and the framework adopted by the Russian Federation.

Standby letters of credit and guarantee letters – Assurances given by the Bank that it will make payments on behalf of clients to third parties. The Bank has recourse against its clients for any such advanced funds.

Stress test – A simulation procedure that will assess the impact of extreme market scenarios on the Bank's overall risk exposure.

SWAP – (in general) the exchange of one payment flow for another.

> **Interest rate swap:** the exchange of interest payment flows in the same currency with different terms and conditions (e.g., fixed or floating).
> **Currency swap:** exchange of interest payment flows and principal amounts in different currencies.

Tier 1 and Tier 2 Capital Ratios – Measures of a bank's capital adequacy as determined in accordance with specific regulatory guidelines. Tier 1 ratio refers to core capital, whereas the Tier 2 ratio refers to supplementary capital.

Total capital ratio – A bank's total capital expressed as a percentage of total risk-weighted commitments. The minimum standard set by the Bank for international settlements is 8%.

Value at Risk (VaR) – A technique that uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

Contacts and Payment Details

Name in Russian	Открытое акционерное общество «Российский Сельскохозяйственный банк»
Name in English	Russian Agricultural Bank (RusAg)
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Registration Authority	Central Bank of the Russian Federation
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Telex	485493 RSB RU
Internet Website	www.rshb.ru www.rusagrobank.com
E-mail	fininst@rshb.ru ir_rusagrobank@rshb.ru
Appointed Auditor Address	ZAO PricewaterhouseCoopers Audit 52, bld. 5 Kosmodamianskaya Nab., 115054 Moscow, Russia

Licenses:

- General Banking License № 3349 dated July 25, 2007 issued by the Central Bank of the Russian Federation;
- License of professional participant of the securities market for brokerage № 077-08455-100000 dated May 19, 2005 issued by the Federal Financial Markets Service;
- License of professional participant of the securities market for dealing № 077-08456-010000 dated May 19, 2005 issued by the Federal Financial Markets Service;
- License of professional participant of the securities market for depository services № 077-08461-000100 dated May 19, 2005 issued by the Federal Financial Markets Service;
- License of exchange agent for futures and options № 1473 dated November 17, 2009 issued by the Federal Financial Markets Service;
- License on providing services in the area of ciphering information № 8744У dated April 27, 2010 issued by Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets;
- License on distribution of ciphering (cryptographic) facilities № 8743Р dated April 27, 2010 issued by Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets;
- License on carrying out technical maintenance of ciphering (cryptographic) facilities № 8742Х dated April 27, 2010 issued by Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets.

Nostro Correspondent Accounts of Russian Agricultural Bank

Correspondent	Currency	Account No.	SWIFT
JP Morgan Chase Bank N.A., New York	USD	400-807408	CHAS US 33
JP Morgan AG, Frankfurt am Main	EUR	6231606895	CHAS DE FX
Commerzbank AG, Frankfurt am Main	EUR	400886853100EUR	COBA DE FF
Citibank N.A., New York	USD	36892274	CITIUS33
DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	EUR USD	EUR 0000140450 USD 0001140450	GENO DE FF
VTB Bank (Deutschland) AG, Frankfurt am Main	EUR USD GBP NOK CHF JPY	0104678396 0104678412 0104678420 0104678438 0104678446 0104678453	OWHB DE FF
Sumitomo Mitsui Banking Corporation, Tokyo	JPY	4749	SMBCJPJT
Belagroprombank, Minsk	BYB	1702080840014	BAPBBY 2X

Russian Agricultural Bank Group

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

31 December 2010

Contents

INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

28 April 2011
Moscow, Russian Federation

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Consolidated Statement of Financial Position

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

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

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

The notes set out on pages 91 to 182 form an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

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

The notes set out on pages 91 to 182 form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

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

Consolidated Statement of Cash Flows

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

The notes set out on pages 91 to 182 form an integral part of these consolidated financial statements

1 Introduction

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

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

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

Principal activity

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

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

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

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

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

Presentation currency

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

2 Operating Environment of the Group

Russian Federation

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies

Basis of preparation

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

Consolidated financial statements

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

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

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

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

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

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

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

Purchases and sales of non-controlling interests

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

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

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

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

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

Cash and cash equivalents

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

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

Mandatory cash balances with the CBRF

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

Trading securities

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

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

Sale and repurchase agreements and lending of securities

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

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

Financial instruments designated at fair value through profit or loss

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

Investment securities available for sale

This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

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

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

Investment securities held to maturity

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

Due from other banks

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

Loans and advances to customers

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

Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

Repossessed collateral

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

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

Credit related commitments

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

Promissory notes purchased

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

Premises and equipment

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

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

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

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

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

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

Depreciation

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

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

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

Intangible assets

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

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

Investment property

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

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

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

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

Operating leases

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

Finance lease liabilities

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

Inventory

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

Non-current assets classified as held for sale

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

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

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

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

Due to other banks

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

Customer accounts

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

Promissory notes issued

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

Other borrowed funds

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

Syndicated loans

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

Subordinated debts

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

Derivative financial instruments

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

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

- **a.** the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- **b.** a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- **c.** the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded

in a financial asset or financial liability at fair value through profit or loss is not separated).

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

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

Income taxes

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

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

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

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

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

Uncertain tax positions

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

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables

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

Share capital

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

Dividends

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

Income and expense recognition

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

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

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

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

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

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

Revenue recognition – sale of goods

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

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

Foreign currency translation

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

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

Fiduciary assets

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

Offsetting

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

Accounting for the effects of hyperinflation

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

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

Staff costs and related contributions

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

Segment Reporting

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

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

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

Amendments of the financial statements after issue

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances

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

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

Held-to-maturity financial assets

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

Derecognition of financial assets

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

Accounting for subordinated debt from Vnesheconombank

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

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

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

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

Accounting for change of interest rate on the subordinated debt from Vnesheconombank

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

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

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

5 Adoption of New or Revised Standards and Interpretations

(a) Certain amendments were early adopted by the Group

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011)

IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 39.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011)

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

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

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)

The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009)

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009)

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009)

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

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009)

The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009)

The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010)

The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010)

The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; Amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010)

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

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

6 New Accounting Pronouncements

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

Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010)

The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011)

This amendment has a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plans. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010)

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

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

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)

The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011)

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

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012)

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

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011)

The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

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

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

7 Cash and Cash Equivalents

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

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

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

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

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

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

8 Trading Securities

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

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

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

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

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

** or ratings of other analogous rating agencies*

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

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

** or ratings of other analogous rating agencies*

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

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

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities.

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

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities. Refer to Note 37 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 33.

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

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

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

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

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

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

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

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

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

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

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

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

9 Repurchase Receivables

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

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

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

** or ratings of other analogous rating agencies*

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

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

** or ratings of other analogous rating agencies*

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

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

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

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

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

10 Financial Instruments Designated at Fair Value Through Profit or Loss

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

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

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

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

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

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

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

11 Due from Other Banks

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

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

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

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

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

Overdue loans represent not only past due payments but the whole outstanding balance of such loans.
Analysis of amounts due from other banks by collateral is as follows:

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

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

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

12 Loans and Advances to Customers

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

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

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

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

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

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

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

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

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

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

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

Loan portfolio analysis by credit quality

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loan collateral

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

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

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

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

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

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

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

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

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

13 Investment Securities Available for Sale

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

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

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

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

** or ratings of other analogous rating agencies*

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

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

** or ratings of other analogous rating agencies*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14 Investment Securities Held to Maturity

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

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

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

** or ratings of other analogous rating agencies*

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

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

** or ratings of other analogous rating agencies*

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

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

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

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

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

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

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

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

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

15 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

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

16 Premises, Equipment and Intangible Assets

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

Russian Agricultural Bank
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16 Premises, Equipment and Intangible Assets

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

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

Intangible assets mainly include capitalised computer software.

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

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

17 Other Assets

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

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

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

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

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

The movements in repossessed collateral are as follows:

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

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

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

18 Due to Other Banks

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

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

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

19 Customer Accounts

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

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

Economic sector concentrations within customer accounts are as follows:

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

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

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

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

20 Promissory Notes Issued

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

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2011 to December 2016 (2009: promissory notes denominated Russian roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 15% p.a. and maturity dates from January 2010 to August 2017).

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

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

21 Other Borrowed Funds

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

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

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

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

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

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

22 Syndicated Loans

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

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

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

23 Other Liabilities

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

Trade payables are related to the business activities of subsidiaries.

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

24 Subordinated Debts

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

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

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

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

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

25 Share Capital

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

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

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

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

26 Interest Income and Expense

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

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

27 Fee and Commission Income and Expense

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

28 Losses net of Gains from Non-banking Activities

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

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

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

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

29 Administrative and Other Operating Expenses

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

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

30 Income Taxes

Income tax expense comprises the following:

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

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

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

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

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

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

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

31 Dividends

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

32 Segment Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In millions of Russian Roubles	2010	2009
Total profit of reportable segments (after tax)	**1 014**	**928**
Adjustments of deferred tax	1 479	1 190
Adjustments of provisions for impairment	1 300	3 369
Accounting for derivative financial instruments at fair value	(960)	(4 386)
Losses less gains from revaluation of other financial assets at fair value through profit and loss	(734)	285
Other expenses from non-reportable segments, including the effect of consolidation*	(636)	(296)
Accounting for financial assets and liabilities carried at amortised cost	(482)	(1 150)
Revenue of non-reportable segments, including the effect of consolidation*	(307)	(239)
Revaluation of premises	23	(39)
Carrying value of guaranties issued	-	182
Other	(328)	407
The Group's profit under IFRS (after tax)	**369**	**251**
Assets of reportable segments	**2 325 451**	**1 917 125**
Elimination of settlements between branches	(1 228 300)	(931 026)
Elimination of back-to-back deposits	(105 506)	(128 134)
Provision for loan impairment	(57 052)	(29 957)
Assets of non-reportable segments, including the effect of consolidation*	1 737	6 795
Other	(5 530)	(4 139)
The Group's assets under IFRS	**930 800**	**830 664**

** non-reportable segments are represented by subsidiaries of the Group*

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

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

** non-reportable segments are represented by subsidiaries of the Group*

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

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 36. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.
- There is no concept of deferred tax accounting in RAR for credit organizations.
- Reclassification of income non included in segment revenue mainly related to interest income from securities.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method.
- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

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

(e) Major Customers

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

33 Financial Risk Management

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

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

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

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009).
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009) .
- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010 (2009: RR 500 million).
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

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

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

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

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

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

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

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

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

Market risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank sets limits on:

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

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

Interest rate risk

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

The sources of interest rate risk are:

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

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

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

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

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

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

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

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

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

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

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

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

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel.

The analysis has been prepared based on year-end interest rates.

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

** disclosed rates on term deposits*

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

Currency and Equity Risk Management

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

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

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

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

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

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

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

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

Currency risk

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

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

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

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

Geographical risk concentration

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

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

** OECD – Organisation for Economic Cooperation and Development*

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

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

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

** OECD – Organisation for Economic Cooperation and Development*

Liquidity risk

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

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

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

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

The Group manages liquidity risk using the following basic methods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

34 Management of Capital

The Group's objectives when managing capital are

I. to comply with the capital requirements set by the Central Bank of the Russian Federation;
II. to ensure the Group's ability to continue as a going concern; and
III. to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amement to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel II.

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

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

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

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

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

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

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

35 Contingencies and Commitments

Legal proceedings

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

Tax legislation

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

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

Capital expenditure commitments

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

Operating lease commitments

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

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

Compliance with covenants

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

Credit related commitments

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

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

Outstanding credit related commitments are as follows:

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

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

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

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

Credit related commitments are denominated in currencies as follows:

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

Fiduciary assets

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

The fiduciary assets fall into the following categories:

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

Assets pledged and restricted

The Group had assets pledged as follows:

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

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

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

36 Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

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

37 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value

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

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

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

Loans and receivables carried at amortised cost

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

Held to maturity securities carried at amortised cost

The fair value for held to maturity securities is based on market prices/dealer price quotations.

Liabilities carried at amortised cost

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

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

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

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

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

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

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

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

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

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

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

38 Presentation of Financial Instruments by Measurement Category

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

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

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

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

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost.

Derivative financial instruments are classified as held for trading.

39 Related Party Transactions

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

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

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

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

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

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

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

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

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

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

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

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

40 Disposal Groups Classified as Held for Sale

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

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

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

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

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

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

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

41 Events after the End of the Reporting Period

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