Sberbank
(Savings Bank of the Russian Federation)

Consolidated Financial Statements and
Independent Auditor's Report

31 December 2009

SBERBANK

Consolidated Financial Statements and Independent Auditor's Report

CONTENTS

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Independent auditors' report

To the Shareholders and Supervisory Board of Sberbank (Savings Bank of the Russian Federation) -

We have audited the accompanying consolidated financial statements of Sberbank (Savings Bank of the Russian Federation) (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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

ERNST & YOUNG

Opinion

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

Ernst & Young Vneshaudit

15 March 2010

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Consolidated Income Statement

In millions of Russian Roubles	Note	2009	2008
Interest income	22	814 962	619 952
Interest expense	22	(312 245)	(241 795)
Net interest income		**502 717**	**378 157**
Provision charge for loan impairment	10	(388 932)	(97 881)
Net interest income after provision charge for loan impairment		**113 785**	**280 276**
Fee and commission income	23	105 723	90 246
Fee and commission expense	23	(4 634)	(4 052)
Net gains/ (losses) arising from trading securities		14 078	(16 892)
Net gains/ (losses) arising from securities designated at fair value through profit or loss		7 557	(15 195)
Net gains arising from investment securities available for sale		17 102	1 032
Impairment of investment securities available for sale	12	(2 274)	(6 259)
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	24	16 228	25 182
Net gains/ (losses) arising from operations with precious metals and precious metals derivatives		1 657	(1 069)
Negative revaluation of premises	13	(14 996)	(3 478)
Goodwill impairment	14	-	(3 970)
Impairment of non-current assets held for sale	14	(2 967)	-
Provision for other assets impairment	14	(2 373)	(1 416)
Other operating income		10 255	7 255
Operating income		**259 141**	**351 660**
Operating expenses	25	(229 277)	(221 739)
Profit before tax		**29 864**	**129 921**
Income tax expense	26	(5 468)	(32 175)
Profit for the year		**24 396**	**97 746**
Attributable to:			
- shareholders of the Bank		24 396	97 746
- non-controlling interest		-	-
Earnings per ordinary share for profit attributable to the shareholders of the Bank, basic and diluted (expressed in RR per share)	**27**	**1.10**	**4.50**

Approved for issue and signed on behalf of the Board on 15 March 2010.

Herman Gref
Chairman of the Board and CEO

Andrey Kruzhalov
Chief Accountant

Consolidated Statement of Comprehensive Income

In millions of Russian Roubles	Note	2009	2008
Profit for the year recognised in the income statement		**24 396**	**97 746**
Components of other comprehensive income:			
Premises remeasurement:			
- (Losses)/ gains from fair value remeasurement of premises	13	(21 198)	74 819
Investment securities available for sale:			
- Gains / (losses) on revaluation of investment securities available for sale		55 556	(47 672)
- Impairment of investment securities available for sale transferred to Income statement	12	2 274	6 259
- Accumulated gains transferred to Income statement upon disposal of securities		(17 102)	(1 032)
Net foreign currency translation (losses)/ gains		(1 110)	101
Deferred income tax relating to components of other comprehensive income:			
- Premises and equipment remeasurement	26	4 257	(14 124)
- Investment securities available for sale	26	(8 141)	8 527
Total components of other comprehensive income for the year, net of tax		**14 536**	**26 878**
Total comprehensive income for the year		**38 932**	**124 624**
Attributable to:			
- shareholders of the Bank		38 932	124 624
- non-controlling interest		-	-

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Consolidated Statement of Financial Position

In millions of Russian Roubles	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	725 521	803 749
Mandatory cash balances with the Bank of Russia		40 572	7 643
Trading securities	8	91 022	78 603
Securities designated at fair value through profit or loss	9	124 439	130 503
Due from other banks		10 219	2 756
Loans and advances to customers	10	4 864 031	5 077 882
Securities pledged under repurchase agreements	11	2 699	-
Investment securities available for sale	12	845 975	284 572
Premises and equipment	13	249 881	251 478
Other assets	14	150 707	99 296
TOTAL ASSETS		**7 105 066**	**6 736 482**
LIABILITIES			
Due to other banks	15	53 947	302 539
Due to individuals	16	3 787 312	3 112 102
Due to corporate customers	16	1 651 559	1 683 130
Debt securities in issue	17	124 599	138 902
Other borrowed funds	18	115 213	159 080
Deferred income tax liability	26	4 598	10 516
Other liabilities	19	69 841	43 830
Subordinated debt	20	519 061	536 221
TOTAL LIABILITIES		**6 326 130**	**5 986 320**
EQUITY			
Share capital	21	87 742	87 742
Share premium		232 553	232 493
Revaluation reserve for premises		55 540	74 981
Fair value reserve for investment securities available for sale		(598)	(33 185)
Foreign currency translation reserve		(1 009)	101
Retained earnings		403 934	388 030
Total equity attributable to shareholders of the Bank		**778 162**	**750 162**
Non-controlling interest	37	774	-
TOTAL EQUITY		**778 936**	**750 162**
TOTAL LIABILITIES AND EQUITY		**7 105 066**	**6 736 482**

Approved for issue and signed on behalf of the Board on 15 March 2010.

Herman Gref
Chairman of the Board and CEO

Andrey Kruzhalov
Chief Accountant

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Consolidated Statement of Changes in Equity

In millions of Russian Roubles	Note	Attributable to shareholders of the Bank							Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises	Fair value reserve for investment securities available for sale	Foreign currency translation reserve	Retained earnings	Total		
Balance as at 1 January 2008		**87 742**	**232 493**	**14 815**	**733**	**-**	**301 414**	**637 197**	**-**	**637 197**
Changes in equity for the year ended 31 December 2008										
Dividends declared	28	-	-	-	-	-	(11 659)	(11 659)	-	(11 659)
Depreciation of revalued premises, net of tax		-	-	(529)	-	-	529	-	-	-
Total comprehensive income recognised for the year ended 31 December 2008		-	-	60 695	(33 918)	101	97 746	124 624	-	124 624
Balance as at 31 December 2008		**87 742**	**232 493**	**74 981**	**(33 185)**	**101**	**388 030**	**750 162**	**-**	**750 162**
Changes in equity for the year ended 31 December 2009										
Disposal of treasury shares		-	60	-	-	-	-	60	-	60
Dividends declared	28	-	-	-	-	-	(10 992)	(10 992)	-	(10 992)
Depreciation of revalued premises, net of tax		-	-	(2 500)	-	-	2 500	-	-	-
Business combinations	37	-	-	-	-	-	-	-	774	774
Total comprehensive income recognised for the year ended 31 December 2009		-	-	(16 941)	32 587	(1 110)	24 396	38 932	-	38 932
Balance as at 31 December 2009		**87 742**	**232 553**	**55 540**	**(598)**	**(1 009)**	**403 934**	**778 162**	**774**	**778 936**

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Consolidated Statement of Cash Flows

In millions of Russian Roubles	Note	2009	2008
Cash flows from operating activities			
Interest received		823 100	630 069
Interest paid		(266 462)	(230 234)
Fees and commissions received		105 198	89 197
Fees and commissions paid		(4 634)	(4 052)
Net gains received/ (losses incurred) from trading securities		2 404	(2 002)
Net losses incurred from securities designated at fair value through profit or loss		(171)	(5 009)
Net gains received from trading in foreign currencies and from operations with foreign currency derivatives		7 272	12 568
Net gains received/ (losses incurred) from operations with precious metals and precious metals derivatives		2 210	(1 442)
Other operating income received		7 781	7 085
Operating expenses paid		(194 165)	(208 116)
Income tax paid		(5 723)	(37 667)
Cash flows from operating activities before changes in operating assets and liabilities		**476 810**	**250 397**
Changes in operating assets and liabilities			
Net (increase)/ decrease in mandatory cash balances with the Bank of Russia		(32 929)	49 147
Net (increase)/ decrease in trading securities		(352)	156 173
Net decrease in securities designated at fair value through profit or loss		15 527	106 805
Net (increase)/ decrease in due from other banks		(2 640)	3 066
Net increase in loans and advances to customers		(131 215)	(1 142 868)
Net increase in other assets		(52 752)	(38 400)
Net (decrease)/ increase in due to other banks		(252 700)	219 914
Net increase in due to individuals		638 290	374 162
Net (decrease)/ increase in due to corporate customers		(76 554)	418 251
Net decrease in debt securities in issue		(16 384)	(21 149)
Net (decrease)/ increase in other liabilities		(138)	14 567
Net cash from operating activities		**564 963**	**390 065**
Cash flows from investing activities			
Purchase of investment securities available for sale		(674 269)	(350 296)
Proceeds from disposal and redemption of investment securities available for sale		168 711	36 748
Acquisition of premises and equipment	13	(52 498)	(60 592)
Proceeds from disposal of premises and equipment including insurance payments		1 357	5 381
Acquisition of subsidiaries	37	(1 467)	-
Dividend income received		188	168
Net cash used in investing activities		**(557 978)**	**(368 591)**
Cash flows from financing activities			
Other borrowed funds received		832	43 794
Redemption of other borrowed funds		(53 090)	(21 050)
Repayment of interest on other borrowed funds		(5 258)	(5 021)
Subordinated debt received	20	-	500 000
Redemption of subordinated debt		(15 897)	-
Repayment of interest on subordinated debt		(41 269)	(1 516)
Disposal of treasury shares		60	-
Dividends paid	28	(11 012)	(11 640)
Net cash (used in)/ from financing activities		**(125 634)**	**504 567**
Effect of exchange rate changes on cash and cash equivalents		**40 421**	**35 477**
Net (decrease)/ increase in cash and cash equivalents		**(78 228)**	**561 518**
Cash and cash equivalents at the beginning of the year		803 749	242 231
Cash and cash equivalents as at the end of the year	**7**	**725 521**	**803 749**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Sberbank (Savings Bank of the Russian Federation) (the "Bank") and its subsidiaries (together referred to as the "Group" or "Sberbank Group"). Principal subsidiaries include foreign commercial banks and other Russian and foreign companies controlled by the Group. A list of major subsidiaries included in these consolidated financial statements is disclosed in Note 36.

The Bank is an open joint stock commercial bank which was established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal shareholder, the Central Bank of the Russian Federation ("Bank of Russia"), owns 60.3% of ordinary shares or 57.6% of the issued and outstanding shares as at 31 December 2009 (31 December 2008: 60.3% of ordinary shares or 57.6% of the issued and outstanding shares).

As at 31 December 2009 the Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also included representatives from the Bank's other shareholders and independent directors. Two Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

The Bank has operated under a full banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian, and providing asset management. The Bank is regulated and supervised by the Bank of Russia and the Federal Service for Financial Markets. Foreign Group banks operate under the bank regulatory regimes of their respective countries.

The Group's principal business activity is corporate and retail banking operations. This includes deposit taking and commercial lending in freely convertible currencies, local currencies of countries where the Group is present and in Russian Roubles, support of clients' export/import transactions, foreign currency exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. As at 31 December 2009 the Group conducts its banking business in Russia through Sberbank with its network of 18 (31 December 2008: 17) regional head offices, 602 (31 December 2008: 734) branches and 19 103 (31 December 2008: 19 675) sub-branches. The Group operates outside Russia through 3 bank subsidiaries, located in the Ukraine, Belarus and Kazakhstan and representative office in Germany.

The Bank participates in the State Deposit Insurance System, which was introduced by the Federal Law №177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. In October 2008 the guarantee repayment of 100% of individual deposits under the State deposit insurance scheme was increased up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or the Bank of Russia imposed moratorium on payments.

The average number of the Bank's employees during the year ended 31 December 2009 was 252 398 (year ended 31 December 2008: 259 999).

Registered address and place of business. The Bank's registered address is: Vavilova str., 19, Moscow, Russian Federation.

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

2 Operating Environment of the Group

The Group principally operates within the Russian Federation.

The Russian Federation continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis in 2008 – 2009 resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Currently investment interest to emerging market is growing that results in more attractive funding terms.

Increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

Management of the Group believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

3 Basis of Preparation and 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 revaluation of premises, revaluation of available for sale financial assets, financial assets at fair value through profit or loss and all derivative contracts.

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 readily exercisable and convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented within equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference ("gain from bargain purchase") is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

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.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, derivatives that are linked to and must be settled by delivery of such unquoted equity instruments and fixed assets except for premises.

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.

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. 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 consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, other securities at fair value through profit or loss and derivatives are initially recorded at fair value. All other financial assets 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 instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 deposits and reverse sale and repurchase agreements with original maturity up to 30 days. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the reporting date.

Plastic cards settlements. Plastic cards settlements are accounted for on the accruals basis and are carried at amortised cost. Plastic cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated income statement 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. Translation differences are included in Net foreign exchange translation gains. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated income statement as gains less losses arising from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Policy of the Group for securities portfolios' classification, 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.

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 on financial assets carried at amortised cost are recognised in profit or loss 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 when deciding whether a financial asset is impaired or not are (i) past due status of financial asset, (ii) financial position of underlying borrower, (iii) unsatisfactory debt servicing and (iv) realisability of related collateral, if any.

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all payments due from the borrower under the loan agreement including accrued interest and commissions.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Write-off of assets at amortised cost. 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. If a loan has been written down, the loss is measured based on the interest rate used to discount future cash flows.

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- Identification of loans that are individually significant, i.e., those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating income.
- Determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.
- All remaining loans that have not been identified as individually significant are assessed on a portfolio basis.

The Group applies the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this methodology.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower may also be taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of collective assessment of not past due loans and advances the Group analyses loans of each class in terms of its historical loss and recovery rate. 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. For the purpose of collective assessment of past due loans and advances Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

Retail loans are deemed fully impaired when the principal and/or interest payment becomes more than 180 days overdue.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available for sale securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of economic benefits is probable. Exchange differences arising on the settlement of debt investment securities available for sale or on translating of debt investment securities available for sale at rates different from those at which they were translated on initial recognition during the period or in previous financial statements is recognised in profit or loss in the period in which they arise. 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 to profit or loss.

Impairment losses are recognised in profit or loss 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 and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment losses are presented in other comprehensive income in losses and gains on investment securities available for sale.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or due to corporate customers.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as gains less losses arising from trading securities in the consolidated income statement. The obligation to return the securities is recorded at fair value in due to other banks or due to corporate customers.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment is stated at cost less accumulated depreciation.

Premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognised in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises 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.

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

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.

If impaired premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Premises	2.5-3.3%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

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 was 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 each reporting date.

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 recognised 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 consolidated income statement within other operating income.

Subsequent expenditure on investment property is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently revalued and depreciated.

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.

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.

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative liabilities to individuals and corporate customers (including state agencies) and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit and savings certificates issued by the Group. Debt securities in issue are stated at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Other borrowed funds. Other borrowed funds represent medium and long-term funds attracted by the Group on financial markets. 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 other operating income.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward and futures foreign exchange contracts and forwards with precious metals settled net in cash, are carried at their fair value. All derivative 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 instruments are included in consolidated income statement as Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains and Net gains /(losses) arising from operations with precious metals and precious metals derivatives. The Group does not apply “hedge accounting” according to IAS 39.

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

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. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognised 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 recognised for temporary differences on initial recognition of goodwill or any other asset or liability 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 reporting date 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 in the statement of financial position 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 of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Provision 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 performed its obligations under the contract and are carried at amortised cost.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated 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 in profit or loss for interest-bearing instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

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 recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, 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 reporting date.

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

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;

(II) income and expenses for each statement of comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in other components of comprehensive income and taken to a separate component of equity.

The cumulative balance of currency translation differences presented in equity at 31 December 2009 amounted to a loss of RR 1 009 million (31 December 2008: gain of RR 101 million).

At 31 December 2009 the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = RR 30.2442 (31 December 2008: USD 1 = RR 29.3804).

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 31. 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.

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

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

Earnings per share. Preference shares are not redeemable and are considered to be not participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

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.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated 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 profit and 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 is 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.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. 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 sometimes not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 34 and 35.

Revaluation of premises. The Group regularly reviews the value of its premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of premises does not materially differ from its fair value. Premises have been revalued to market value at 31 December 2009. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2010. The Group performs revaluation using appropriate valuation techniques and information about real estate transactions on the local market. The results received from the application of the above valuation methods, however, may not always correspond to the price of actual transactions on the real estate market.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value of equity instruments available for sale below cost been considered significant or prolonged, the Group would not suffer any additional loss for the year ended 31 December 2009 (2008: RR 1 109 million), being the transfer of the total debit balance for relevant assets in the fair value reserve to profit or loss.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Changes in estimates and presentation. The Group has collected more accurate and reliable data on ageing of past due loans and advances, which allowed to improve methodology for the estimation of provision for loan impairment on loans to individuals. Improvements in methodology did not significantly change the amount of provision for loan impairment. If the previous methodology were used for calculation, the provision for loan impairment on loans and advances to individuals as of 31 December 2009 would have amounted to RR 73 466 million (currently reported: RR 71 267 million).

For the purposes of a more accurate and fair presentation of impairment provision for other assets the Group decided to change the presentation of Other assets and to show all the components of other assets on a gross basis with separate presentation of the provision for impairment. The presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes in presentation of Other assets for the year ended 31 December 2008 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Other financial assets			
Receivables on penalties	-	1 602	1 602
Provision for impairment of other financial assets	(1 158)	(1 602)	(2 760)
Other non-financial assets			
Non-exclusive licences	-	576	576
Other non-financial assets	1 637	(156)	1 481
Provision for impairment of other non-financial assets	(258)	(420)	(678)

The effect of changes in presentation of provision for impairment of Other assets for the year ended 31 December 2008 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Provision for impairment at 1 January 2008			
Receivables on penalties	-	1 167	1 167
Other financial assets	-	435	435
Other non-financial assets	-	420	420
Provision charge for impairment during the year			
Receivables on penalties	-	435	435
Other financial assets	613	(435)	178
Provision for impairment at 31 December 2008			
Receivables on penalties	-	1 602	1 602
Other non-financial assets	144	420	564

5 Adoption of New or Revised Standards and Interpretations

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). The Group adopted the revised IFRS 3 Business Combinations from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on earnings per share. Refer to Note 37.

Certain new standards and interpretations became effective for the Group from 1 January 2009:

***IFRS 8, Operating Segments*.** The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. 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. The adoption of IFRS 8, Operating Segments resulted in changes of segmental presentation of the Group. Under the new standard, which aligns operating segmental reporting with segments reported to senior management, the Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Refer to Note 29.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset. If it is difficult to identify a direct relationship between particular borrowings and a qualifying asset, application of judgement is required for determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset. Other borrowing costs are recognised as an expense using the effective interest method. These requirements apply if the commencement date for capitalisation is on or after 1 January 2009. The adoption didn't have any material impact on the consolidated financial statements of the Group as at 31 December 2009.

***IAS 1, Presentation of Financial Statements, revised in September 2007*.** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group made an early adoption of this standard in its consolidated financial statements for the year ended 31 December 2008. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on these consolidated financial statements of the Group.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment.

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

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 published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for transfers of assets from customers received 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 will be recognised in profit or loss for the year when the entity settles the dividend payable. The Group does not expect the amendment to affect its future consolidated financial statements.

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 interpretation to have any material effect on the Group's future 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 is not expected to have any impact on the Group's future consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the interpretation on its future consolidated financial statements.

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

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

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

6 New Accounting Pronouncements (Continued)

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

- 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.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2009**	**2008**
Cash on hand	240 641	307 456
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	70 007	82 028
Correspondent accounts and placements with other banks with original maturities up to 30 days:		
- Russian Federation	280 828	31 625
- Other countries	107 467	370 608
Reverse-repo agreements with original maturities up to 30 days	26 578	12 032
Total cash and cash equivalents	**725 521**	**803 749**

At 31 December 2009 cash and cash equivalents of RR 26 578 million (2008: RR 12 032 million) are effectively collateralised by securities received under reverse sale and repurchase agreements at a fair value of RR 31 580 million (2008: RR 17 024 million), which the Group has a right to sell or repledge. None of these securities have been sold or repledged (2008: nil).

Correspondent accounts and placements with other banks and reverse-repo agreements with original maturities up to 30 days mostly represent balances with the largest and well-known foreign banks, top rated Russian banks and financial companies. Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2009 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	275 717	1 500	3 611	280 828
- Other countries	101 190	5 788	489	107 467
Reverse-repo agreements with original maturities up to 30 days	158	17 085	9 335	26 578
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**377 065**	**24 373**	**13 435**	**414 873**

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	14 821	4 527	12 277	31 625
- Other countries	362 108	228	8 272	370 608
Reverse-repo agreements with original maturities up to 30 days	-	9 199	2 833	12 032
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**376 929**	**13 954**	**23 382**	**414 265**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2009 and 31 December 2008 all cash and cash equivalents are neither past due nor impaired.

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

8 Trading Securities

In millions of Russian Roubles	2009	2008
Federal loan bonds (OFZ bonds)	31 492	34 257
Russian Federation Eurobonds	24 935	19 291
Corporate bonds	18 823	12 844
Municipal and subfederal bonds	13 882	11 410
VneshEconomBank bonds (VEB bonds)	15	14
Total debt trading securities	**89 147**	**77 816**
Corporate shares	1 875	787
Total trading securities	**91 022**	**78 603**

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from January 2010 to February 2036 (2008: from March 2009 to February 2036), coupon rates from 0% to 13% p.a. (2008: from 0% to 10% p.a.) and yield to maturity from 5% to 14% p.a. (2008: from 7% to 12% p.a.), depending on the type of bond issue.

8 Trading Securities (Continued)

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2008: from July 2018 to March 2030), coupon rates from 8% to 13% p.a. (2008: from 8% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2008: from 9% to 11% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in RR and foreign currencies, issued by large Russian companies. These bonds have maturity dates from January 2010 to September 2028 (2008: from January 2010 to June 2018), coupon rates from 4% to 19% p.a. (2008: from 6% to 16% p.a.) and yield to maturity from 3% to 39% p.a. (2008: from 6% to 25% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from March 2010 to June 2017 (2008: from March 2009 to December 2015), coupon rates from 6% to 19% p.a. (2008: from 6% to 15% p.a.) and yield to maturity from 7% to 39% p.a. (2008: from 8% to 31% p.a.), depending on the type of bond issue.

VEB bonds are interest-bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds carry an annual coupon of 3% p.a., have maturity date in May 2011 (2008: in May 2011) and yield to maturity 3% p.a. (2008: 5% p.a.).

Corporate shares are quoted shares of large Russian companies.

Fair value of trading securities is based on their market quotations and valuation models with use of market data.

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

Analysis by credit quality of debt trading securities outstanding at 31 December 2009 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	31 492	-	-	31 492
Russian Federation Eurobonds	24 935	-	-	24 935
Corporate bonds	8 014	5 536	5 273	18 823
Municipal and subfederal bonds	1 172	12 509	201	13 882
VneshEconomBank bonds (VEB bonds)	15	-	-	15
Total debt trading securities	**65 628**	**18 045**	**5 474**	**89 147**

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	34 257	-	-	34 257
Russian Federation Eurobonds	19 291	-	-	19 291
Corporate bonds	4 179	4 412	4 253	12 844
Municipal and subfederal bonds	690	10 288	432	11 410
VneshEconomBank bonds (VEB bonds)	14	-	-	14
Total debt trading securities	**58 431**	**14 700**	**4 685**	**77 816**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2009 included in trading securities are federal loan bonds (OFZ bonds) with fair value of RR 18 105 million (2008: RR 603 million) and Eurobonds of the Russian Federation with fair value of RR 6 348 million (2008: nil) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 31 and 34.

At 31 December 2008 included in trading securities are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 41 863 million. Refer to Notes 15, 31 and 34.

At 31 December 2009 and 31 December 2008 there were no renegotiated balances that would otherwise be past due. Trading debt securities are not collateralised. All trading debt securities are not past due.

Currency and maturity analyses of trading securities are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Notes 34 and 35.

9 Securities Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	2009	2008
Federal loan bonds (OFZ bonds)	94 251	116 730
Corporate bonds	7 153	7 125
Municipal and subfederal bonds	3 880	5 325
Total debt securities designated at fair value through profit or loss	**105 284**	**129 180**
Corporate shares	19 155	1 323
Total securities designated at fair value through profit or loss	**124 439**	**130 503**

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from January 2010 to November 2021 (2008: from March 2009 to August 2025), coupon rates from 0% to 13% p.a. (2008: from 0% to 10% p.a.) and yield to maturity from 5% to 14% p.a. (2008: from 7% to 12% p.a.), depending on the type of bond issue.

9 Securities Designated at Fair Value through Profit or Loss (Continued)

Corporate bonds are interest-bearing securities denominated in RR and foreign currencies, issued by large Russian companies. These bonds have maturity dates from January 2010 to May 2012 (2008: from May 2009 to September 2013), coupon rates from 5% to 17% p.a. (2008: from 8% to 16% p.a.) and yield to maturity from 5% to 28% p.a. (2008: from 10% to 31% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from July 2010 to June 2015 (2008: from April 2009 to June 2015), coupon rates from 8% to 14% p.a. (2008: from 8% to 14% p.a.) and yield to maturity from 9% to 22% p.a. (2008: from 9% to 31% p.a.), depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Management of the Group assesses performance of these investments based on their fair values in accordance with the Policy of the Group for securities portfolios classification. Fair value of securities designated at fair value through profit or loss is based on their market quotations and valuation models with use of data both observable and not observable on the open market.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2009 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	94 251	-	-	94 251
Corporate bonds	4 644	1 254	1 255	7 153
Municipal and subfederal bonds	3 325	555	-	3 880
Total debt securities designated at fair value through profit or loss	**102 220**	**1 809**	**1 255**	**105 284**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	116 730	-	-	116 730
Corporate bonds	-	2 868	4 257	7 125
Municipal and subfederal bonds	3 993	1 201	131	5 325
Total debt securities designated at fair value through profit or loss	**120 723**	**4 069**	**4 388**	**129 180**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2009 included in securities designated at fair value through profit or loss are federal loan bonds (OFZ bonds) with fair value of RR 39 658 million (2008: RR 13 981 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 31 and 34.

9 Securities Designated at Fair Value through Profit or Loss (Continued)

At 31 December 2008 included in securities designated at fair value through profit or loss are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 108 385 million. Refer to Notes 15, 31 and 34.

At 31 December 2009 and 31 December 2008 there are no renegotiated balances that would otherwise be past due. Debt securities designated at fair value through profit or loss are not collateralised. All debt securities designated at fair value through profit or loss are not past due.

Currency and maturity analyses of securities designated at fair value through profit or loss are disclosed in Note 30. The information on securities designated at fair value through profit or loss issued by related parties is disclosed in Notes 34 and 35.

10 Loans and Advances to Customers

The tables below show the Group's loan portfolio credit quality by loan classes as at 31 December 2009 and 31 December 2008.

For the purpose of these consolidated financial statements a loan is considered to be past due when a borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognised as the aggregate amount of all amounts due from the borrower under the loan agreement including accrued interest and commissions.

31 December 2009:

In millions of Russian Roubles	**Not past due loans**	**Past due loans**	**Total**
Commercial loans to legal entities	2 025 522	180 800	2 206 322
Specialised loans to legal entities	1 760 286	299 698	2 059 984
Consumer and other loans to individuals	526 373	37 991	564 364
Mortgage loans to individuals	482 445	30 342	512 787
Car loans to individuals	96 649	3 739	100 388
Total loans and advances to customers before provision for loan impairment	**4 891 275**	**552 570**	**5 443 845**
Less: Provision for loan impairment	(190 956)	(388 858)	(579 814)
Total loans and advances to customers net of provision for loan impairment	**4 700 319**	**163 712**	**4 864 031**

31 December 2008:

In millions of Russian Roubles	**Not past due loans**	**Past due loans**	**Total**
Commercial loans to legal entities	2 056 385	78 989	2 135 374
Specialised loans to legal entities	1 776 579	107 352	1 883 931
Consumer and other loans to individuals	627 343	32 407	659 750
Mortgage loans to individuals	482 504	15 371	497 875
Car loans to individuals	101 330	1 907	103 237
Total loans and advances to customers before provision for loan impairment	**5 044 141**	**236 026**	**5 280 167**
Less: Provision for loan impairment	(101 868)	(100 417)	(202 285)
Total loans and advances to customers net of provision for loan impairment	**4 942 273**	**135 609**	**5 077 882**

10 Loans and Advances to Customers (Continued)

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Loans are provided for periods up to 5 years depending on the borrowers` risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repairment of real estate as well as car loans. These loans include loans for current needs and overdrafts.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for periods up to 5 years.

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2009:

In millions of Russian Roubles	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans (%)**
Commercial loans to legal entities				
Collectively assessed				
Not past due	1 968 452	(68 724)	1 899 728	3,5%
Loans up to 30 days overdue	13 910	(4 863)	9 047	35,0%
Loans over 30 days overdue	130 484	(89 867)	40 617	68,9%
Individually impaired				
Not past due	57 070	(27 562)	29 508	48,3%
Loans up to 30 days overdue	47	-	47	0,0%
Loans 31 to 60 days overdue	425	(344)	81	80,9%
Loans 61 to 90 days overdue	1 684	(1 676)	8	99,5%
Loans 91 up to 180 days overdue	8 291	(5 166)	3 125	62,3%
Loans over 180 days overdue	25 959	(23 286)	2 673	89,7%
Total commercial loans to legal entities	**2 206 322**	**(221 488)**	**1 984 834**	**10,0%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	1 731 758	(67 328)	1 664 430	3,9%
Loans up to 30 days overdue	16 027	(4 395)	11 632	27,4%
Loans over 30 days overdue	96 104	(60 185)	35 919	62,6%
Individually impaired				
Not past due	28 528	(12 356)	16 172	43,3%
Loans up to 30 days overdue	2 052	(1 138)	914	55,5%
Loans 31 to 60 days overdue	218	(133)	85	61,0%
Loans 61 to 90 days overdue	2 638	(2 464)	174	93,4%
Loans 91 up to 180 days overdue	22 691	(10 960)	11 731	48,3%
Loans over 180 days overdue	159 968	(128 100)	31 868	80,1%
Total specialised loans to legal entities	**2 059 984**	**(287 059)**	**1 772 925**	**13,9%**
Total loans to legal entities	**4 266 306**	**(508 547)**	**3 757 759**	**11,9%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans (%)
Consumer and other loans to individuals				
Collectively assessed				
Not past due	526 373	(8 926)	517 447	1,7%
Loans up to 30 days overdue	4 761	(488)	4 273	10,2%
Loans 31 to 60 days overdue	2 339	(476)	1 863	20,4%
Loans 61 to 90 days overdue	1 506	(446)	1 060	29,6%
Loans 91 up to 180 days overdue	2 923	(1 440)	1 483	49,3%
Loans over 180 days overdue	26 462	(26 462)	-	100,0%
Total consumer and other loans to individuals	**564 364**	**(38 238)**	**526 126**	**6,8%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	482 445	(4 418)	478 027	0,9%
Loans up to 30 days overdue	4 014	(725)	3 289	18,1%
Loans 31 to 60 days overdue	2 373	(803)	1 570	33,8%
Loans 61 to 90 days overdue	1 574	(776)	798	49,3%
Loans 91 up to 180 days overdue	2 866	(2 538)	328	88,6%
Loans over 180 days overdue	19 515	(19 515)	-	100,0%
Total mortgage loans to individuals	**512 787**	**(28 775)**	**484 012**	**5,6%**
Car loans to individuals				
Collectively assessed				
Not past due	96 649	(1 642)	95 007	1,7%
Loans up to 30 days overdue	718	(120)	598	16,7%
Loans 31 to 60 days overdue	397	(120)	277	30,2%
Loans 61 to 90 days overdue	245	(108)	137	44,1%
Loans 91 up to 180 days overdue	436	(321)	115	73,6%
Loans over 180 days overdue	1 943	(1 943)	-	100,0%
Total car loans to individuals	**100 388**	**(4 254)**	**96 134**	**4,2%**
Total loans to individuals	**1 177 539**	**(71 267)**	**1 106 272**	**6,1%**
Total loans and advances to customers as at 31 December 2009	**5 443 845**	**(579 814)**	**4 864 031**	**10,7%**

10 Loans and Advances to Customers (Continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2008:

In millions of Russian Roubles	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans (%)**
Commercial loans to legal entities				
Collectively assessed				
Not past due	2 046 571	(43 763)	2 002 808	2,1%
Loans up to 30 days overdue	13 260	(1 180)	12 080	8,9%
Loans over 30 days overdue	48 871	(23 433)	25 438	47,9%
Individually impaired				
Not past due	9 814	(3 858)	5 956	39,3%
Loans up to 30 days overdue	5 458	(3 459)	1 999	63,4%
Loans 31 to 60 days overdue	4 046	(2 618)	1 428	64,7%
Loans 61 to 90 days overdue	1 632	(839)	793	51,4%
Loans 91 up to 180 days overdue	4 196	(2 505)	1 691	59,7%
Loans over 180 days overdue	1 526	(1 053)	473	69,0%
Total commercial loans to legal entities	**2 135 374**	**(82 708)**	**2 052 666**	**3,9%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	1 774 978	(46 004)	1 728 974	2,6%
Loans up to 30 days overdue	26 390	(2 177)	24 213	8,2%
Loans over 30 days overdue	28 701	(12 152)	16 549	42,3%
Individually impaired				
Not past due	1 601	(682)	919	42,6%
Loans up to 30 days overdue	18 480	(2 926)	15 554	15,8%
Loans 31 to 60 days overdue	27 565	(6 878)	20 687	25,0%
Loans 61 to 90 days overdue	901	(562)	339	62,4%
Loans 91 up to 180 days overdue	512	(127)	385	24,8%
Loans over 180 days overdue	4 803	(3 797)	1 006	79,1%
Total specialised loans to legal entities	**1 883 931**	**(75 305)**	**1 808 626**	**4,0%**
Total loans to legal entities	**4 019 305**	**(158 013)**	**3 861 292**	**3,9%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans (%)
Consumer and other loans to individuals				
Collectively assessed				
Not past due	627 343	(5 406)	621 937	0,9%
Loans up to 30 days overdue	4 772	(48)	4 724	1,0%
Loans 31 to 60 days overdue	2 283	(742)	1 541	32,5%
Loans 61 to 90 days overdue	1 301	(627)	674	48,2%
Loans 91 up to 180 days overdue	2 281	(1 484)	797	65,1%
Loans over 180 days overdue	21 770	(21 770)	-	100,0%
Total consumer and other loans to individuals	**659 750**	**(30 077)**	**629 673**	**4,6%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	482 504	(1 568)	480 936	0,3%
Loans up to 30 days overdue	2 650	(17)	2 633	0,6%
Loans 31 to 60 days overdue	1 710	(766)	944	44,8%
Loans 61 to 90 days overdue	804	(491)	313	61,1%
Loans 91 up to 180 days overdue	1 700	(1 262)	438	74,2%
Loans over 180 days overdue	8 507	(8 507)	-	100,0%
Total mortgage loans to individuals	**497 875**	**(12 611)**	**485 264**	**2,5%**
Car loans to individuals				
Collectively assessed				
Not past due	101 330	(587)	100 743	0,6%
Loans up to 30 days overdue	584	(3)	581	0,6%
Loans 31 to 60 days overdue	299	(120)	179	40,1%
Loans 61 to 90 days overdue	149	(85)	64	57,0%
Loans 91 up to 180 days overdue	320	(234)	86	73,1%
Loans over 180 days overdue	555	(555)	-	100,0%
Total car loans to individuals	**103 237**	**(1 584)**	**101 653**	**1,5%**
Total loans to individuals	**1 260 862**	**(44 272)**	**1 216 590**	**3,5%**
Total loans and advances to customers as at 31 December 2008	**5 280 167**	**(202 285)**	**5 077 882**	**3,8%**

10 Loans and Advances to Customers (Continued)

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans as at 31 December 2009:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Consumer and other loans to individuals**	**Mortgage loans to individuals**	**Car loans to individuals**	**Total**
1 group	143 091	55 924	4 932	3 079	-	207 026
2 group	998 354	784 784	518 955	476 395	96 596	2 875 084
3 group	827 007	891 050	2 486	2 971	53	1 723 567
Total	**1 968 452**	**1 731 758**	**526 373**	**482 445**	**96 649**	**4 805 677**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans as at 31 December 2008:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Consumer and other loans to individuals**	**Mortgage loans to individuals**	**Car loans to individuals**	**Total**
1 group	123 512	162 412	9 556	5 452	-	300 932
2 group	1 277 554	712 232	614 041	473 709	101 248	3 178 784
3 group	645 505	900 334	3 746	3 343	82	1 553 010
Total	**2 046 571**	**1 774 978**	**627 343**	**482 504**	**101 330**	**5 032 726**

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality. The 1-st group includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The 1-st group of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

10 Loans and Advances to Customers (Continued)

As defined by the Group for the purpose of internal credit risk assessment, loans fall into the "non-performing category" when principal and/or interest payment becomes more than 90 days overdue. In this case a past due amount is recognised as the aggregate amount of all payments due from the borrower under the loan agreement including accrued interest and commissions.

As at 31 December 2009 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans (%)**
Commercial loans to legal entities	149 911	(110 941)	38 970	74,0%
Specialised loans to legal entities	260 100	(191 542)	68 558	73,6%
Consumer and other loans to individuals	29 385	(27 902)	1 483	95,0%
Mortgage loans to individuals	22 381	(22 053)	328	98,5%
Car loans to individuals	2 379	(2 264)	115	95,2%
Total non-performing loans and advances to customers as at 31 December 2009	**464 156**	**(354 702)**	**109 454**	**76,4%**

As at 31 December 2008 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans (%)**
Commercial loans to legal entities	40 662	(17 453)	23 209	42,9%
Specialised loans to legal entities	18 883	(9 320)	9 563	49,4%
Consumer and other loans to individuals	24 051	(23 254)	797	96,7%
Mortgage loans to individuals	10 207	(9 769)	438	95,7%
Car loans to individuals	875	(789)	86	90,2%
Total non-performing loans and advances to customers as at 31 December 2008	**94 678**	**(60 585)**	**34 093**	**64,0%**

10 Loans and Advances to Customers (Continued)

Information on not past due collectively assessed loans, whose terms have been renegotiated, as at 31 December 2009 and 31 December 2008 is presented in the table below. It shows the carrying amount for renegotiated loans by class. Renegotiation of terms was not due to deterioration in the borrower's financial position but resulted from the Group's analysis of the economic feasibility of renegotiating such loans in the context of the borrower's operations. In the fourth quarter of 2008, due to a significant economic deterioration affecting the credit quality of borrowers as well as due to rapid devaluation of the national currency against US dollar and Euro, the Group restructured certain segments of its loan portfolio.

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Loans to individuals - consumer and other loans	Mortgage loans to individuals	Car loans to individuals	Total
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2009	452 636	184 388	3 010	6 694	54	646 782
Renegotiated loans: outstanding balance before provision for loan impairment at 31 December 2008	60 896	17 685	578	1 470	-	80 629

Provisions for Loan Impairment. The analysis of changes in provisions for credit portfolio impairment for the year ended 31 December 2009 is presented in the table below:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2009	**82 708**	**75 305**	**30 077**	**12 611**	**1 584**	**202 285**
Provision charge for loan impairment during the year	147 089	212 421	10 056	16 587	2 779	388 932
Loans and advances to customers written off during the year as uncollectible	(8 309)	(667)	(1 895)	(423)	(109)	(11 403)
Provision for loan impairment as at 31 December 2009	**221 488**	**287 059**	**38 238**	**28 775**	**4 254**	**579 814**

10 Loans and Advances to Customers (Continued)

The analysis of changes in provisions for credit portfolio impairment for the year ended 31 December 2008 is presented in the table below:

In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Consumer and other loans to individuals**	**Mortgage loans to individuals**	**Car loans to individuals**	**Total**
Provision for loan impairment as at 1 January 2008	**45 498**	**32 406**	**25 068**	**8 126**	**390**	**111 488**
Provision charge for loan impairment during the year	42 270	43 259	6 564	4 575	1 213	97 881
Loans and advances to customers written off during the year as uncollectible	(5 060)	(360)	(1 555)	(90)	(19)	(7 084)
Provision for loan impairment as at 31 December 2008	**82 708**	**75 305**	**30 077**	**12 611**	**1 584**	**202 285**

Loan Security. As a rule the Group requires collateral and/or guarantees for loans to legal entities (commercial and specialised loans). Acceptable collateral includes real estate, securities (within the Group's risk limits for such securities), transport and production equipment, inventory, precious metals and certain personal property. Guarantees can be provided by controlling shareholders (or other controlling persons) of government entities, banks and other solvent legal entities (all within risk limits for such guarantees). A guarantor is evaluated on the same basis as the borrower. The Group assesses value of collateral on the basis of an internal expert evaluation performed by the Group's specialists, an independent appraiser's evaluation or on the basis of the discounted book value of the collateral. In accordance with the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of three months. Borrowers must either insure the collateral or make a payment to the Group reflecting the increase in credit risk due to the lack of insurance.

10 Loans and Advances to Customers (Continued)

The Group Management's best estimate of fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2009 and 31 December 2008 is presented in the table below:

	2009		2008	
In millions of Russian Roubles	**Commercial loans to legal entities**	**Specialised loans to legal entities**	**Commercial loans to legal entities**	**Specialised loans to legal entities**
Best estimate of fair value of collateral for past due loans, assessed for impairment on a collective basis, when collateral is :				
- real estate	96 410	87 299	30 997	24 592
- goods in turnover	53 006	1 710	22 215	528
- transportation and production equipment	43 175	41 399	23 436	27 893
- tradable securities	-	13 166	7 683	34 376
- other assets	17 360	56 794	11 153	35 348
Best estimate of fair value of collateral for individually impaired loans to legal entities, when collateral is :				
- real estate	176 438	322 075	5 764	585
- tradable securities	40 385	45 253	-	8 535
- transportation and production equipment	30 106	37 356	4 146	7 766
- goods in turnover	1 783	506	3 803	47
- other assets	2 827	98 478	2 550	29 618
Total	**461 490**	**704 036**	**111 747**	**169 288**

Estimation of the fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2009 and 31 December 2008 was estimated by the Group`s lending departments using Group`s internal methodology. The Management of the Group believes that the fair value of collateral exceeds the outstanding customers' debts.

Actual net realisable value of collateral may differ from the value disclosed above due to potential difficulties arising during the foreclosure which can not be predicted.

10 Loans and Advances to Customers (Continued)

Investment in finance lease

Included in commercial loans to legal entities are net investment in finance lease. The analysis of net investment in finance lease at 31 December 2009 and at 31 December 2008 is as follows:

In millions of Russian Roubles	2009	2008
Gross investment in finance lease	49 965	45 219
Unearned future finance income on finance lease	(14 380)	(11 621)
Net investment in finance lease before provision for impairment	**35 585**	**33 598**
Less provision for impairment	(1 119)	(615)
Net investment in finance lease after provision for impairment	**34 466**	**32 983**

The maturity analysis of net investment in finance lease at 31 December 2009 is as follows:

In millions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment of finance lease	Net investment in finance lease after provision for impairment
Not later than 1 year	10 371	(577)	9 794
Later than 1 year but not later than 5 years	22 615	(498)	22 117
Later than 5 years	2 599	(44)	2 555
Total as at 31 December 2009	**35 585**	**(1 119)**	**34 466**

The maturity analysis of net investment in finance lease at 31 December 2008 is as follows:

In millions of Russian Roubles	Net investment in finance lease before provision for impairment	Provision for impairment of finance lease	Net investment in finance lease after provision for impairment
Not later than 1 year	8 370	(615)	7 755
Later than 1 year but not later than 5 years	23 192	-	23 192
Later than 5 years	2 036	-	2 036
Total as at 31 December 2008	**33 598**	**(615)**	**32 983**

10 Loans and Advances to Customers (Continued)

The analysis of minimal finance lease receivables as at 31 December 2009 and 31 December 2008 per maturity is as follows:

In millions of Russian Roubles	2009	2008
Not later than 1 year	13 890	12 768
Later than 1 year but not later than 5 years	32 234	30 192
Later than 5 years	3 841	2 259
Total	**49 965**	**45 219**

Economic sector risk concentration. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2009 and 31 December 2008 are as follows:

	2009		2008	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	1 177 539	21.7	1 260 862	23.9
Trade	960 385	17.7	868 559	16.4
Services	748 240	13.7	721 281	13.7
Food and agriculture	511 658	9.4	430 173	8.1
Construction	408 307	7.5	281 506	5.3
Machine building	347 222	6.4	335 704	6.4
Metallurgy	273 814	5.0	211 051	4.0
Chemical industry	186 790	3.4	166 052	3.1
Energy	172 623	3.2	124 604	2.4
Telecommunications	164 934	3.0	96 123	1.8
Oil and gas	157 078	2.9	125 861	2.4
Transport, aviation, space industry	109 211	2.0	289 374	5.5
Government and municipal bodies	94 004	1.7	58 899	1.1
Timber industry	43 955	0.8	36 888	0.7
Other	88 085	1.6	273 230	5.2
Total loans and advances to customers before provision for loan impairment	**5 443 845**	**100.0**	**5 280 167**	**100.0**

At 31 December 2009 the Group had 20 largest borrowers with aggregated loan amounts above RR 23 000 million (31 December 2008: 20 largest borrowers with loan amounts above RR 25 900 million). The total aggregate amount of these loans was RR 1 240 189 million or 22.8% of the total gross loan portfolio (31 December 2008: RR 1 179 644 million or 22.3%).

Interest income accrued on loans, for which individual impairment has been recognised, for the year ended 31 December 2009, comprised RR 3 297 million (2008: RR 699 million).

In other operating income in the consolidated income statement are included fines and penalties received from borrowers in the amount of RR 975 million (2008: RR 93 million).

At 31 December 2009 the estimated fair value of loans and advances to customers was RR 4 837 547 million (2008: RR 4 908 566 million). Refer to Note 33.

Currency and maturity analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 35.

11 Securities Pledged under Repurchase Agreements

In millions of Russian Roubles	2009	2008
Corporate bonds	583	-
Total debt securities pledged under repurchase agreements	**583**	-
Corporate shares	2 116	-
Total securities pledged under repurchase agreements	**2 699**	**-**

Securities pledged under repurchase agreements represent available for sale securities collateralised under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge. At 31 December 2009 the amounts received by the Group under sale and repurchase agreements are included in Due to other banks in the amount of RR 111 million and in Due to corporate customers in the amount of RR 2 174 million. Refer to Notes 15, 16 and 31.

Corporate bonds pledged under repurchase agreements have maturity date in November 2014, coupon rates from 6% to 9% p.a. and yield to maturity from 6% to 8% p.a., depending on the type of bond issue.

Corporate shares pledged under repurchase agreements are quoted shares of large Russian companies.

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2009 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	552	31	-	583
Total debt securities pledged under repurchase agreements	**552**	**31**	**-**	**583**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

All corporate bonds pledged under repurchase agreements are not past due.

At 31 December 2009 the estimated fair value of securities pledged under repurchase agreements was RR 2 699 million. Refer to Note 33.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 30. The information on related party balances is disclosed in Note 35.

12 Investment Securities Available for Sale

In millions of Russian Roubles	**2009**	**2008**
Corporate bonds	244 142	67 218
Bonds of the Bank of Russia	221 080	-
Federal loan bonds (OFZ bonds)	213 540	113 084
Municipal and subfederal bonds	87 948	58 694
Russian Federation Eurobonds	54 480	32 710
Foreign government bonds	6 979	1 988
Total debt investment securities available for sale	**828 169**	**273 694**
Corporate shares	17 806	10 878
Total investment securities available for sale	**845 975**	**284 572**

Corporate bonds are interest bearing securities denominated in RR and foreign currencies, issued by large Russian and foreign companies in CIS region. These bonds have maturity dates from January 2010 to August 2037 (2008: from January 2009 to October 2040), coupon rates from 4% to 19% p.a. (2008: from 6% to 20% p.a.) and yield to maturity from 3% to 39% p.a. (2008: from 6% to 31% p.a.), depending on the type of bond issue.

Bonds of the Bank of Russia are zero-coupon securities denominated in RR, issued by the Central Bank of the Russian Federation, and are freely tradable on the domestic market. These bonds have maturity dates in March 2010 and June 2010, yield to maturity from 6% to 7% p.a., depending on the type of bond issue.

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from January 2010 to February 2036 (2008: from March 2009 to February 2036), coupon rates from 0% to 13% p.a. (2008: from 0% to 10% p.a.) and yield to maturity from 5% to 14% p.a. (2008: from 6% to 12% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and EUR and issued by municipal and subfederal bodies of the Russian Federation. These Municipal and subfederal bonds have maturity dates from March 2010 to June 2017 (2008: from April 2009 to June 2017), coupon rate from 5% to 18% p.a. (2008: from 7% to 18% p.a.) and yield to maturity from 3% to 26% p.a. (2008: from 9% to 31% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2008: from July 2018 to March 2030), coupon rates from 8% to 13% p.a. (2008: from 8% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2008: from 9% to 11% p.a.), depending on the type of bond issue.

Foreign government bonds are interest-bearing and non-interest-bearing securities denominated in foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity dates from January 2010 to September 2014 (2008: from January 2009 to March 2014), coupon rates from 0% to 20% (2008: from 3% to 9% p.a.) and yield to maturity from 2% to 14% p.a. (2008: from 6% to 11% p.a.), depending on the type of bond issue.

Corporate shares are quoted and non-quoted shares of large Russian and foreign companies in CIS region.

12 Investment Securities Available for Sale (Continued)

Investment securities available for sale are carried at fair value which also reflects credit risk related write downs. According to the assessment of the Group as at 31 December 2009 impairment of investment securities available for sale comprised RR 2 274 million and was recognised in profit or loss (2008: RR 6 259 million). The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment loss are recognised in other comprehensive income and presented in equity as fair value reserve for investment securities available for sale as at 31 December 2009 in the amount of loss of RR 598 million (2008: loss of RR 33 185 million). As at 31 December 2009 and 31 December 2008, investment securities available for sale are not past due. None of the securities were renegotiated.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2009 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	151 227	61 229	31 686	244 142
Bonds of the Bank of Russia	221 080	-	-	221 080
Federal loan bonds (OFZ bonds)	213 540	-	-	213 540
Municipal and subfederal bonds	59 275	28 403	270	87 948
Russian Federation Eurobonds	54 480	-	-	54 480
Foreign government bonds	4 148	2 831	-	6 979
Total debt investment securities available for sale	**703 750**	**92 463**	**31 956**	**828 169**

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2008 made on the basis of ratings of international rating agencies is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	113 084	-	-	113 084
Corporate bonds	39 270	19 485	8 463	67 218
Municipal and subfederal bonds	38 652	20 007	35	58 694
Russian Federation Eurobonds	32 710	-	-	32 710
Foreign government bonds	1 988	-	-	1 988
Total debt investment securities available for sale	**225 704**	**39 492**	**8 498**	**273 694**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2009 included in investment securities available for sale are federal loan bonds (OFZ bonds) with fair value of RR 65 299 million (2008: RR 59 327 million) and Eurobonds of the Russian Federation with fair value of RR 13 768 million (2008: nil) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 31 and 34.

At 31 December 2008 included in investment securities available for sale are securities pledged under sale and repurchase agreements with the Bank of Russia at a fair value of RR 91 872 million and with other banks at a fair value of RR 628 million. Refer to Notes 15, 31 and 34.

All debt investment securities available for sale are not past due.

12 Investment Securities Available for Sale (Continued)

At 31 December 2009 the estimated fair value of investment securities available for sale was RR 845 975 million (2008: RR 284 572 million). Refer to Note 33.

Currency and maturity analyses of investment securities available for sale are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

13 Premises and Equipment

In millions of Russian Roubles	Note	Premises	Office and equipment	Vehicles and other equipment	Construction in progress	Total
Cost or fair value at 1 January 2008		107 202	71 453	10 708	10 376	199 739
Accumulated depreciation		(5 562)	(41 581)	(5 746)	-	(52 889)
Carrying amount at 1 January 2008		**101 640**	**29 872**	**4 962**	**10 376**	**146 850**
Additions		22 753	19 580	2 972	15 287	60 592
Transfers		13 546	-	-	(13 546)	-
Disposals – at cost		(3 427)	(2 875)	(986)	(2 405)	(9 693)
Disposals – accumulated depreciation		121	2 530	986	-	3 637
Depreciation charge	25	(3 566)	(15 877)	(1 806)	-	(21 249)
Negative revaluation of premises recognised in profit or loss		(3 478)	-	-	-	(3 478)
Revaluation of premises recognised in other comprehensive income		74 819	-	-	-	74 819
Carrying amount at 31 December 2008		**202 408**	**33 230**	**6 128**	**9 712**	**251 478**
Cost or fair value at 31 December 2008		202 408	88 158	12 694	9 712	312 972
Accumulated depreciation		-	(54 928)	(6 566)	-	(61 494)
Additions		6 943	25 762	3 541	16 252	52 498
Acquisitions through business combinations		5 339	506	5 930	3 039	14 814
Transfers		13 446	-	-	(13 446)	-
Disposals – at cost		(2 106)	(3 210)	(1 723)	(1 789)	(8 828)
Disposals – accumulated depreciation		38	3 203	1 492	-	4 733
Depreciation charge	25	(6 969)	(19 390)	(2 261)	-	(28 620)
Negative revaluation of premises recognised in profit or loss		(14 996)	-	-	-	(14 996)
Revaluation of premises recognised in other comprehensive income		(21 198)	-	-	-	(21 198)
Carrying amount at 31 December 2009		**182 905**	**40 101**	**13 107**	**13 768**	**249 881**
Cost or fair value at 31 December 2009		183 527	111 216	20 442	13 768	328 953
Accumulated depreciation		(622)	(71 115)	(7 335)	-	(79 072)

13 Premises and Equipment (Continued)

Construction in progress consists of construction and refurbishment of the branches' premises. Upon completion, assets are transferred to premises.

Premises have been revalued to market value at 31 December 2009. The Group performs revaluation using appropriate valuation techniques and information about real estate transactions on the local market. At 31 December 2009 the carrying amount of premises would have been RR 128 663 million (2008: RR 112 256 million) had the premises been carried at cost less depreciation. The depreciation related to revalued premises in the amount of RR 6 309 million has been netted with revaluation for premises (2008: RR 9 007 million). At 31 December 2009 included in office and computer equipment are fully depreciated items in the amount of RR 31 821 million (2008: RR 22 626 million) and in vehicles and other equipment in the amount of RR 2 613 million (2008: RR 2 891 million).

14 Other Assets

In millions of Russian Roubles	2009	2008
Other financial assets		
Receivables on plastic cards settlements	52 324	32 035
Settlements on currency conversion operations	4 645	362
Derivative financial instruments	3 965	3 497
Receivables on penalties	2 434	1 602
Funds in settlement	1 502	870
Other financial assets	3 056	3 005
Provision for impairment of other financial assets	(4 008)	(2 760)
Total other financial assets	**63 918**	**38 611**
Other non-financial assets		
Precious metals	37 490	24 499
Prepayments for premises and other assets	21 806	9 303
Prepayment on income tax	5 752	7 923
Inventory of non-banking subsidiaries	3 444	2 111
Non-current assets held for sale	3 370	-
Prepaid expenses	3 280	2 919
Intangible assets acquired through business combinations	2 736	-
Non-exclusive licences	2 620	576
Investment property	2 499	7 099
Tax settlements (other than on income)	741	5 452
Goodwill	469	-
Other non-financial assets	4 028	1 481
Provision for impairment of other non-financial assets	(1 446)	(678)
Total other non-financial assets	**86 789**	**60 685**
Total other assets	**150 707**	**99 296**

14 Other Assets (Continued)

As at 31 December 2009 receivables on plastic cards settlements of RR 52 324 million (2008: RR 32 035 million) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

Included in Investment property in the amount of RR 2 499 million is construction in progress, which the Group repossessed in 2004 from its borrowers.

Included in non-current assets held for sale are assets repossessed by the Group from its borrower in December 2008. As at 31 December 2009 these assets were classified as non-current assets held for sale under IFRS 5 and were accounted for in the consolidated statement of financial position at fair value less costs to sell. These assets were partly disposed of by the Group in February 2010 at a price close to the value disclosed in these consolidated financial statements. Refer to Note 39. Impairment in respect of these assets of RR 2 967 million was recorded in the consolidated income statement.

As at 31 December 2009 the analysis of intangible assets acquired through business combinations is as follows:

In millions of Russian Roubles	Note	2009	2008
Loyal customer base		1 872	-
Long-term land lease rights		641	-
Other		223	-
Total intangible assets acquired through business combinations	**37**	**2 736**	**-**

Movements in the provision for impairment of other assets during 2009 are as follows:

In millions of Russian Roubles	Funds in settlement	Receivables on penalties	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2009	**545**	**1 602**	**613**	**114**	**564**	**3 438**
Provision charge for impairment during the year	(160)	1 030	665	997	(159)	2 373
Other assets written off during the year as uncollectible	-	(198)	(89)	-	(70)	(357)
Provision for impairment at 31 December 2009	**385**	**2 434**	**1 189**	**1 111**	**335**	**5 454**

14 Other Assets (Continued)

Movements in the provision for impairment of other assets during 2008 are as follows:

In millions of Russian Roubles	Funds in settlement	Receivables on penalties	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2008	**-**	**1 167**	**435**	**-**	**420**	**2 022**
Provision charge for impairment during the year	545	435	178	114	144	1 416
Provision for impairment at 31 December 2008	**545**	**1 602**	**613**	**114**	**564**	**3 438**

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2009	2008
Carrying amount at 1 January		**-**	**4 902**
Impairment loss		-	(3 970)
Acquisition of subsidiary	37	469	-
Foreign currency translation		-	(932)
Carrying amount at 31 December		**469**	**-**

Carrying value of each class of other financial assets apart from derivative financial instruments approximates fair value at 31 December 2009 and 31 December 2008. Derivative financial instruments are measured at fair value. At 31 December 2009 the total estimated fair value of other financial assets was RR 63 918 million (2008: RR 38 611 million). Refer to Note 33.

Currency and maturity analyses of other assets are disclosed in Note 30.

15 Due to Other Banks

In millions of Russian Roubles	2009	2008
Correspondent accounts and overnight placements of other banks	35 621	33 134
Term placements of other banks	18 215	35 485
Sale and repurchase agreements with the Bank of Russia and other banks	111	233 920
Total due to other banks	**53 947**	**302 539**

Term placements of other banks represent short-term funds received on interbank market.

At 31 December 2009, included in amounts due to other banks are liabilities of RR 111 million (2008: RR 603 million) received under sale and repurchase agreements with other banks. Fair value of securities collateralised under these agreements with other banks amounted to RR 139 million and was included in securities pledged under repurchase agreements (2008: RR 628 million included in the portfolio of investment securities available for sale). Refer to Note 11, 12 and 31.

At 31 December 2008, included in amounts due to other banks are liabilities of RR 233 317 million received under sale and repurchase agreements with the Bank of Russia. Fair value of securities collateralised under these agreements with the Bank of Russia amounted to RR 242 120 million. The Bank of Russia did not have right to sell or repledge these securities and thus these securities were accounted for in original categories as follows: (i) amount of RR 41 863 million was included in the portfolio of trading securities, (ii) amount of RR 108 385 million in the portfolio of securities designated at fair value through profit or loss and (iii) amount of RR 91 872 million in the portfolio of investment securities available for sale. Refer to Notes 8, 9, 12, 31 and 34.

Carrying value of each class of due to other banks approximately equals fair value at 31 December 2009 and 31 December 2008 as generally due to other banks represent short-term liabilities by nature. At 31 December 2009 the estimated fair value of due to other banks was RR 53 947 million (2008: RR 302 539 million). Refer to Note 33.

Currency and maturity analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

16 Due to Individuals and Corporate Customers

In millions of Russian Roubles	2009	2008
Individuals:		
- Current/demand accounts	540 455	395 090
- Term deposits	3 246 857	2 717 012
Total due to individuals	**3 787 312**	**3 112 102**
State and public organisations:		
- Current/settlement accounts	104 004	160 540
- Term deposits	32 900	58 914
Total due to state and public organisations	**136 904**	**219 454**
Other corporate customers:		
- Current/settlement accounts	861 028	850 621
- Term deposits	653 627	613 055
Total due to other corporate customers	**1 514 655**	**1 463 676**
Total due to corporate customers	**1 651 559**	**1 683 130**
Total due to individuals and corporate customers	**5 438 871**	**4 795 232**

Economic sector concentrations within customer accounts are as follows:

	2009		2008	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	3 787 312	69.6	3 112 102	64.8
Services	248 421	4.6	223 566	4.7
Trade	241 233	4.5	228 049	4.7
Oil and gas	233 772	4.3	307 207	6.4
Construction	153 049	2.8	208 891	4.4
Energy	135 648	2.5	85 025	1.8
Machine building	102 209	1.9	89 078	1.9
Food and agriculture	73 195	1.3	65 082	1.4
Municipal bodies and state organisations	54 014	1.0	96 901	2.0
Metallurgy	51 935	1.0	60 310	1.3
Chemical	51 589	0.9	53 797	1.1
Other	306 494	5.6	265 224	5.5
Total due to individuals and corporate customers	**5 438 871**	**100.0**	**4 795 232**	**100.0**

16 Due to Individuals and Corporate Customers (Continued)

As at 31 December 2009 in term deposits of other corporate customers are included deposits in the amount of RR 2 174 million (2008: nil) received under sale and repurchase agreements with legal entities. Fair value of securities collateralised under these agreements amounted to RR 2 560 million and was included in securities pledged under repurchase agreements (2008: nil). Refer to Note 11 and 31.

As at 31 December 2009 included in Due to corporate customers are deposits of RR 82 068 million (2008: RR 95 722 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

As at 31 December 2009 the Group had 20 largest customers with balances above RR 7 500 million (2008: 20 customers with balances above RR 5 600 million). The aggregate balance of these customers was RR 456 986 million (2008: RR 587 291 million) or 8.4% (2008: 12.2%) of total due to individuals and corporate customers.

At 31 December 2009 the estimated fair value of due to individuals and corporate customers was RR 5 425 244 million (2008: RR 4 772 064 million). Refer to Note 33.

Currency and maturity analyses of Due to individuals and corporate customers are disclosed in Note 30. The information on related party balances is disclosed in Note 35.

17 Debt Securities in Issue

In millions of Russian Roubles	**2009**	**2008**
Promissory notes	101 294	119 408
Savings certificates	17 844	17 095
Deposit certificates	5 461	2 399
Total debt securities in issue	**124 599**	**138 902**

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in RR, USD and Euro and have maturity dates from ”on demand” to December 2012 (2008: from ”on demand” to December 2012). Interest or discount rates on promissory notes issued by the Group vary from 0.3% to 10.1% p.a. (2008: from 0.3% to 11.0% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Group. They are denominated in RR and have maturity dates from ”on demand” to December 2012 (2008: from “on demand” to December 2011). Interest rates on these securities vary from 5.6% to 8.8% p.a. (2008: from 5.3% to 9.7% p.a.).

At 31 December 2009 the estimated fair value of debt securities in issue was RR 119 301 million (2008: RR 132 526 million). Refer to Note 33.

Currency and maturity analyses of debt securities in issue are disclosed in Note 30.

18 Other Borrowed Funds

In millions of Russian Roubles	2009	2008
Long-term loans received	104 852	153 531
Term borrowings	10 361	5 549
Total other borrowed funds	**115 213**	**159 080**

At 31 December 2009 included in long-term loans received are loans attracted by the Group under USD 10 000 million loan participation notes (MTN) issuance programme. In May 2006 the Group received the first loan under this programme in the amount of USD 500 million, which is included in long-term loans received. As at 31 December 2009 this loan was accounted for at amortised cost of RR 13 624 million (2008: RR 14 793 million). This loan matures in May 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2009 the effective interest rate on the loan was 6.6% p.a. (2008: 6.6% p.a.).

In November 2006 the Group attracted the second loan under the MTN issuance programme in the amount of USD 750 million, which is also included in long-term loans received. As at 31 December 2009 this loan was accounted for at amortised cost of RR 20 648 million (2008: RR 22 190 million). This loan matures in November 2011 and has contractual fixed interest rate of 5.9% p.a. As at 31 December 2009 the effective interest rate on the loan was 6.0% p.a. (2008: 6.0% p.a.).

In December 2007 the Group received a syndicated loan in the amount of USD 750 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2009 the loan was accounted for at amortised cost of RR 22 634 million (2008: RR 21 937 million). This loan matures in December 2010 and has contractual floating interest rate of 3 months LIBOR + 0.45%. As at 31 December 2009 the effective interest rate on the loan was 0.9% p.a. (2008: 2.2% p.a.).

In July 2008 the Group attracted the third loan under the MTN issuance programme in the amount of USD 500 million, which is also included in long-term borrowings received. As at 31 December 2009 this loan was accounted for at amortised cost of RR 11 877 million (2008: RR 15 144 million). This loan matures in July 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2009 the effective interest rate on the loan was 6.6% p.a. (2008: 6.6% p.a.).

In October 2008 the Group received syndicated loan in the amount of USD 1 200 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2009 the loan was accounted for at amortised cost of RR 36 069 million (2008: RR 35 110 million). This loan matures in October 2011 and has contractual floating interest rate of 3 months LIBOR + 0.85%. As at 31 December 2009 the effective interest rate on the loan was 1.6% p.a. (2008: 5.2% p.a.).

During the year ended 31 December 2009 the Group repurchased the part of its long-term loans, received under loan participation notes (MTN) issuance programme, recognised at amortised cost of RR 8 198 million. The transaction was organised as a buy-out of loan participation notes issued for the sole purpose of financing loans to the Group, from the market. As a result of this transaction the Group has received a net gain in the amount of RR 627 million included in other operating income in the consolidated income statement.

Term borrowings represent funding received by the Group from foreign export agencies via foreign banks, which was used by the Group for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2009 these term borrowings were accounted for at amortised cost of RR 10 361 million (2008: RR 5 549 million), had interest rates varying from 1.0% to 6.8% p.a. (2008: from 2.0% to 7.0% p.a.) and maturity dates from February 2010 to January 2016 (2008: from May 2009 to January 2016).

18 Other Borrowed Funds (Continued)

At 31 December 2008 included in long-term loans received was a syndicated loan in the amount of USD 1 500 million, which was received by the Group in October 2006 from a consortium of foreign banks. As at 31 December 2008 the loan was accounted for at amortised cost of RR 44 357 million. This loan matured in October 2009 and had contractual floating interest rate of 3 months LIBOR + 0.30%. As at 31 December 2008 the effective interest rate on the loan was 4.4% p.a. The Group payed back the syndicated loan in October 2009.

At 31 December 2009 the estimated fair value of other borrowed funds was RR 117 548 million (2008: RR 147 336 million). Refer to Note 33.

Currency and maturity analyses of other borrowed funds are disclosed in Note 30.

19 Other Liabilities

In millions of Russian Roubles	**2009**	**2008**
Other financial liabilities		
Plastic card payables	13 170	7 842
Derivative financial instruments	10 589	5 072
Deferred gains on initial recognition of financial instruments	3 863	-
Deposit insurance system fees payable	3 449	2 927
Trade payables	2 970	1 849
Funds in settlement	1 579	6 391
Deferred commissions received on guarantees issued	799	733
Other	562	1 827
Total other financial liabilities	**36 981**	**26 641**
Other non-financial liabilities		
Accrued employee benefit costs	11 781	10 180
Income tax payable	10 195	-
Taxes payable other than on income	5 606	4 992
Non-financial trade payables of subsidiaries	2 523	-
Other	2 755	2 017
Total other non-financial liabilities	**32 860**	**17 189**
Total other liabilities	**69 841**	**43 830**

Defined benefit plans of the Group. The Group applies IAS 19 “Employee benefits” for accounting for its pension liabilities. The Group operates defined benefit plans and takes direct liability to provide pension payments defined according to the Group’s pension programmes. As at 31 December 2009 the Group operates 19 separate pension programmes, for Central Head Office and each Regional Head Office. The programmes cover 248 033 employees (2008: 269 098 employees).

27 818 pensioners are entitled to permanent additional payments (2008: 24 887 pensioners) and 32 105 pensioners are entitled to non-current payments (one-time retirement payments, compensation of funeral costs and some others) (2008: 30 180 pensioners). Under majority of the programmes the amount of payments is determined based on employee standing with the Group at the date of retirement. As at 31 December 2009 pension liabilities of the Group comprised RR 5 871 million (2008: RR 4 355 million). Pension expenses for 2009 amounted to RR 1 516 million (2008: RR 483 million) and were included in staff costs within operating expenses.

19. Other Liabilities (Continued)

Carrying value of each class of other financial liabilities apart from derivative financial instruments approximately equals fair value at 31 December 2009 and 31 December 2008. Derivative financial instruments are measured at fair value. At 31 December 2009 the estimated fair value of other financial liabilities was RR 36 981 million (2008: RR 26 641 million). Refer to Note 33.

Currency and maturity analyses of other liabilities are disclosed in Note 30.

20 Subordinated debt

In millions of Russian Roubles	2009	2008
Subordinated debt received by the Group from the Bank of Russia	504 346	504 634
Subordinated debt received by the Group on international financial markets	14 504	30 012
Subordinated debt received by subsidiaries	211	1 575
Total subordinated debt	**519 061**	**536 221**

In February 2005 the Group received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of an aggregate principal amount of USD 1 000 million Loan Participation Notes at contractual interest rate of 6.2% p.a. and maturity in February 2015, which are issued for the sole purpose of financing a ten-year subordinated loan to the Group. As at 31 December 2009 this subordinated debt was accounted for at amortised cost of RR 14 504 million (2008: RR 30 012 million), the effective interest rate on the loan was 6.4% p.a. (2008: 6.4% p.a.).

During the year ended 31 December 2009 the Group repurchased part of its subordinated loan recognised at amortised cost of RR 16 879 million. The transaction was organised as a buy-out of loan participation notes issued by UBS Luxembourg S.A. for the sole purpose of financing a ten-year subordinated loan to the Group, from the market. As a result of this transaction the Group has received a net gain in the amount of RR 982 million included in other operating income in the consolidated income statement.

In February 2010 the Group executed the call option under subordinated loan agreement and paid back the above mentioned loan in whole. Refer to Note 39.

In December 2008 the Group received a subordinated loan from the Bank of Russia in the amount of RUR 500 000 million which was organised in three tranches. As at 31 December 2009 the loan was accounted for at amortised cost of RR 504 346 million (2008: RR 504 634 million). The loan matures in December 2019 and has a contractual fixed interest rate of 8.0% p.a. As at 31 December 2009 the effective interest rate on the loan was 8.0% p.a (2008: 8.0% p.a.).

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

As at 31 December 2009 the estimated fair value of subordinated debt was RR 519 108 million (2008: RR 525 347 million). Refer to Note 33.

Currency and maturity analyses of subordinated debt are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

21 Share Capital

In millions of Russian Roubles, except for number of shares	2009 Number of shares, in thousands	 Nominal amount	 Inflation adjusted amount	2008 Number of shares, in thousands	 Nominal amount	 Inflation adjusted amount
Ordinary shares	21 586 948	64 761	83 337	21 586 948	64 761	83 337
Preference shares	1 000 000	3 000	4 405	1 000 000	3 000	4 405
Less: Treasury shares						
- Ordinary shares	(5)	-	-	(2 012)	(6)	-
Total share capital	**22 586 943**	**67 761**	**87 742**	**22 584 936**	**67 755**	**87 742**

The movement in the number of ordinary shares for the years ended 31 December 2009 and 31 December 2008 is as follows:

In thousands	2009	2008
Number of ordinary shares as at the 1 January	**21 584 936**	**21 585 269**
Purchase of treasury shares	-	(333)
Disposal of treasury shares	2 007	-
Number of ordinary shares as at the 31 December	**21 586 943**	**21 584 936**

As at 31 December 2009 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 21.0% p.a. in 2009 for the year ended 31 December 2008 (2008: 21.7% p.a. for the year ended 31 December 2007). Preference share dividends rank above ordinary dividends.

On 26 June 2009 by the Annual Shareholders' Meeting a decision was passed to increase Sberbank's authorized capital through a placement of ordinary shares by open subscription within the limit of stated shares (15 billion shares).

22 Interest Income and Expense

In millions of Russian Roubles	2009	2008
Interest income		
Interest income on financial assets carried at amortised cost and on financial assets available for sale:		
- Loans and advances to customers	752 647	582 207
- Debt investment securities available for sale	40 190	8 863
- Due from other banks	7 433	4 434
- Correspondent accounts with other banks	708	1 097
	800 978	**596 601**
Interest income on financial assets carried at fair value through profit or loss:		
- Debt securities designated at fair value through profit or loss	7 330	13 248
- Debt trading securities	6 654	10 103
	13 984	**23 351**
Total interest income	**814 962**	**619 952**
Interest expense		
Term deposits of individuals	(186 400)	(152 690)
Term deposits of legal entities	(46 199)	(46 560)
Subordinated debt	(41 289)	(6 403)
Current/settlement accounts of legal entities	(11 439)	(13 175)
Term placements of other banks	(10 416)	(4 170)
Debt securities in issue	(9 184)	(9 960)
Other borrowed funds	(5 408)	(5 551)
Current/demand accounts of individuals	(1 369)	(2 581)
Correspondent accounts of other banks	(541)	(705)
Total interest expense	**(312 245)**	**(241 795)**
Net interest income	**502 717**	**378 157**

23 Fee and Commission Income and Expense

In millions of Russian Roubles	2009	2008
Fee and commission income		
Cash and settlements transactions with legal entities	36 922	33 299
Cash and settlements transactions with individuals	34 416	29 471
Plastic cards operations	17 684	14 576
Operations with foreign currency	7 889	5 987
Cash collection	4 145	3 713
Guarantees issued	1 863	1 175
Transactions with securities	1 403	1 152
Other	1 401	873
Total fee and commission income	**105 723**	**90 246**
Fee and commission expense		
Settlement transactions	(3 758)	(3 329)
Operations with foreign currency	(182)	(306)
Cash collection	(166)	(137)
Other	(528)	(280)
Total fee and commission expense	**(4 634)**	**(4 052)**
Net fee and commission income	**101 089**	**86 194**

24 Net Gains Arising from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation Gains

In millions of Russian Roubles	2009	2008
Net gains arising from trading in foreign currencies	13 058	14 794
Net foreign exchange translation gains	15 305	15 410
Net losses from operations with foreign currency derivatives	(12 135)	(5 022)
Total net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	**16 228**	**25 182**

Net foreign exchange translation gains include net foreign exchange translation gains arising on operations with securities at fair value through profit or loss in the amount of RR 339 million (2008: RR 3 226 million).

Operations of trading in foreign currencies and foreign currency derivatives include both operations with clients and the Group's proprietary operations for liquidity management. The Group's proprietory operations are represented by currency swap transactions.

25 Operating Expenses

In millions of Russian Roubles	Note	2009	2008
Staff costs		128 624	132 962
Depreciation of premises and equipment	13	28 620	21 249
Telecommunication and office supplies expenses		28 726	23 721
State deposit insurance system membership fee		13 047	13 861
Taxes other than on income		10 282	5 901
Operating lease expense for premises and equipment		6 972	6 427
Other costs of premises and equipment		6 220	9 898
Advertising and marketing services		2 187	3 428
Consulting and assurance services		1 400	674
Other		3 199	3 618
Total operating expenses		**229 277**	**221 739**

Included in staff costs are statutory social security and pension contributions (unified social tax) of RR 20 026 million (2008: RR 18 865 million).

26 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2009	2008
Current tax	17 559	27 188
Deferred tax	(8 207)	10 584
Less: Deferred tax recognised in other comprehensive income	(3 884)	(5 597)
Income tax expense	**5 468**	**32 175**

The income tax rate applicable to the majority of the Group's income for 2009 is 20% (2008: 24%). On 21 November 2008 the State Duma of the Russian Federation introduced an amendment to the Russian Tax Code under which the income tax rate was decreased from 24% to 20%. The amendment became effective from 1 January 2009.

Reconciliation between the expected and the actual taxation charge is provided below:

In millions of Russian Roubles	2009	2008
IFRS profit before tax	**29 864**	**129 921**
Theoretical tax charge at statutory rate (2009: 20%; 2008: 24%)	5 973	31 181
Tax effect on income on government securities taxed at different rates	(1 497)	(2 307)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	235	2 145
- Impact of change in tax rate to 20% effective from 1 January 2009	-	71
- Other non-temporary differences	757	1 085
Income tax expense	**5 468**	**32 175**

26 Income Taxes (Continued)

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% (2008: 20%), except for income on state securities that is taxed at 15%, 9% and 0% (2008: 15%, 9% and 0%).

In millions of Russian Roubles	31 December 2008	Business combinations	Credited/ (charged) to profit or loss	Recognised in other comprehensive income	31 December 2009
Tax effect of deductible temporary differences					
Deferred fees and commissions income	5 782	-	516	-	6 298
Accrued employee benefit costs	2 164	-	282	-	2 446
Low value items write-off	1 131	-	32	-	1 163
Accrued interest on loans	-	-	3 978	-	3 978
Fair valuation of investment securities available for sale	9 550	-	460	(8 141)	1 869
Other	397	(316)	1 519	-	1 600
Gross deferred tax asset	**19 024**	**(316)**	**6 787**	**(8 141)**	**17 354**
Tax effect of taxable temporary differences					
Loan impairment provision	6 493	-	(3 132)	-	3 361
Premises and equipment	20 277	1 973	(2 382)	(4 257)	15 611
Fair valuation of trading securities and other securities at fair value through profit or loss	2 770	-	210	-	2 980
Gross deferred tax liability	**29 540**	**1 973**	**(5 304)**	**(4 257)**	**21 952**
Total net deferred tax asset /(liability)	**(10 516)**	**(2 289)**	**12 091**	**(3 884)**	**(4 598)**

26 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2007	Credited/ charged) to profit or loss	Recognised in other comprehensive income	31 December 2008
Tax effect of deductible temporary differences				
Deferred fees and commissions income	4 388	1 394	-	5 782
Accrued employee benefit costs	3 942	(1 778)	-	2 164
Low value items write-off	1 072	59	-	1 131
Fair valuation of investment securities available for sale	(231)	1 254	8 527	9 550
Other	(818)	1 215	-	397
Gross deferred tax asset	**8 353**	**2 144**	**8 527**	**19 024**
Tax effect of taxable temporary differences				
Loan impairment provision	1 056	5 437	-	6 493
Premises and equipment	5 311	842	14 124	20 277
Fair valuation of trading securities and other securities at fair value through profit or loss	1 918	852	-	2 770
Gross deferred tax liability	**8 285**	**7 131**	**14 124**	**29 540**
Total net deferred tax asset/ (liability)	**68**	**(4 987)**	**(5 597)**	**(10 516)**

As at 31 December 2009, the temporary difference associated with investments in subsidiaries in the statement of financial position of the parent company amounted to RR 8 602 million (2008: RR 4 037 million). In accordance with IAS 12 "Income taxes" respective deferred tax liability of RR 1 720 million (2008: RR 807 million) was not recognized in the financial statements.

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2009	2008
Profit for the year attributable to the shareholders of the Bank	24 396	97 746
Less: preference dividends	(630)	(650)
Profit attributable to the ordinary shareholders of the Bank	**23 766**	**97 096**
Weighted average number of ordinary shares in issue (millions)	21 585	21 585
Earnings per ordinary share, basic and diluted (expressed in RR per share)	**1.10**	**4.50**

28 Dividends

In millions of Russian Roubles	2009 Ordinary	2009 Preference	2008 Ordinary	2008 Preference
Dividends payable at 1 January	113	29	100	23
Dividends declared during the year ended 31 December	10 362	630	11 009	650
Dividends paid during the year ended 31 December	(10 383)	(629)	(10 996)	(644)
Dividends payable as at 31 December	**92**	**30**	**113**	**29**
Dividends per share declared during the year (RR per share)	**0.48**	**0.63**	**0.51**	**0.65**

All dividends are declared and paid in Russian Roubles.

29 Segment Analysis

For the purposes of management, activity of the Group is divided into operating segments – central head office, 18 regional head offices and subsidiaries – which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- **Moscow;**

this segment includes the following:

- Central head office of the Group,
- Regional head office of Moscow city,
- Subsidiaries of the Group located in the region.

- **Central and Northern regions of European part of Russia;**

this segment includes the following:

Regional head offices:

- Severny – Yaroslavl,
- Severo-Zapadny – Saint-Petersburg,
- Tsentralno-Chernozemny – Voronezh,
- Srednerussky – Moscow;

Subsidiaries of the Group located in the region.

29 Segment Analysis (Continued)

- **Volga region and South of European part of Russia;**

this segment includes the following:

Regional head offices:

- Volgo-Vyatsky – Nizhniy Novgorod,
- Povolzhsky – Samara,
- Severo-Kavkazsky – Stavropol,
- Yugo-Zapadny – Rostov-on-Don,

Subsidiaries of the Group located in the region.

- **Ural, Siberia and Far East of Russia;**

this segment includes the following:

Regional head offices:

- Zapadno-Uralsky – Perm,
- Uralsky – Ekaterinburg,
- Sibirsky – Novosibirsk,
- Altaisky – Barnaul,
- Zapadno-Sibirsky – Tumen,
- Severo-Vostochny – Magadan,
- Dalnevostochny – Khabarovsk,
- Vostochno-Sibirsky – Krasnoyarsk,
- Baikalsky – Irkutsk,

Subsidiaries of the Group located in the region.

- **Other countries**

this segment includes the following:

- Subsidiaries located in Ukraine,
- Subsidiaries located in Kazakhstan,
- Subsidiaries located in Belarus.

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segment reporting and operating results which are provided to the Management of the Group for analysis are prepared under Russian accounting standards, except the segment reporting of the subsidiaries, which is prepared under International financial reporting standards.

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

The subsidiaries' activity is controlled by the Group integrally.

29 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities as at 31 December 2009 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
TOTAL ASSETS	**3 339 279**	**1 269 638**	**1 037 696**	**1 438 970**	**110 590**	**7 196 173**
TOTAL LIABILITIES	**2 497 326**	**1 455 172**	**1 024 070**	**1 276 215**	**85 934**	**6 338 717**

Segment reporting of the Group's assets and liabilities as at 31 December 2008 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
TOTAL ASSETS	**2 952 823**	**1 252 290**	**1 040 410**	**1 451 556**	**42 370**	**6 739 449**
TOTAL LIABILITIES	**2 759 313**	**1 224 758**	**853 000**	**1 100 816**	**29 910**	**5 967 797**

Reconciliation of assets and liabilities as per the reportable segments with the Group's assets and liabilities under IFRS for the year ended 31 December 2009 and the year ended 31 December 2008 is as follows:

	Total assets		Total liabilities	
In millions of Russian Roubles	**2009**	**2008**	**2009**	**2008**
Total amount per reportable segment	**7 196 173**	**6 739 449**	**6 338 717**	**5 967 797**
Adjustment of provisions	23 660	40 124	(25 441)	(7 343)
Additional interest accrued on loans	6 510	6 904	-	-
Deferred commission income on loans	(30 696)	(28 176)	-	-
Deferred commission income on guarantees	-	-	796	733
Accounting of derivatives at fair value	619	3 503	10 576	5 084
Adjustment of depreciation and cost or fair value of premises and equipment including effect of deferred tax	(64 013)	(25 912)	-	18 469
Staff expenses accrued (bonuses, annual leave, pension liabilities)	155	152	12 383	10 973
Adjustment of amortised cost and partial repurchase of other borrowed funds and subordinated debt	(24 324)	-	(24 866)	(845)
Adjustment of income tax	(668)	-	12 924	(7 908)
Other adjustments	(2 350)	438	1 041	(640)
The Group's total amount under IFRS	**7 105 066**	**6 736 482**	**6 326 130**	**5 986 320**

29 Segment Analysis (Continued)

In 2009 the Group revised its management reporting system concerning analysis of the subsidiaries' financial position. In 2008 subsidiaries' assets and liabilities were presented including intercompany balances, while in 2009 they are presented net of intercompany balances.

Segment reporting of the Group's income and expenses for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	**Moscow**	**Central and Northern regions of European part of Russia**	**Volga region and South of European part of Russia**	**Ural, Siberia and Far East of Russia**	**Other countries**	**Total**
Interest income	283 307	158 189	136 779	193 338	4 906	776 519
Interest expense	(147 947)	(62 517)	(44 436)	(56 394)	(1 925)	(313 219)
Inter-segment income and expense	19 159	13 491	(9 411)	(23 239)	-	-
Fee and commission income	35 219	37 867	31 121	42 990	1 118	148 315
Fee and commission expense	(3 377)	(196)	(341)	(371)	(164)	(4 449)
Net gains arising from securities	17 389	-	-	-	6	17 395
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	13 313	4 278	3 342	2 580	726	24 239
Net (losses)/ gains arising from operations with precious metals	(535)	847	691	1 223	-	2 226
Impairment of assets	(3 062)	-	-	-	-	(3 062)
Other net operating (losses)/ gains	(13 803)	(506)	(501)	(306)	947	(14 169)
Operating income before provision charge for loan impairment	**199 663**	**151 453**	**117 244**	**159 821**	**5 614**	**633 795**
Provision charge for loan impairment	(129 957)	(65 653)	(70 918)	(93 263)	(6 798)	(366 589)
Operating income/ (expense)	**69 706**	**85 800**	**46 326**	**66 558**	**(1 184)**	**267 206**
Operating expenses	(61 458)	(50 932)	(47 242)	(64 170)	(2 123)	(225 925)
Profit/ (loss) before tax (Segment result)	**8 248**	**34 868**	**(916)**	**2 388**	**(3 307)**	**41 281**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	9 403	10 623	9 551	12 483	1 325	43 385
Depreciation of premises and equipment	3 494	4 775	4 283	6 742	466	19 760

29 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2008 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	201 308	119 761	105 543	152 034	3 649	582 295
Interest expense	(109 957)	(49 321)	(35 463)	(45 886)	(1 165)	(241 792)
Inter-segment income and expense	17 301	5 502	(6 057)	(16 746)	-	-
Fee and commission income	32 673	34 003	28 621	39 274	743	135 314
Fee and commission expense	(3 532)	(201)	(338)	(364)	(84)	(4 519)
Net (losses)/ gains arising from securities	(2 663)	122	-	(34)	(38)	(2 613)
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	19 333	4 029	2 732	2 391	409	28 894
Net (losses)/ gains arising from operations with precious metals	(4 305)	961	773	1 157	-	(1 414)
Other net operating (losses)/ gains	(5 277)	132	834	(552)	60	(4 803)
Operating income before provision charge for loan impairment	**144 881**	**114 988**	**96 645**	**131 274**	**3 574**	**491 362**
Provision charge for loan impairment	(77 695)	(17 907)	(11 391)	(17 187)	(1 119)	(125 299)
Operating income	**67 186**	**97 081**	**85 254**	**114 087**	**2 455**	**366 063**
Operating expenses	(56 625)	(52 657)	(49 590)	(68 044)	(1 744)	(228 660)
Profit before tax (Segment result)	**10 561**	**44 424**	**35 664**	**46 043**	**711**	**137 403**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	10 240	12 274	11 495	15 725	892	50 626
Depreciation of premises and equipment	2 782	3 984	3 452	5 211	288	15 717

29 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2009 as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains/ (losses) arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**41 281**	**776 519**	**(313 219)**	**148 315**	**17 395**	**24 239**
Adjustment of provisions	1 274	-	-	-	-	-
Staff expenses accrued (bonuses, annual leave, pension liabilities)	(1 407)	-	-	-	-	-
Differences arising on securities' classification	18 946	351	-	-	19 011	(585)
Accounting of derivatives at fair value	(8 376)	-	-	-	-	(7 294)
Additional interest accrued on loans	(394)	(394)	-	-	-	-
Deferred commission income	(2 584)	39 726	-	(42 310)	-	-
Adjustment of depreciation and cost of premises and equipment	(17 485)	-	-	-	-	-
Adjustment of amortised cost and partial repurchase of other borrowed funds and subordinated debt	697	(1 595)	720	-	-	(118)
Other adjustments	(2 088)	355	254	(282)	57	(14)
The Group's total amount under IFRS	**29 864**	**814 962**	**(312 245)**	**105 723**	**36 463**	**16 228**

29 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2008 as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains/ (losses) arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**137 403**	**582 295**	**(241 792)**	**135 314**	**(2 613)**	**28 894**
Adjustment of provisions	32 878	-	-	-	-	-
Staff expenses accrued (bonuses, annual leave, pension liabilities)	5 604	-	-	-	-	-
Differences arising on securities' classification	(35 627)	(250)	-	-	(34 494)	(883)
Accounting of derivatives at fair value	(2 226)	-	-	-	-	(2 796)
Additional interest accrued on loans	3 542	3 542	-	-	-	-
Deferred commission income	(10 423)	34 348	-	(44 771)	-	-
Adjustment of depreciation and cost of premises and equipment	(2 209)	-	-	-	-	-
Other adjustments	979	17	(3)	(297)	(207)	(33)
The Group's total amount under IFRS	**129 921**	**619 952**	**(241 795)**	**90 246**	**(37 314)**	**25 182**

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting for provisioning for loan impairment and estimation methodology used for IFRS reporting.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated at fair value through profit or loss in IFRS reporting but classified as available for sale in statutory accounting records used as a basis for management reporting.

30 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, market, liquidity risk and operational risk. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

30 Financial Risk Management (Continued)

The Group's Board under authority delegated by the Shareholders Meeting sets the Group's general risk policy as well as specific policies for managing each type of major risk. The Bank's Assets and Liabilities Management Committee (ALMC) and Credit and Investment Committee (CIC) in Head Office set limits for operations that create risk exposure according to principles determined by risk policies of the Group and drafted by the departments responsible for monitoring and controlling risk. The risk-controlling departments operate separately from the business departments involved in developing operations with clients.

The Group performs stress-testing for all major types of risk at least once a year. Test results are reviewed and discussed by Group Management.

The Supervisory Board is informed about all main types of risk on a quarterly basis.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis. The credit risk management as a component of the general risk management system is aimed to maintain a sustainable development of the Group.The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in 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 31.

The Group's lending policies focus on the improvement of the credit quality and profitability of its loan portfolio, optimisation of regional, product and industry structure of loan portfolio as well as minimization and diversification of credit risks. To minimize exposure to credit risk at the branch level, the CIC at the Bank's Head Office sets limits on loan transactions for the Regional Head Offices. The Regional Head Offices then allocate these limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the CIC of the Bank's Head Office.

The Group defines the following stages of credit risks management:

- Identification of credit risks;
- Analysis and assessment of credit risks;
- Elaborating and carrying out measures for minimisation, decrease and prevention of the risk;
- Monitoring of risk level accepted by the Group, control of compliance with the established procedures of risk assessment;
- Reporting to the Management about credit risk level accepted by the Group;
- Monitoring and optimisation of procedures of risk identification and assessment, as well as methods of risk minimisation, restriction and control taking into account an estimation of results of activity of the Group.

The Group usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Group accepts guarantees from controlling shareholders (or other controlling persons), government entities, banks, other solvent legal entities, individuals. In order to reduce credit risk, several types of collateral may be used simultaneously.

The estimation of individual credit risk of corporate clients, individual entrepreneurs, banks, state bodies of the Russian Federation, insurance companies is made on the basis of internal credit ratings system, definition of classes of counterparties' creditworthiness, as well as on the basis of forecast cash flow models or other indicators.

30 Financial Risk Management (Continued)

The system of internal credit ratings classifies borrowers in certain categories of credit risk depending on assessment of external and internal factors of credit risk (groups of factors) and degree of their influence on the ability of the borrower to serve and repay the accepted obligations. To cover credit risks the Group structures its credit products which includes requirements for particular quality collateral, level of interest rates and control over sources of loan repayment. In the process of credit decision the Group uses principle of independent review of credit risk by credit risk management division.

Exposure Limits. Principles of credit risk minimization are performed through a system of exposure limits, segregation of duties on setting up exposure limits and carrying out operations bearing credit risk. To manage its credit risk, the Group places its counterparties into risk groups, which reflect the probability of default on obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Group has procedures for calculation and review of risk limits for the following categories: corporate clients, subfederal and municipal bodies, domestic and foreign banks, individuals. Exposure limits are also set for foreign countries, single borrower and group of related borrowers and one-off banking operations bearing credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial strength, expected financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of subfederal and municipal bodies is evaluated on the basis of their financial position and the level of development. The financial position is evaluated on the basis of credit history, debt level and compliance with its budget and budgetary norms. The level of development is evaluated on the basis of the current socio-economic development level, future socio-economic development potential and tax proceeds' sources. The Group sets three types of exposure limits for subfederal and municipal bodies: short-term (for transactions with a term of less than a year), temporary (for transactions that take place before the budgets are approved and have a term of less than three months) and long-term (for transactions with a term of more than a year). These limits are calculated on the basis of subfederal and municipal bodies' budgets for the current year and reports on compliance with their budgets for a previous year. Exposure limits are not set and credit operations are not performed if a subfederal or municipal body has no legal basis for borrowing or where its financial position or level of development indicate that credit transactions are not advisable.

Exposure limits for counterparty banks are set on the basis of their financial position, ranking among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Group. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client.

Risk Concentration. In order to minimize and diversify its credit risk, the Group monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are more strict than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees granted to related parties. Concentration and exposure limits for large credit operations and related borrowers as well as high-risk credit operations are approved by the Bank's Head Office.

30 Financial Risk Management (Continued)

Monitoring. The Group constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and interim financial information, for subfederal and municipal bodies twice a year on the basis of their approved budgets, for resident banks on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis, if required.

The Group monitors actual losses and expected losses on operations exposed to credit risk and their compensation by the provision for impairment. The Group controls credit risk level of counterparties by monitoring of their financial position, their assessment of solvency throughout life of the limit and/or other terms of credit products.

To monitor exposure to credit risk credit departments compile regular reports based on a structured analysis of the client's business and financial results. All information about the existing exposures on customers with deteriorating creditworthiness is reported to the Management for further consideration. The Group uses formalized internal credit ratings for monitoring credit risk. Management monitors and follow-up control of past due balances.

Credit risk for financial instruments not recognised in the statement of financial position is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial instruments recognised in the statement of financial position through established credit approvals, risk control limits and monitoring procedures.

Market Risk. Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices. The Group manages its market risk in accordance with the Policy of the Bank on Market Risk Management. The main goal of Market Risk Management is to optimize risk/return ratio, minimize loss given unfavorable developments and to reduce the deviation of actual financial result from the expected result.

The Group categorises market risk into:

- interest rate risk,
- equity risk and
- currency risk.

The Group manages its market risks through securities portfolios management and control over positions in currencies, interest rates and derivatives. For this purpose the ALMC sets limits on securities portfolios, open positions, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The ALMC develops market risk management methodologies and sets limits on particular operations for the Bank's Head Office and Regional Head Offices. The Regional Head Offices have their own assets and liabilities management committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by ALMC of the Bank's Head Office. If necessary, the Regional Head Offices develop their own methodologies based on the methodology of the Head Office.

Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing as well as regulatory requirements of the Bank of Russia.

The Group makes market risk assessment both by components and in aggregate, determining the diversification effect.

30 Financial Risk Management (Continued)

Interest Rate Risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on the value of debt securities and cash flows.

The Group defines two types of interest rate risk:

1. Interest rate risk on debt securities at fair value through profit or loss or other comprehensive income.

The Group is exposed to interest rate risk of its debt securities portfolio, when changing interest rates impact the fair value of bonds. Starting from the fourth quarter 2008 trading operations with bonds are performed only by the Bank's Head Office.

For managing and limiting interest rate risk across the debt securities portfolio, the ALMC guided by the market risk policy sets the following limits and controls: aggregate limits for bond categories and currencies; limits on investing in one issue of the issuer, loss limits on trading operations, limits on the maturities structure of investments in bonds, minimum return of investments, limits on repo and reverse repo agreements.

This type of interest rate risk is assessed using Value-at-Risk (hereinafter - VaR) methodology described below.

The Group assesses interest rate risk by bonds type: aggregate for the securities at fair value through profit or loss and for the securities available for sale.

2. Interest rate risk resulting from maturities mismatch (interest rates repricing) across assets and liabilities that are interest rate sensitive (interest rate risk of non-trading positions).

The Group accepts risk of market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basis risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds up faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is to reduce the impact of interest rates on net interest income. To manage interest rate risk the ALMC sets maximum interest rates on corporate deposits/ current accounts and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on investments into long-term assets bearing inherently the maximum interest rate risk. The Group's Board approves fixed interest rates on deposits from individuals and individual loans for the Bank's Head Office and Regional Head Offices, which require preliminary approval from the ALMC. As a rule interest rates on retail loans and deposits depend on loan and deposit maturity date, amount and the client's category.

ALMC of each regional bank approves interest rates for corporate clients taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the ALMC of the Bank's Head Office for corporate funds and placements.

30 Financial Risk Management (Continued)

This type of interest rate risk is assessed using the scenario analysis. Interest rate risk is evaluated through a gap analysis by distributing assets and liabilities with fixed interest rates by contractual maturity dates and by the repricing periods in case of floating interest rates separately for Russian Roubles and aggregate for foreign currency.

Forecasting of possible changes in interest rates is carried out separately for Russian Rouble positions and positions in foreign currency. The indicative rate for 3 month-term loans at the Moscow interbank market (MOSPRIME 3M) is used as the base rate for an estimation of rates volatility on rouble positions and LIBOR 3M and EURIBOR 3M – for positions in foreign currency.

The table below shows the impact of interest rates increase and decrease on profit before tax as at 31 December 2009:

Change in profit before tax as at 31 December 2009 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 330 bps	(2 956)	-	(2 956)
Increase in interest rates by 410 bps	3 673	-	3 673
Decrease in interest rates by 20 bps	-	580	580
Increase in interest rates by 30 bps	-	(870)	(870)

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2008:

Change in profit before tax as at 31 December 2008 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 524 bps	11 509	-	11 509
Increase in interest rates by 322 bps	(7 083)	-	(7 083)
Decrease in interest rates by 83 bps	-	(507)	(507)
Increase in interest rates by 95 bps	-	582	582

If interest rates increase / decrease were 100 bps, impact on profit before tax as at 31 December 2009 were as follows:

Change in profit before tax as at 31 December 2009 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	(896)	2 900	2 004
Increase in interest rates by 100 bps	896	(2 900)	(2 004)

30 Financial Risk Management (Continued)

If interest rates increase / decrease were 100 bps, impact on profit before tax as at 31 December 2008 were as follows:

Change in profit before tax as at 31 December 2008 (in millions of Russian Roubles)	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 100 bps	2 198	(610)	1 588
Increase in interest rates by 100 bps	(2 198)	610	(1 588)

The sensitivity analysis above shows changes in profit before tax given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. Moreover, interest rate risk is assessed considering the following simplifications: the calculation disregards possible early repayment or call of instruments.

The Group also stress-tests interest rate risk measuring interest income and expense fluctuations given significant interest rate change, including the risk of interest repricing and early repayment of loans (before the contractual date).

Equity Price Risk. The Group is exposed to equity price risk through investments in corporate shares that may lose value when their market quotations change. In order to limit equity price risk the ALMC shortlists the issuers eligible for investing (this list includes exclusively “blue chips”), sets limits for the aggregate investments in equities, limits on investment into a single issuer, stop-loss limits for the aggregate trading portfolio. The regional offices do not perform trading operations with shares.

Equity price risk analysis is based of the VaR methodology described below.

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

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for Regional Head Offices. Besides, limits and control system are in place for Treasury arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

The Bank’s Head Office Treasury undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group’s currency risk exposure at a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for risk management.

30 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and notional position on currency and precious metals derivatives as at 31 December 2009:

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	585 295	63 753	50 270	26 203	725 521
Mandatory cash balances with the Bank of Russia	40 572	-	-	-	40 572
Debt trading securities	61 716	26 357	1 074	-	89 147
Debt securities designated at fair value through profit or loss	100 640	-	4 644	-	105 284
Due from other banks	7 014	125	-	3 080	10 219
Loans and advances to customers	4 021 182	695 047	111 750	36 052	4 864 031
Securities pledged under repurchase agreements	-	583	-	-	583
Debt investment securities available for sale	662 264	113 643	42 074	10 188	828 169
Other financial assets (less fair value of derivatives)	53 893	4 395	1 306	359	59 953
Total monetary assets	**5 532 576**	**903 903**	**211 118**	**75 882**	**6 723 479**
Liabilities					
Due to other banks	40 601	6 151	2 080	5 115	53 947
Due to individuals	3 152 717	253 309	318 294	62 992	3 787 312
Due to corporate customers	1 137 729	335 422	139 555	38 853	1 651 559
Debt securities in issue	117 408	3 131	2 733	1 327	124 599
Other borrowed funds	-	108 686	6 522	5	115 213
Other financial liabilities (less fair value of derivatives)	25 819	250	198	125	26 392
Subordinated debt	504 346	14 715	-	-	519 061
Total monetary liabilities	**4 978 620**	**721 664**	**469 382**	**108 417**	**6 278 083**
Net monetary asstes/ (liabilities)	**553 956**	**182 239**	**(258 264)**	**(32 535)**	**445 396**
Notional position on currency and precious metals forward and futures contracts (Note 32)	**34 289**	**(302 897)**	**242 940**	**16 203**	**(9 465)**
Credit related commitments (Note 31)	**430 229**	**383 716**	**117 288**	**25 409**	**956 642**

30 Financial Risk Management (Continued)

The table below summarises the Group's risk exposure to foreign currency exchange rate risk in respect of monetary assets, liabilities and notional position on currency and precious metals derivatives as at 31 December 2008:

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	327 805	245 377	215 549	15 018	803 749
Mandatory cash balances with the Bank of Russia	7 643	-	-	-	7 643
Debt trading securities	58 511	19 305	-	-	77 816
Debt securities designated at fair value through profit or loss	129 180	-	-	-	129 180
Due from other banks	2 287	428	41	-	2 756
Loans and advances to customers	4 274 439	691 100	87 103	25 240	5 077 882
Debt investment securities available for sale	236 756	34 108	377	2 453	273 694
Other financial assets (less fair value of derivatives)	33 898	516	687	13	35 114
Total monetary assets	**5 070 519**	**990 834**	**303 757**	**42 724**	**6 407 834**
Liabilities					
Due to other banks	273 793	11 484	14 747	2 515	302 539
Due to individuals	2 586 989	223 697	256 779	44 637	3 112 102
Due to legal entities	1 133 345	374 968	156 764	18 053	1 683 130
Debt securities in issue	137 783	661	458	-	138 902
Other borrowed funds	-	156 496	2 584	-	159 080
Other financial liabilities (less fair value of derivatives)	15 274	4 711	1 168	416	21 569
Subordinated debt	504 633	30 222	-	1 366	536 221
Total monetary liabilities	**4 651 817**	**802 239**	**432 500**	**66 987**	**5 953 543**
Net monetary asstes/ (liabilities)	**418 702**	**188 595**	**(128 743)**	**(24 263)**	**454 291**
Notional position on currency and precious metals forward and futures contracts (Note 32)	**71 746**	**(221 627)**	**137 189**	**11 117**	**(1 575)**
Credit related commitments (Note 31)	**316 056**	**376 000**	**92 160**	**21 942**	**806 158**

30 Financial Risk Management (Continued)

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss. To reduce currency risk on loans and advances to customers the Group made a decision to grant an opportunity to individuals to transfer loans issued in foreign currency to Russian Roubles on request of borrowers. Also the Group limited issue of loans in foreign currency to individuals starting from the end of 2008.

The Group's analysis of currency risk is based on the VaR methodology described below.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon. The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates).

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 500 trading days preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices and price indices;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days or not more than 5 times within 2 years.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

To measure interest rate risk for non-trading positions, the Group applies scenario analysis rather than the VaR methodology.

30 Financial Risk Management (Continued)

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2009:

In millions of Russian Roubles	**Value as at 31 December 2009**	**Average value for 2009**	**Maximum value for 2009**	**Minimum value for 2009**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	45 589	29 200	49 851	19 566	3.75%	137.0%
Equity price risk	5 507	4 492	5 775	2 679	0.42%	15.2%
Currency risk	1 560	1 437	2 414	37	0.12%	4.3%
Market risk including diversification effect	52 845	31 158	53 393	20 223	3.99%	146.0%
Diversification effect	3 811	3 972	11 526	1 243	0.29%	10.5%

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2008:

In millions of Russian Roubles	**Value as at 31 December 2008**	**Average value for 2008**	**Maximum value for 2008**	**Minimum value for 2008**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	21 603	7 498	22 278	3 562	0.94%	6.82%
Equity price risk	3 035	1 873	4 134	689	0.23%	1.70%
Currency risk	1 066	904	7 177	289	0.11%	0.82%
Market risk including diversification effect	21 914	8 716	22 752	3 492	1.09%	7.93%
Diversification effect	(3 790)	(1 559)	-	-	-	-

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

Liquidity Risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, customer's current accounts, maturing deposits, 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 the above mentioned needs, as according to historical data a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the ALMC.

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:

- maintains a stable and diversified liabilities structure including both term resources and funds on demand,
- reserves capacity for immediate borrowing of funds on financial markets, and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

30 Financial Risk Management (Continued)

Policy and Procedures. The Treasury of the Bank together with the Finance department perform analysis and forecasts, and advise on regulation of current and short-term liquidity of the Group. Analysis, forecasts and proposals on regulation of medium-term and long-term liquidity are produced by the Finance department of the Bank. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of "Policies of the Bank for Management and Control of Liquidity" and the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision.

Provisions of this Policy lay down the guidelines for organizing the liquidity management in the Regional Head Offices of the Bank. The Management Board of the Bank's Regional Head Office is responsible for efficiently managing and controlling the Regional Head Office liquidity. It is also responsible for monitoring limits and controls required by the Group's internal regulations. Guided by the limits, controls, requirements and policies, the Regional Head Office selects evaluation methods and the necessary level of liquidity and develops and implements measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the Regional Head Office (according to an established procedure) in the required amount.

Liquidity risk management includes the following procedures:

- forecasting payment flows by major currencies and the necessary volume of liquid assets for short-term liquidity needs;
- forecasting assets and liabilities structure based on scenario analysis to control the required volume of liquid assets in medium-term and long-term perspective;
- forecasting and monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- ensuring diversified funding sources and its control; and
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

30 Financial Risk Management (Continued)

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2009 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	49 619	628	2 342	370	1 997	54 956
Due to individuals	794 755	834 616	1 092 847	1 130 781	178 910	4 031 909
Due to corporate customers	1 255 098	238 998	77 489	92 868	83	1 664 536
Debt securities in issue	35 905	45 711	43 731	7 067	9	132 423
Other borrowed funds	571	2 512	3 642	89 048	29 685	125 458
Other liabilities (including derivative financial instruments)	19 439	10 659	1 234	1 520	306	33 158
Subordinated debt	-	442	24 442	81 780	812 738	919 402
Total liabilities	**2 155 387**	**1 133 566**	**1 245 727**	**1 403 434**	**1 023 728**	**6 961 842**
Loan commitments to extend credit and undrawn credit lines	432 887	-	-	-	-	432 887
Guarantees issued	135 161	-	-	-	-	135 161

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2008 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	302 914	124	8	177	164	303 387
Due to individuals	579 503	729 104	568 446	1 305 085	129 993	3 312 131
Due to corporate customers	1 187 622	205 953	151 945	172 989	22	1 718 531
Debt securities in issue	32 006	60 149	26 393	40 666	10	159 224
Other borrowed funds	1 700	2 197	48 342	91 148	36 036	179 423
Other financial liabilities (including derivative financial instruments)	23 635	1 698	178	136	994	26 641
Subordinated debt	-	915	40 915	83 661	857 362	982 853
Total liabilities	**2 127 380**	**1 000 140**	**836 227**	**1 693 862**	**1 024 581**	**6 682 190**
Loan commitments to extend credit and undrawn credit lines	353 723	-	-	-	-	353 723
Guarantees issued	87 265	-	-	-	-	87 265

30 Financial Risk Management (Continued)

The above analysis is based on undiscounted cash flows on liabilities of the Group taking into account all future payments (including future payments of interest throughout life of the relevant liability). The liabilities were included in the time intervals according to the earliest possible repayment date. For example:

- Demand liabilities (including demand deposits) are included in the earliest time interval; and
- Credit lines and overdrafts are included in the earliest period when they may be called.

However, in accordance with the Civil Code of the Russian Federation individuals have the right to withdraw their deposits from any accounts (including time deposits) prior to maturity if they forfeit their right to accrued interest. The Group utilises a wide range of market instruments to maintain its liquidity on the level sufficient for timely execution of the current and forecasted financial obligations including the disposal of liquid assets or funding in domestic and international capital markets.

The derivative contracts entered into by the Group are settled on both net and gross basis. If the derivatives are settled gross, inflow and outflow of funds occur simultaneously.

The table below shows assets and liabilities at 31 December 2009 by their remaining expected maturity. The Group manages its Liquidity Risk using management accounts based on statutory balances. For the purpose of presentation in the consolidated financial statements the tables below approximate the data in those management accounts. The Group uses internal software system and the internal system of forecasts, which allows to classify the deposits from individuals and customer accounts balances in accordance with the expected terms of settlements based on the internal statistics of the Bank and macroeconomic trends.

30 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities as at 31 December 2009 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Not stated maturity	Total
Assets							
Cash and cash equivalents	725 521	-	-	-	-	-	725 521
Mandatory cash balances with the Bank of Russia	10 669	4 175	5 343	17 977	2 408	-	40 572
Trading securities	91 022	-	-	-	-	-	91 022
Securities designated at fair value through profit or loss	124 439	-	-	-	-	-	124 439
Due from other banks	4 065	3 706	68	1 693	687	-	10 219
Loans and advances to customers	205 924	730 974	968 615	1 539 964	1 418 554	-	4 864 031
Securities pledged under repurchase agreements	-	-	-	-	583	2 116	2 699
Investment securities available for sale	6 406	253 096	23 477	211 381	343 025	8 590	845 975
Premises and equipment	-	-	-	-	-	249 881	249 881
Other assets	72 525	8 949	2 912	1 167	21 289	43 865	150 707
Total assets	**1 240 571**	**1 000 900**	**1 000 415**	**1 772 182**	**1 786 546**	**304 452**	**7 105 066**
Liabilities							
Due to other banks	49 570	574	2 177	281	1 345	-	53 947
Due to individuals	356 084	513 251	697 007	1 901 545	319 425	-	3 787 312
Due to corporate customers	1 088 570	52 884	19 588	490 270	247	-	1 651 559
Debt securities in issue	35 603	43 841	38 910	6 245	-	-	124 599
Other borrowed funds	88	395	1 308	83 762	29 660	-	115 213
Deferred income tax liability	-	-	-	-	-	4 598	4 598
Other liabilities	32 060	9 414	7 067	1 392	2 215	17 693	69 841
Subordinated debt	-	14 504	-	-	504 557	-	519 061
Total liabilities	**1 561 975**	**634 863**	**766 057**	**2 483 495**	**857 449**	**22 291**	**6 326 130**
Net liquidity surplus/(gap)	**(321 404)**	**366 037**	**234 358**	**(711 313)**	**929 097**	**282 161**	**778 936**
Cumulative liquidity surplus/ (gap) at 31 December 2009	**(321 404)**	**44 633**	**278 991**	**(432 322)**	**496 775**	**778 936**	**-**

30 Financial Risk Management (Continued)

The liquidity position as per remaining expected maturity of the Group's assets and liabilities as at 31 December 2008 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Not stated maturity	Total
Assets							
Cash and cash equivalents	803 749	-	-	-	-	-	803 749
Mandatory cash balances with the Bank of Russia	855	1 604	788	1 532	2 864	-	7 643
Trading securities	78 603	-	-	-	-	-	78 603
Securities designated at fair value through profit or loss	130 503	-	-	-	-	-	130 503
Due from other banks	2 058	698	-	-	-	-	2 756
Loans and advances to customers	275 743	973 510	1 038 260	1 432 780	1 357 589	-	5 077 882
Investment securities available for sale	75	7 426	8 892	52 061	205 241	10 877	284 572
Premises and equipment	-	-	-	-	-	251 478	251 478
Other assets	64 714	15 497	2 044	8 370	586	8 085	99 296
Total assets	**1 356 300**	**998 735**	**1 049 984**	**1 494 743**	**1 566 280**	**270 440**	**6 736 482**
Liabilities							
Due to other banks	302 068	122	8	177	164	-	302 539
Due to individuals	65 853	223 189	246 610	784 904	1 791 546	-	3 112 102
Due to legal entities	475 141	782 598	249 900	175 425	66	-	1 683 130
Debt securities in issue	32 116	52 208	23 569	31 001	8	-	138 902
Other borrowed funds	-	21	44 453	81 307	33 299	-	159 080
Deferred income tax liability	-	-	-	-	-	10 516	10 516
Other liabilities	27 162	8 555	177	136	262	7 538	43 830
Subordinated debt	-	-	-	-	536 221	-	536 221
Total liabilities	**902 340**	**1 066 693**	**564 717**	**1 072 950**	**2 361 566**	**18 054**	**5 986 320**
Net liquidity surplus/(gap)	**453 960**	**(67 958)**	**485 267**	**421 793**	**(795 286)**	**252 386**	**750 162**
Cumulative liquidity surplus at 31 December 2008	**453 960**	**386 002**	**871 269**	**1 293 062**	**497 776**	**750 162**	**-**

30 Financial Risk Management (Continued)

The Management believes that matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Investment securities available for sale included into maturity analysis table are based on the contractual terms of the underlying debt financial assets. For liquidity management purposes these financial assets are included by the Group into band "On demand and less than 1 month", as investment securities available for sale portfolio comprises securities of high quality mostly included into the Bank of Russia repo list and can be easily exchanged for cash if needed.

A substantial part of the Group's customer accounts is represented by current accounts and deposits on demand. The Management believes that diversification of these funds by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated into maturity baskets on the basis of statistical data available to the Management of the Group.

The Group's liquidity is assessed through all time intervals under different economy development scenarios. For each term to maturity the liquidity ratios are calculated as the ratio of assets redeemable during the term to liabilities callable during the same term in accordance with the scenario applicable at the moment of calculation.

Currently there are four different scenarios of changes in macroeconomic environment that are approved by collective bodies of the Group. They are: basic (the most probable) scenario, two scenarios of macroeconomic deterioration and a crisis scenario (similar to the crisis of 2008). The trigger for switching between scenarios is the average Urals oil price for the last 6 months which is the primary factor reflecting external economic environment. Individual liquidity ratios are independently approved for each scenario.

According to the basic scenario, the minimum liquidity ratio value is 1, i.e. possible outflow of customers' funds should be completely covered by the disposal of assets. Other scenarios imply liquidity ratios below 1, which indicates possible shortage of liquidity. However, in case of switching from the basic scenario or if there's a threat of trespassing minimal liquidity ratios approved by the ALMC, special liquidity supporting measures are implemented. Actual liquidity ratios are calculated on a monthly basis.

Operational Risk. Operational risk is a possibility of a loss from deficiencies in operational management, technologies and information systems in use, unauthorised actions or errors of the staff, or by external events.

The Group considers management of operational risk as part of its overall risk management system. To manage operational risk the Group uses appropriate Policies for prevention and/or minimisation of operational risk.

The Group's Policies for Operational Risk Management include segregation of duties, overall reglamentation of business processes and internal procedures, control over credit limit discipline, rules and procedures for deals and transactions execution; action plan for information security, continuity and recovery in case of emergency and ongoing professional development of staff across the Group's hierarchy.

Management of operational risk depends on the volume of transactions, multi-branch operational structure and diversity of information systems in place.

The Group monitors operational risk data, collects, analyses and systematises the loss data and monitors losses caused by processes and operations exposed to operational risk.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency 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 regional and federal authorities. The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations, and 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.

Capital expenditure commitments. At 31 December 2009 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 7 394 million (2008: RR 9 113 million) and in respect of computer equipment acquisition of RR 635 million (2008: RR 522 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

In millions of Russian Roubles	**2009**		**2008**	
	Lease payments under cancellable operating lease	**Lease payments under non-cancellable operating lease**	**Lease payments under cancellable operating lease**	**Lease payments under non-cancellable operating lease**
Not later than 1 year	4 261	785	4 287	676
Later than 1 year and not later than 5 years	7 943	1 242	8 112	1 264
Later than 5 years	6 784	982	7 849	1 154
Total operating lease commitments	**18 988**	**3 009**	**20 248**	**3 094**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank. The Bank is in compliance with covenants as at 31 December 2009 and as at 31 December 2008.

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

31 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused credit limits to extend credit in the form of loans authorised by Management of the Group, 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	**2009**	**2008**
Commitments to extend credit	328 013	253 106
Export letters of credit	264 196	237 050
Import letters of credit and letters of credit for domestic settlements	118 463	128 120
Undrawn credit lines	108 448	100 617
Guarantees issued	137 522	87 265
Total credit related commitments	**956 642**	**806 158**

At 31 December 2009 included in Due to corporate customers are deposits of RR 82 068 million (2008: RR 95 722 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 16.

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

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	**2009 Nominal value**	**2008 Nominal value**
State savings bonds and OFZ bonds	269 324	179 267
Corporate shares	179 261	122 744
Promissory notes	23 119	24 022
Corporate bonds	3 586	4 952
Eurobonds of the Russian Federation	796	-
Debt securities of municipal and subfederal bodies of the Russian Federation	620	740
VneshEconomBank bonds (VEB bonds)	31	7
Other securities	468	620

31 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

		2009		2008	
In thousands of Russian Roubles	Notes	Asset pledged	Related liability	Asset pledged	Related liability
Trading securities	8, 34	24 453	-	42 466	40 319
Other securities at fair value through profit or loss	9, 34	39 658	-	122 366	104 422
Securities pledged under repurchase agreements	11	2 699	2 285	-	-
Investment securities available for sale	12, 34	79 067	-	151 827	89 179
Total		**145 877**	**2 285**	**316 659**	**233 920**

Mandatory cash balances with the Bank of Russia in the amount of RR 40 572 million (2008: RR 7 643 million) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

As at 31 December 2009 the Group has pledged federal loan bonds (OFZ bonds) with fair value of RR 123 062 million (2008: RR 73 911 million) and Eurobonds of the Russian Federation with fair value of RR 20 116 million (2008: nil) on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. OFZ bonds were accounted for at fair value in original categories as follows: (i) amount of RR 18 105 million was included in the portfolio of trading securities (2008: RR 603 million), (ii) amount of RR 39 658 million in the portfolio of securities designated at fair value through profit or loss (2008: RR 13 981 million), and (iii) amount of RR 65 299 million in the portfolio of investment securities available for sale (2008: RR 59 327 million). Eurobonds of the Russian Federation were accounted for at fair value in original categories as follows: (i) amount of RR 6 348 million was included in the portfolio of trading securities (2008: nil), (ii) amount of RR 13 768 million in the portfolio of investment securities available for sale (2008: nil). Refer to Note 8. 9, 12 and 34.

32 Derivative Financial Instruments

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

Fair value of forward contracts is calculated as present value of amounts receivable less present value of amounts payable. The inputs in the discounted cash flows model used are forward exchange rate quotations and quoted implied depo rates. Such instruments are classified as level 2 of fair value hierarchy (see also Note 33).

Fair value of option contracts is calculated using the Black-Scholes model. Adjustments for credit risk are made where appropriate. The main inputs of this model are current market price and implied volatility. Where these inputs could be observed on the open market, the carrying amounts are disclosed as level 2 of fair value hierarchy. Otherwise, the amounts are disclosed as level 3 (see Note 33).

The table below sets out fair values, at the reporting date, of financial assets receivable or payable under foreign exchange and precious metals forward, futures and option contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

32 Derivative Financial Instruments (Continued)

	Domestic counterparties				Foreign counterparties			
As at 31 December 2009: *(in millions of Russian Roubles)*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**
Forwards								
Foreign currency								
- purchase EUR/sale CHF	-	-	-	-	2 126	(2 198)	-	(72)
- purchase EUR/sale RUR	217	(217)	-	-	-	-	-	-
- purchase EUR/sale USD	-	-	-	-	242 352	(251 734)	79	(9 461)
- purchase JPY/sale USD	-	-	-	-	63	(64)	-	(1)
- purchase RUR/sale EUR	237	(237)	-	-	-	-	-	-
- purchase RUR/sale USD	7 384	(7 484)	-	(100)	32 317	(32 441)	265	(389)
- purchase USD/sale EUR	-	-	-	-	1 410	(1 406)	4	-
- purchase USD/sale RUR	1 849	(1 837)	39	(27)	3 637	(3 507)	131	-
- purchase EUR/sale BLR	-	-	-	-	1 615	(1 241)	375	-
- purchase USD/sale BLR	-	-	-	-	1 600	(1 572)	29	-
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	18 272	(18 609)	-	(337)
- purchase USD/sale precious metals	-	-	-	-	335	(337)	-	(2)
Options purchased								
Foreign currency								
- purchase USD/sale RUR	-	-	-	-	302	311	15	-
Equity								
- purchase shares/ sale RUR	-	-	-	-	818	2 323	97	-
- purchase shares/ sale USD	-	-	-	-	1 474	3 115	691	-
- purchase USD/sale shares	-	-	-	-	5 824	381	2 240	-
Options sold								
Foreign currency								
- purchase RUR/sale USD	-	-	-	-	2 430	2 420	-	(200)
- purchase RUR/sale EUR	70	65	-	-	-	-	-	-
Total	**9 757**	**(9 710)**	**39**	**(127)**	**314 575**	**(304 559)**	**3 926**	**(10 462)**

32 Derivative Financial Instruments (Continued)

As at 31 December 2008: *(in millions of Russian Roubles)*	Domestic counterparties				Foreign counterparties			
	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value
Forwards								
Foreign currency								
- purchase AUD/sale USD	-	-	-	-	18	(18)	-	-
- purchase CHF/sale USD	-	-	-	-	27	(27)	-	-
- purchase EUR/sale GBP	-	-	-	-	82	(82)	-	-
- purchase EUR/sale USD	-	-	-	-	137 948	(136 479)	1 673	(204)
- purchase GBP/sale USD	-	-	-	-	56	(55)	1	-
- purchase JPY/sale USD	-				50	(50)	-	-
- purchase RUR/sale USD	42 975	(42 764)	266	(55)	60 886	(65 181)	321	(4 616)
- purchase SGD/sale USD	-	-	-	-	3	(3)	-	-
- purchase USD/sale EUR	824	(841)	-	(17)	-	-	-	-
- purchase USD/sale RUR	317	(256)	61	-	1 475	(1 123)	352	-
- purchase USD/sale KZT	-	-	-	-	2 984	(2 984)	-	-
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	14 049	(13 306)	753	(10)
- purchase USD/sale precious metals	-	-	-	-	20	(20)	-	-
Futures								
Foreign currency								
- purchase USD/sale RUR	30 704	(30 801)	70	(167)	-	-	-	-
Options								
Foreign currency								
- purchase RUR/sale USD	65	(68)	-	(3)	-	-	-	-
Total	**74 885**	**(74 730)**	**397**	**(242)**	**217 598**	**(219 328)**	**3 100**	**(4 830)**

32 Derivative Financial Instruments (Continued)

During the year the Group has incurred a net loss on foreign currency derivatives in the amount of RR 12 135 million (2008: RR 5 022 million) and earned net gain on precious metals derivatives in the amount of RR 1 082 million (2008: RR 570 million), which is recorded in the Group's consolidated income statement within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains, and net gains/(losses) arising from operations with precious metals and precious metals derivatives correspondingly.

33 Fair Value of Financial Instruments

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.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	90 507	515	-	91 022
Securities designated at fair value through profit or loss	103 673	4 776	15 990	124 439
Securities pledged under repurchase agreements	2 699	-	-	2 699
Investment securities available for sale	833 084	2 982	9 909	845 975
Derivative financial instruments	-	3 965	-	3 965
	1 029 963	**12 238**	**25 899**	**1 068 100**
Financial liabilities				
Derivative financial instruments	-	10 589	-	10 589
	-	**10 589**	**-**	**10 589**

33 Fair Value of Financial Instruments (Continued)

At 31 December 2008	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	78 603	-	-	78 603
Securities designated at fair value through profit or loss	130 503	-	-	130 503
Investment securities available for sale	280 027		4 545	284 572
Derivative financial instruments	-	3 497	-	3 497
	489 133	**3 497**	**4 545**	**497 175**
Financial liabilities				
Derivative financial instruments	-	5 072	-	5 072
	-	**5 072**	**-**	**5 072**

Level 2 includes debt securities of first-class borrowers that are not actively traded on the market. Fair value of the securities was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009	Total gain/(loss) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	Purchases	Sales	Transfers from level 1 and level 2	At 31 December 2009
Financial assets							
Securities designated at fair value through profit or loss	-	63	-	15 927	-	-	15 990
Investment securities available for sale	4 545	(864)	49	6 179	-	-	9 909
Total level 3 financial assets	**4 545**	**(801)**	**49**	**22 106**	**-**	**-**	**25 899**

There were no transfers between level 1 and level 2 during the year ended 31 December 2009.

Valuation of available for sale shares in a construction company of RR 731 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the estimation of fair value of assets and liabilities of the company.

Should the fair value of net assets used by the Group in the valuation model increase / decrease by 5%, the carrying value of the financial instrument would be RR 37 million lower / RR 37 million higher.

33 Fair Value of Financial Instruments (Continued)

Investment in shares of a company involved in construction business at fair value through profit and loss of RR 2 608 million using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type and volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase of prices.

Should the weighted average cost of the capital (hereinafter – "WACC") used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 237 million lower / RR 258 million higher.

Investment in shares of a company involved in oil and gas production at fair value through profit and loss of RR 13 383 million using valuation technique based on non-observable inputs

The Management of the Group applied the comparative approach using valuation multiples for comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry, oil and gas production, provide the best basis for estimating the asset's fair value.

The Management of the Group applied an enterprise value to reserves ratio as the valuation multiple for calculating the company's fair value, and the resulting asset value was then discounted by 20% due to the asset's illiquidity.

Should the weighted multiples and the discount rate used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 21 million lower / RR 16 million higher.

Valuation of available for sale shares in an oil and gas producing company of RR 166 million using valuation techniques based on non-observable inputs

The Management of the Group applied the comparative approach using valuation multiples for comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry, oil and gas production in the Commonwealth of Independent States, provide the best basis for estimating the asset's fair value.

The Management of the Group applied an enterprise value to reserves ratio as the valuation multiple for calculating the company's fair value, and the resulting asset value was then discounted by 20% due to the asset's illiquidity.

Should the weighted multiples and the discount rate used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 3 million higher / RR 4 million lower.

33 Fair Value of Financial Instruments (Continued)

Valuation of available for sale shares of a transportation company of RR 6 230 million using valuation techniques based on non-observable inputs

The principal assumptions underlying the estimation of the fair value include: commission for transshipment/storage of the goods, production volume and capacity utilization.

The principal assumptions are as follows:

- The volume of the commission for transshipment / storage of the goods will change in the range from -1,5% to +2%;
- The annual production volume will increase by 10%; and
- Capacity utilization ratio will be in the range from 80% to 100%.

Should the WACC used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 609 million lower / RR 736 million higher.

Valuation of available for sale shares in a telecommunication company of RR 2 753 million using valuation techniques based on non-observable inputs

The Management of the Group applied the comparative approach with the use of multiples of comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry provide the best basis for estimating the asset's fair value.

The Management of the Group applied two types of multiples for calculating fair value:

- EV/EBITDA as an income generation multiple; and
- EV/Number of the customers for economic sector multiple.

The Management of the Group applied 30% EV/EBITDA and 70% EV/Number of customers weighting coefficients for estimating fair value and then discounted the result by 20% in view of the asset's illiquidity.

Should the weighted multiples and discount coefficients used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 3 million lower / RR 4 million higher.

33 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

	2009		2008	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents:				
- Cash on hand	240 641	240 641	307 456	307 456
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	70 007	70 007	82 028	82 028
- Correspondent accounts and placements with other banks with original maturities of less than 30 days	388 295	388 295	402 233	402 233
- Reverse-repo agreements with original maturities up to 30 days	26 578	26 578	12 032	12 032
Mandatory cash balances with the Bank of Russia	40 572	40 572	7 643	7 643
Due from other banks	10 219	10 219	2 756	2 756
Loans and advances to customers:				
- Commercial loans to legal entities	1 984 834	2 028 298	2 052 666	2 019 315
- Specialized loans to legal entities	1 772 925	1 702 977	1 808 626	1 672 661
- Consumer and other loans to individuals	526 126	526 126	629 673	629 673
- Mortgage loans to individuals	484 012	484 012	485 264	485 264
- Car loans to individuals	96 134	96 134	101 653	101 653
Other financial assets carried at amortised cost:				
- Receivables on plastic cards settlements	52 324	52 324	32 035	32 035
- Settlements on currency conversion operations	4 645	4 645	362	362
- Funds in settlement	1 117	1 117	325	325
- Other financial assets carried at amortised cost	1 867	1 867	2 392	2 392
Financial assets carried at fair value				
Trading securities	91 022	91 022	78 603	78 603
Securities designated at fair value through profit or loss	124 439	124 439	130 503	130 503
Securities pledged under repurchase agreements	2 699	2 699	-	-
Investment securities available for sale	845 975	845 975	284 572	284 572
Other financial assets carried at fair value	3 965	3 965	3 497	3 497
Total financial assets	**6 768 396**	**6 741 912**	**6 424 319**	**6 255 003**

33 Fair Value of Financial Instruments (Continued)

	2009		2008	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities carried at amortised cost				
Due to other banks:				
- Correspondent accounts and overnight placements of other banks	35 621	35 621	33 134	33 134
- Current term placements of other banks	18 215	18 215	35 485	35 485
- Sale and repurchase agreements with the Bank of Russia and other banks	111	111	233 920	233 920
Due to Individuals:				
- Current/demand accounts	540 455	540 455	395 090	395 090
- Term deposits	3 246 857	3 228 747	2 717 012	2 695 489
Due to corporate customers:				
- Current/settlement accounts of state and public organisations	104 004	104 004	160 540	160 540
- Term deposits of state and public organisations	32 900	33 152	58 914	58 770
- Current/settlement accounts of other corporate customers	861 028	861 028	850 621	850 621
- Term deposits of other corporate customers	653 627	657 858	613 055	611 554
Debt securities in issue:				
- Promissory notes	101 294	95 996	119 408	113 032
- Savings certificates	17 844	17 844	17 095	17 095
- Deposit certificates	5 461	5 461	2 399	2 399
Other borrowed funds:				
- Long-term loans received	104 852	107 187	153 531	141 787
- Term borrowings	10 361	10 361	5 549	5 549
Other financial liabilities carried at amortised cost:				
- Plastic card payables	13 170	13 170	7 842	7 842
- Deferred gains on initial recognition of financial instruments	3 863	3 863	-	-
- Deposit insurance system fees payable	3 449	3 449	2 927	2 927
- Trade payables	2 970	2 970	1 849	1 849
- Funds in settlement	1 579	1 579	6 391	6 391
- Deferred commissions received on guarantees issued	799	799	733	733
- Other financial liabilities carried at amortised cost	562	562	1 827	1 827
Subordinated debt:				
- Subordinated debt received by the Group from the Bank of Russia	504 346	504 346	504 634	504 634
- Subordinated debt received by the Group on international financial markets	14 504	14 562	30 012	19 138
- Subordinated debt received by subsidiaries	211	200	1 575	1 575
Financial liabilities carried at fair value				
Other financial liabilities carried at fair value	10 589	10 589	5 072	5 072
Total financial liabilities	**6 288 672**	**6 272 129**	**5 958 615**	**5 906 453**

33 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, other assets at fair value through profit or loss, financial derivatives, available for sale financial assets are carried in the consolidated statement of financial position at their fair value.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

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

Interest rates on loans and advances to customers and due from other banks as at 31 December 2009 and 31 December 2008 were as follows:

	2009	**2008**
Due from other banks	8.00% to 9.15% p.a.	7.00% to 35.00% p.a.
Loans and advances to customers:		
Corporate loans	6.19% to 15.84% p.a.	7.90% to 15.97% p.a.
Loans to individuals - consumer loans	11.21% to 15.03% p.a.	11.48% to 14.65% p.a.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortised cost. The fair value is based on quoted 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 remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.04% p.a. to 10.2% p.a. (2008: from 0.2% p.a. to 12.0% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 32.

34 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in Note 35 for transactions with state-controlled entities and government bodies.

As at 31 December 2009 and 31 December 2008, the outstanding balances with the Bank of Russia were as follows:

In millions of Russian Roubles	Note	2009	2008
Assets			
Cash and cash equivalents (contractual interest rate: 4.0%)		566 115	82 028
Mandatory cash balances with the Bank of Russia		40 572	7 643
Bonds of the Bank of Russia (yield to maturity: from 6% to 7% p.a.)		221 080	-
Other assets		45	-
Liabilities			
Due to other banks	15	-	233 317
Subordinated debt (contractual interest rate: 8.0%)	20	504 346	504 634

At 31 December 2008, included in amounts due to other banks are liabilities of RR 233 317 million received under sale and repurchase agreements with the Bank of Russia. Fair value of securities collateralised under these agreements with the Bank of Russia in the amount of RR 41 863 million was included in the portfolio of trading securities, in the amount of RR 108 385 million in the portfolio of securities designated at fair value through profit or loss and in the amount of RR 91 872 million in the portfolio of investment securities available for sale. Refer to Notes 8, 9, 12, 15 and 31.

As at 31 December 2009 the Group has pledged federal loan bonds (OFZ bonds) with fair value of RR 123 062 million (2008: RR 73 911 million) and Eurobonds of the Russian Federation with fair value of RR 20 116 million (2008: nil) on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 8, 9, 12 and 31.

The income and expense items with the Bank of Russia for the year ended 31 December 2009 and the year ended 31 December 2008 were as follows:

In millions of Russian Roubles	2009	2008
Interest income	2 640	1 501
Interest expense	(8 292)	(1 827)
Interest expense on subordinated debt	(39 989)	(4 634)
Net gains arising from trading securities	-	100
Net losses arising from investment securities available for sale	-	(47)
Other operating expenses	(848)	(797)

For the year ended 31 December 2009, remuneration of the members of the key management personnel comprised salaries and bonuses totalling RR 506 million (the year ended 31 December 2008: RR 934 million).

35 Operations with State-Controlled Entities and Government Bodies

The Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Group disclosed only information that its current internal management and accounting systems allow to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These consolidated financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Group's transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) 100% State subsidiaries and government bodies and 2) largest entities where the State controls over 50% of its share capital. All transactions with government bodies and state-controlled entities are entered into in the normal course of business and priced at market rates.

As at 31 December 2009 and 31 December 2008, the outstanding balances with state-controlled entities and government bodies were as follows:

	2009		**2008**	
In millions of Russian Roubles	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**
Cash and cash equivalents (contractual rates from 5.5% to 7.5%)	-	1 747	1	2 149
Trading securities (yield to maturity from 2.7% to 39%)	72 642	6 876	65 160	4 500
Securities designated at fair value through profit or loss (yield to maturity from 5.0% to 22.0%)	98 131	5 383	122 055	1 607
Due from other banks (contractual rates from 5.5% to 14.5%)	4 073	2 516	-	-
Gross amount of loans and advances to customers (contractual rates from 4.5% to 20.5%)	247 522	197 813	286 180	155 033
Impairment for loans and advances to customers	(4 675)	(4 402)	(4 232)	(2 220)
Securities pledged under repurchase agreements	-	31	-	-
Investment securities available for sale (yield to maturity from 2.5% to 27.8%)	416 665	65 883	230 158	9 806
Due to other banks (contractual rates from 1.0% to 5.4%)	-	205	-	8 203
Due to corporate customers (contractual rates from 0.2% to 11.8%)	152 369	90 693	222 682	40 423

35 Operations with State-Controlled Entities and Government Bodies (Continued)

Income and expense items with State subsidiaries and government bodies for the year periods ended 31 December 2009 and 31 December 2008 were as follows:

	2009		2008	
In millions of Russian Roubles	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**	**100% owned State subsidiaries and government bodies**	**Entities where the State controls over 50% of share capital**
Interest income on loans	40 510	28 215	24 149	11 071
Interest income on securities	37 191	1 858	27 585	609
Interest expense	(12 829)	(7 516)	(14 842)	(2 551)
Provision for loan impairment	(443)	(2 182)	(1 915)	(1 584)
Net gains/ (losses) arising from trading securities	10 254	781	(14 752)	(828)
Net gains/ (losses) arising from securities designated at fair value through profit or loss	5 316	1 782	(12 412)	(1 496)
Net gains/ (losses) arising from investment securities available for sale	9 138	5 407	(11)	420
Impairment of investment securities available for sale	-	-	-	(3 600)
Fee and commission income	4 242	837	2 967	373

Transactions with the State also include taxes. Income tax expense attributable to operations taxable in the Russian Federation amounted to RR 4 113 million for the year ended 31 December 2009 (RR 31 998 million for the year ended 31 December 2008).

36 Principal Subsidiaries

The table below provides detail on consolidated subsidiaries of the Bank as at 31 December 2009:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
OJSC Belpromstroy Bank (OAO BPS Bank)	banking	93%	93%	Belarus
DB JSC Sberbank	banking	100%	100%	Kazakhstan
JSC Sberbank of Russia	banking	100%	100%	Ukraine
CJSC Sberbank Leasing	leasing	100%	100%	Russia
LLC Sberbank Capital	services	100%	100%	Russia
OJSC Holding company GVSU Center	construction	97%	97%	Russia
CJSC NK Dulisma	oil company	100%	100%	Russia

36 Principal Subsidiaries (Continued)

In December 2009 the Bank acquired 93.3% share of the share capital of OJSC BPS Bank, which was previously controlled by Government of Republic of Belarus. The acquisition of OJSC BPS Bank was driven by the Group's strategy for international development according to which the CIS markets are recognized as priority markets for the Group. The purchase consideration comprised RR 8 474 million. OJSC BPS Bank is engaged in commercial baking operations with corporate customers, individuals and banks and operates in the Republic of Belarus through 7 branches and 28 sub-branches. Fair value of net assets of OJSC BPS Bank amounted to RR 9 811 million at the acquisition date. As at 31 December 2009 the assets of the subsidiary before intercompany adjustments comprised RR 51 331 million, the subsidiary contributed no profit to the Group from the date of acquisition. Refer to Note 37.

DB JSC Sberbank is a 100% subsidiary bank of the Bank, operating in Kazakhstan. It was acquired in July 2006 in several tranches. The acquisition of DB JSC Sberbank was also driven by the Group's strategy for the CIS markets. DB JSC Sberbank is engaged in commercial banking and operates in Kazakhstan through 12 branches and 81 sub-branches. The subsidiary's assets before intercompany adjustments amounted to RR 45 076 million as at 31 December 2009; in 2009, it earned net profit of RR 479 million, attributable to the shareholders of the parent.

JSC Sberbank of Russia is a 100% subsidiary bank, operating in Ukraine. It was acquired in December 2007 driven by the Bank's strategy to develop the volume of its operations on the CIS markets. JSC Sberbank of Russia is engaged in commercial baking operations with corporate customers, individuals and banks and operates in Ukraine through 42 sub-branches. The subsidiary's assets before intercompany eliminations amounted to RR 15 369 million as at 31 December 2009.

CJSC Sberbank Leasing is a 100% subsidiary of the Bank which was incorporated in September 1993. The company is involved in finance/ operating lease business which the Group considers to be one of the important financial business activities in the market. As at 31 December 2009 the assets of CJSC Sberbank Leasing before intercompany eliminations comprised RR 39 523 million, net profit for 2009 attributable to the parent amounted to RR 70 million.

LLC Sberbank Capital is a 100% Russian subsidiary of the Bank incorporated in September 2008. The company's principal activities include investment business, real estate development and asset management operations in the Russian Federation and abroad. As at 31 December 2009 the assets of the subsidiary before intercompany adjustments comprised RR 75 955 million.

In December 2009 under the settlement of the loan the Group repossessed 97% share in Russian construction company OJSC Holding company GVSU Center, a diversified holding company providing full range of construction activities. As at 31 December 2009 total assets before intercompany eliminations comprised 7 798 million, the subsidiary contributed no profit to the Group from the date of recognition. The Group plans to develop the business of the subsidiary and have further plans to dispose of it in the foreseeable future. Refer to Note 37.

In August 2009 under the settlement of the loan to the Group's borrower the Group repossessed 100% share in oil company CJSC NK Dulisma, operating in Russia. As at 31 December 2009 the subsidiary's assets before intercompany adjustments totalled RR 7 958 million, net profit for 2009 attributable to the parent comprised RR 113 million. The Group plans to develop the business of the subsidiary and have further plans to dispose of it in the foreseeable future. Refer to Note 37.

The share of all the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2009 was 3.3%.

37 Business Combinations

In December 2009 the Group acquired 93.3% of the share capital of OJSC BPS Bank in Belarus for RR 8 474 million. The acquisition of OJSC BPS Bank was driven by the Group's strategy for international development according to which the CIS markets are recognised as priority markets for the Group. The transaction will lead to further expansion of the Group in the CIS markets which the Management believe to be rapidly growing. OJSC BPS Bank ranks third among the largest banks in Belarus by assets and capital. It has strong positions in services for corporate customers with 7.5% share in corporate loans on Belarus market which the Group plans to strengthen in 2010-2014. Fair value of net assets of OJSC BPS Bank at acquisition date was assessed at RR 9 811 million. The transaction was recognised as a bargain purchase and resulted in a gain from bargain purchase in the amount of RR 677 million recognised in other operating income in the consolidated income statement for the year ended 31 December 2009. The acquired subsidiary contributed no revenue and profit to the Group for the period from the date of acquisition to 31 December 2009.

The details of the assets and liabilities acquired and gain from the bargain purchase of OJSC BPS Bank are as follows:

In millions of Russian Roubles	**Fair value**
Cash and cash equivalents	7 007
Securities	2 668
Due from other banks	3 076
Loans and advances to customers	35 905
Premises and equipment	3 922
Intangible assets	2 095
Other assets	608
Due to other banks	(2 723)
Due to individuals and corporate customers	(31 835)
Debt securities in issue	(2 027)
Other borrowed funds	(7 512)
Other liabilities	(1 373)
Fair value of net assets of subsidiary	**9 811**
Total purchase consideration	**8 474**
Non-controlling interest	660
Total purchase consideration and non-controlling interest	**9 134**
Gain from bargain purchase	**677**

37 Business Combinations (Continued)

Fair value of net assets identified on acquisition of the subsidiary exceeded the consideration paid by the Group, which resulted in recognition of a gain from a bargain purchase. Bargain gain was followed by recognition of significant intangible assets on loyal customer base and brand of OJSC BPS Bank of RR 2 095 million. Refer to Note 14.

Gross amount of loans and receivables acquired through this business combination amounted to RR 39 534 million. The amount of cash flows not expected to be received was assessed at RR 1 788 million.

The measurement of outflow of cash and cash equivalents on acquisition is detailed below:

In millions of Russian Roubles	
Total purchase consideration	**8 474**
Less: fair value of cash and cash equivalents of subsidiary acquired	(7 007)
Outflow of cash and cash equivalents on acquisition	**1 467**

In August 2009 under the settlement of the loan the Group repossessed 100% share in oil company CJSC NK Dulisma, operating in Russia. The acquired subsidiary contributed RR 113 million to the net profit of the Group for the period from the date of acquisition to 31 December 2009.

The details of the fair value of net assets of CJSC NK Dulisma are as follows:

In millions of Russian Roubles	**Fair value**
Premises and equipment	7 278
Other assets	443
Other borrowed funds	(4 198)
Other liabilities	(1 611)
Fair value of net assets of subsidiary	**1 912**
Total purchase consideration	**1 912**

Gross amount of receivables acquired through this business combination amounted to RR 176 million. The amount of cash flows not expected to be received was assessed at RR 66 million.

In December 2009 under the settlement of the loan the Group repossessed 97% share in Russian construction company OJSC Holding company GVSU Center, a diversified holding company providing full range of construction services. The company holds a number of industrial plants and construction companies. The subsidiary contributed no revenue and profit to the Group from the date of recognition to 31 December 2009.

37 Business Combinations (Continued)

The details of the fair value of net assets of OJSC Holding company GVSU Center and goodwill arising on acquisition are as follows:

In millions of Russian Roubles	**Fair value**
Cash and cash equivalents	650
Due from other banks	501
Premises and equipment	3 614
Intangible assets	641
Other assets	2 393
Other liabilities	(2 647)
Fair value of net assets of subsidiary	**5 152**
Total purchase consideration	**5 507**
Non-controlling interest	114
Total purchase consideration and non-controlling interest	**5 621**
Goodwill arising on acquisition	**469**

Gross amount of receivables acquired through this business combination amounted to RR 1 293 million. The amount of cash flows not expected to be received was assessed at RR 266 million.

If the acquisition of all business combinations described above had occurred on 1 January 2009, the Group's operating income for the year ended 31 December 2009 would have been RR 269 492 million; net profit for the same period would have been RR 26 705 million.

Non-controlling interest in respect of acquisition of OJSC BPS Bank and OJSC Holding company GVSU Center was measured as the non-controlling interest's proportionate share in the acquiree's net identifiable assets.

38 Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern. The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%. Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly, with the reports to the Bank of Russia presenting the appropriate calculations.

38 Capital Adequacy Ratio (Continued)

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above the minimum level of 10%. The Bank's Assets and Liabilities Management Committee (ALMC) sets the minimum level of the capital ratio of 11%. This level exceeds both the minimum level set by the Bank of Russia (10%) and Basel Committee (8%) and allows the Bank to participate in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Guarantees on Bank Deposits of Individuals in the Russian Federation" dated 23 December 2003. As at 31 December 2009 the regulatory capital adequacy ratio was 23.22% (2008: 20.15%). Regulatory capital based on the Bank's reports prepared under Russian accounting standards and totaled RR 1 317 771 million as of 31 December 2009 (2008: RR 1 156 913 million).

As at 31 December 2009 and 31 December 2008, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

In millions of Russian Roubles	**31 December 2009**	**31 December 2008**
Tier 1 capital		
Share capital	87 742	87 742
Share premium	232 553	232 493
Retained earnings	403 934	388 030
Total Tier 1 capital	**724 229**	**708 265**
Tier 2 capital		
Revaluation reserve for premises	55 540	74 981
Fair value reserve for investment securities available for sale	(329)	(33 185)
Foreign currency translation reserve	(1 009)	101
Subordinated capital	362 115	354 133
Total Tier 2 capital	**416 317**	**396 030**
Total capital	**1 140 546**	**1 104 295**
Risk weighted assets (RWA)		
Credit risk	6 005 088	5 689 866
Market risk	298 725	152 588
Total risk weighted assets (RWA)	**6 303 813**	**5 842 454**
Core capital adequacy ratio (Total Tier 1 capital to Total RWA)	**11,5%**	**12,1%**
Total capital adequacy ratio (Total capital to Total RWA)	**18,1%**	**18,9%**

39 Subsequent events

In January 2010 under the settlement of the loan to its borrower the Group repossessed 50.01% share in LLC Khrustalnye Bashni. At the date when these consolidated financial statements were authorized for issue, the Management of the Group could not make an estimate of the financial effect of the transaction.

In February 2010 the Group partly disposed of non-current assets held for sale at a price close to the value disclosed in these consolidated financial statements. As at 31 December 2009 impairment in respect of these assets of RR 2 967 million was recorded in the consolidated income statement. Refer to Note 14.

In February 2010 the Bank made an offer to non-controlling shareholders of OJSC BPS-Bank (Belarus) to acquire the remaining 6.73% of share capital of OJSC BPS-Bank. According to the offer, 60 253 thousand ordinary and preference shares are to be acquired at a price of 955 Belarus Roubles per share. The total price according to the offer will not exceed USD 20 246 thousand.

In February 2010 the Group executed the call option under subordinated loan agreement and paid back the loan in whole. The loan was received by the Goup In February 2005. The transaction was structured by UBS Luxembourg S.A. as an issue of an aggregate principal amount of USD 1 000 million Loan Participation Notes at contractual interest rate of 6.2% p.a., which were issued for the sole purpose of financing a subordinated loan to the Group. The execution of the call option conformes to international practice for subordinated loan deals and was agreed with the Bank of Russia. Refer to Note 20.

In March 2009 the Group incorporated a 100% subsidiary company LLC Perspective Investments. The company will be involved in managing large investment projects.