Open Joint-Stock Company “NOMOS-BANK”

Consolidated Financial Statements
For the Year Ended 31 December 2011

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OPEN JOINT-STOCK COMPANY “NOMOS-BANK”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management is responsible for the preparation of the consolidated financial statements that presents fairly the financial position of Open Joint-Stock Company “NOMOS-BANK” (the “Bank”) and its subsidiaries (the “Group”) as at 31 December 2011 and the consolidated results of its operations, cash flows and changes in shareholders’ equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorized for issue by the Supervisory Board of the Bank on 27 March 2012.

On behalf of the Supervisory Board

President	**Chief Accountant**
27 March 2012	27 March 2012
Moscow	Moscow

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INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint-Stock Company "NOMOS-BANK":

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "NOMOS-BANK" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 about whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

27 March 2012
Moscow

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	6,37	52,358	29,350
Interest expense	6,37	(24,302)	(14,989)
NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOWS AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	6	**28,056**	**14,361**
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination	4,37	4,543	-
Provision for impairment losses on interest bearing assets	18,20,37	(8,374)	(3,753)
NET INTEREST INCOME		**24,225**	**10,608**
Trading (loss)/income:	7,37	2,063	2,858
Securities		(966)	1,703
Foreign currency		2,249	901
Precious metals		760	325
Other derivatives		20	(71)
Net fee and commission income	8,37	6,089	2,116
Fee and commission income	8,37	8,060	2,484
Fee and commission expense	8,37	(1,971)	(368)
Net gain/(loss) on investments available-for-sale		343	(9)
Net gain on investments held to maturity		7	-
Net gain on disposal of loans	18	181	1,195
(Provision)/ recovery of provision for impairment losses on other transactions	24,29	(176)	246
Impairment of investments available-for-sale	19	(38)	(2)
Loss from revaluation of investment property	23	(509)	(94)
Other income	9,37	698	426
NET NON-INTEREST INCOME		**8,658**	**6,736**
OPERATING INCOME		**32,883**	**17,344**
OPERATING EXPENSES	10,37	(17,395)	(8,017)
Recovery / (impairment) of buildings and constructions	21	45	(116)
OPERATING PROFIT BEFORE INCOME TAX		**15,533**	**9,211**
Income tax expense	11	(3,399)	(1,785)
NET PROFIT		**12,134**	**7,426**
Attributable to:			
Equity holders of the parent		10,003	7,385
Non-controlling interest		2,131	41
EARNINGS PER SHARE attributable to equity holders of the parent, basic and diluted, in Roubles	12	**110.97**	**87.53**

On behalf of the Supervisory Board

President

27 March 2012
Moscow

Chief Accountant

27 March 2012
Moscow

The notes on pages 9-98 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
NET PROFIT		**12,134**	**7,426**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of investments available-for-sale:		(69)	-
-change in fair value of investments available-for-sale		55	-
-disposal of investments available-for-sale		(124)	-
- deferred income tax effect	11	14	-
Revaluation of property, plant and equipment		569	102
- deferred income tax effect	11	(114)	(20)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		**400**	**82**
TOTAL COMPREHENSIVE INCOME		**12,534**	**7,508**
Attributable to:			
Equity holders of the parent		10,318	7,467
Non-controlling interest	5	2,216	41

On behalf of the Supervisory Board

President

27 March 2012
Moscow

Chief Accountant

27 March 2012
Moscow

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(in million of Russian Roubles)

	Notes	31 December 2011	31 December 2010
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	13	33,959	40,489
Minimum reserve deposits with the Central Bank of the Russian Federation		6,124	2,817
Precious metals	14	9,398	4,677
Financial assets at fair value through profit or loss	15, 16, 37	77,969	55,522
Loans and advances to banks and other financial institutions	17, 37	53,691	41,577
Loans to customers	18, 37	447,905	339,302
Investments available-for-sale	19	9,690	25,763
Investments held to maturity	20	548	852
Property, plant and equipment	21	10,990	10,976
Goodwill	4	809	598
Intangible assets	22	2,627	2,602
Investment property	23	3,759	922
Other assets	24	4,675	4,120
TOTAL ASSETS		**662,144**	**530,217**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	16,37	4,525	1,005
Due to banks and the Central Bank of the Russian Federation	25, 37	106,647	59,839
Customer accounts	26, 37	382,445	313,376
Bonds and Eurobonds	27	40,266	34,412
Promissory notes issued	28	18,907	33,168
Deferred income tax liabilities	11	2,885	1,182
Other liabilities	29, 37	3,394	2,209
Subordinated debt	30, 37	27,365	27,091
TOTAL LIABILITIES		**586,434**	**472,282**
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital		6,504	6,225
Treasury preference shares		(605)	(484)
Share premium	31	20,898	15,859
Property, plant and equipment revaluation reserve		1,073	717
Revaluation of investments available-for-sale		(35)	6
Retained earnings		34,462	24,560
Total equity attributable to equity holders of the parent		62,297	46,883
Non-controlling interest	5	13,413	11,052
Total equity		75,710	57,935
TOTAL LIABILITIES AND EQUITY		**662,144**	**530,217**

On behalf of the Supervisory Board

President	**Chief Accountant**
27 March 2012	27 March 2012
Moscow	Moscow

The notes on pages 9-98 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

	Note	Share capital	Treasury preference shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation of investments available-for-sale	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
31 December 2009		**5,982**	**-**	**12,603**	**592**	**6**	**17,388**	**36,571**	**41**	**36,612**
Net profit for the year		-	-	-	-	-	7,385	7,385	41	7,426
Total other comprehensive income for the period, net of tax		-	-	-	82	-	-	82	-	82
Share capital increase (issue of ordinary shares)		243	-	3,256	-	-		3,499	-	3,499
Purchase of treasury preference shares		-	(484)	-	-	-	(148)	(632)	-	(632)
Acquisition of subsidiaries	5	-	-	-	-	-	-	-	10,944	10,944
Effect of increase of the Group's shareholding in subsidiaries	4,5	-	-	-	43	-	(65)	(22)		
31 December 2010		**6,225**	**(484)**	**15,859**	**717**	**6**	**24,560**	**46,883**		
Net profit for the year		-	-	-	-	-	10,003	10,003		
Total other comprehensive income for the period, net of tax		-	-	-	356	(41)	-	315		
Share capital increase (issue of ordinary shares)		279	-	5,039	-	-	-	5,318		
Purchase of treasury preference shares		-	(121)	-	-	-	(40)	(161)		
Acquisition of subsidiaries	4,5	-	-	-	-	-	-	-		
Effect of increase/ decrease of the Group's shareholding in subsidiaries	4,5	-	-	-	-	-	(61)	(61)		
31 December 2011		**6,504**	**(605)**	**20,898**	**1,073**	**(35)**	**34,462**	**62,297**		

On behalf of the Supervisory Board

President

27 March 2012
Moscow

Chief Accountant

27 March 2012
Moscow

The notes on pages 9-98 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

	Note	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
Cash flows from operating activities:			
Interest received		49,902	27,584
Interest paid		(21,861)	(15,355)
Cash received from prepayment of loans acquired in business combination in excess of carrying value	4	2,404	-
Cash received on dealing with securities		1,184	1,216
Cash received on dealing with precious metals		1,923	183
Cash received on dealing with foreign currencies		2,001	728
Cash paid on dealing with other derivatives		(142)	(132)
Fees and commissions received		8,112	2,485
Fees and commissions paid		(1,858)	(367)
Other operating income received		672	783
Operating expenses paid		(15,568)	(6,792)
Cash flows from operating activities before changes in operating assets and liabilities		**26,769**	**10,333**
Cash Increase/(decrease) from operating assets and liabilities			
Minimum reserve deposits with the Central Bank of the Russian Federation		(3,308)	(674)
Precious metals		(3,672)	1,039
Financial assets and liabilities at fair value through profit or loss		(23,748)	5,405
Loans and advances to banks and other financial institutions		(3,500)	(2,585)
Loans to customers		(107,537)	(72,429)
Other assets		963	1,387
Due to banks and the Central Bank of the Russian Federation		44,189	(2,873)
Customer accounts		63,166	76,297
Bonds and Eurobonds, net		7,124	13,771
Promissory notes (redeemed)/issued, net		(14,625)	8,430
Other liabilities		508	(214)
Net cash (used in)/from operating activities before income tax		**(13,671)**	**37,887**
Income taxes paid		(3,026)	(1,901)
Net cash (used in)/from operating activities		**(16,697)**	**35,986**
Cash flows from investing activities:			
Proceeds on investments held to maturity repayment		539	-
Acquisition of subsidiaries net of cash acquired	4	(323)	2,304
Purchase of property, plant and equipment		(1,231)	(450)
Proceeds from sale of plant and equipment		258	118
Purchase of intangible assets		(518)	(94)
Purchase of available-for-sale financial assets		(9,915)	(1,086)
Proceeds from sale of available-for-sale financial assets		26,328	-
Purchase of investment property		(1,348)	(922)
Proceeds from sale of investment property		85	-
Dividends received		33	-
Proceeds from sale of non-current assets held-for-sale		2	-
Net cash from/(used in) investing activities		**13,910**	**(130)**
Cash flows from financing activities:			
Issuance of shares	31	279	243
Share premium	31	5,039	3,257
Purchase of treasury preference shares	31	(161)	(632)
Redemption of bonds and Eurobonds		(3,360)	(10,232)
Raising of finance by issuing bonds and Eurobonds		844	-
Subordinated debt received		6,000	12,250
Subordinated debt repaid		(5,952)	(12,863)
Disposal of interests in subsidiaries		-	231
Acquisition of additional interests in subsidiaries		(78)	(228)
Net cash from/(used in) financing activities		**2,611**	**(7,974)**
Effect of exchange rate changes on cash and cash equivalents		**222**	**(74)**
Net increase in cash and cash equivalents		**46**	**27,808**
Cash and cash equivalents, beginning of the period	13	55,260	27,452
Cash and cash equivalents, ending of the period	13	**55,306**	**55,260**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

During the years ended 31 December 2011 and 2010 the Group obtained non-cash settlement for uncollectible loans to customers, previously originated and net assets acquired and purchase adjustments in bank acquisition. These non-cash settlements were excluded from the consolidated cash flow and presented separately below:

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
NON-CASH TRANSACTION:			
Loans to customers settled by means of collateral repossession:	18	(1,876)	(219)
Investment property	18	1,270	-
Other assets (obtained through repossession of collateral on uncollectible loans to customers):			-
Property received as a collateral	18	606	219
Net assets acquired and purchase adjustments in bank acquisition	4	275	13,949

On behalf of the Supervisory Board

President

27 March 2012
Moscow

Chief Accountant

27 March 2012
Moscow

The notes on pages 9-98 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011
(in million of Russian Roubles)

1. ORGANISATION

OJSC "NOMOS-BANK" (the "Bank") is a joint-stock bank incorporated in the Russian Federation in 1992. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2209. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, providing loans and guarantees.

The registered office of the Bank is located at 3, Verhnaya Radishevskaya st., Moscow, 109240, Russia.

As at 31 December 2011 the Bank had 42 branches operating in the Russian Federation, 1 representative office in the Russian Federation and 1 representative office abroad.

The accompanying consolidated financial statements comprise the accounts of Open joint stock company "NOMOS-BANK" and its subsidiaries (together the "Group").The consolidated financial statements include the following incorporated subsidiaries:

Name	Country of incorporation	Notes	The Bank's ownership interest/control (*) 31 December 2011 %	31 December 2010 %	Type of activity
OJSC "NOMOS-BANK"	Russian Federation		Parent company	Parent company	Banking activity
OJSC "NOMOS-REGIOBANK"	Russian Federation		100/100	100/100	Banking activity
OJSC "NOMOS Siberia"	Russian Federation		100/100	100/100	Banking activity
LLC "Inbank"	Russian Federation		74.15/74.15	74.15/74.15	Banking activity
OJSC "Khanty-Mansiysk Bank"	Russian Federation		51.29/51.29	51.29/51.29	Banking activity
BKM Finance Limited	Ireland		(contractual agreement)	(contractual agreement)	Issue of securities
LLC "Yugra-Leasing"	Russian Federation		51.29/100	51.29/100	Finance lease of equipment
LLC "Group of Project Finance"	Russian Federation		51.29/100	51.29/100	Construction
OJSC "Novosibirsk Municipal Bank"	Russian Federation		52.31/97.98	38.53/75.13	Banking activity
LLC "NM-Expert"	Russian Federation		19.90/100	19.90/100	Construction
LLC "Promgazcomplekt"	Russian Federation		100/100	100/100	Office building ownership
OJSC "Promestate"	Russian Federation		100/100	100/100	Office building ownership
CJSC "Sovfintrast"	Russian Federation		100/100	100/100	Investment management
CJSC "Upravlyaushaya compania aktivami"	Russian Federation		100/100	100/100	Asset management
Nomos Capital Plc.	Ireland		(contractual agreement)	(contractual agreement)	Issue of Eurobonds
CJSC "Erada"	Russian Federation		100/100	100/100	Office building ownership
LLC "NM-Garant"	Russian Federation		99.9/99.9	99.9/99.9	Investment management
LLC "Leasing-Project"	Russian Federation		100/100	100/100	Finance lease of equipment
LLC "BFK-Invest"	Russian Federation		100/100	100/100	Office building ownership
LLC "Baltaktiv"	Russian Federation		100/100	100/100	Wholesale commerce
LLC "Attenium"	Russian Federation		51/100	-	Investment management
LLC NKO "Payment System "Rapida"	Russian Federation		51/100	-	Payment system
LLC "Processing centre "Rapida"	Russian Federation		51/100	-	Processing centre
LLC "Gikor"	Russian Federation		51/100	-	Asset management
LLC "Upravlyaushaya compania NOMOS BANK"	Russian Federation		100/100	100/100	Asset management
LLC "KN-Estate"	Russian Federation		100/100	100/100	Office building ownership
LLC "Nedvizhimost Primorya"	Russian Federation		100/100	-	Real estate rent activity
LLC "Invest-Trading"	Russian Federation		100/100	-	Investment management
LLC "Vostok-Capital"	Russian Federation		100/100	100/100	Investment management

(*) The Ownership and control represent the following:

- Ownership represents the effective ownership interest in the subsidiary by the ultimate parent company – OJSC Nomos Bank;
- Control represents the total % of shares controlled, either directly or indirectly, by the entities of the Group;

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

Additionally, the Group exercises 100 per cent control over the following investment funds, as contractually stipulated:

- ZPIF "Universal fund of mixed investments";
- ZPIFRE "Universal – Real estate fund";
- ZPIF "KhMB-Capital";

As at 31 December 2011 and 2010 the Group also had holdings (50%) in ZAO PK HESCARD that does not conduct active operations and is immaterial in terms of the Group's consolidated financial statements.

As at 31 December 2011 and 2010 the Group had 10,429 and 9,408 employees, respectively.

The Group also operates a number of network supplementary offices and currency exchange offices within Russian Federation. As at 31 December 2011 and 2010 the Group had respectively 292 and 300 points of sale including branches, supplementary offices and currency exchange offices.

The information about acquisitions and disposals of subsidiaries during years ended 31 December 2011 and 2010 is presented in Note 4.

As at 31 December 2011 and 2010, the following shareholders owned the issued shares of the Bank:

Shareholders	**31 December 2011, %**	**31 December 2010, %**
Shareholders of the Bank (Shareholders of the first level):		
"Russia Finance Corporation B.V."	26.53	28.24
Custodian for Global Depository Receipts on London Stock Exchange*	22.70	-
"Lordline limited"	13.82	10.04
"Vitalpeake limited"	13.21	18.66
"Arrowzone limited"	7.95	8.46
"Crisandra holdings Ltd"	4.12	-
"Viewrock limited"	0.18	10.04
"Lobston Enterprises limited" (Cyprus)	-	18.87
CJSC "Eniseyskaya investment company"	-	5.60
Other	11.49	0.09
Total	**100.00**	**100.00**

Shareholders	**31 December 2011, %**	**31 December 2010, %**
Ultimate shareholders of the Bank:		
Mr. Kellner P.	26.53	28.24
Custodian for Global Depository Receipts on London Stock Exchange*	22.70	-
Mr. Nesis A.N.	13.21	18.66
Mr. Gudaytis A.A.	15.88	12.03
Mr. Finogenov I.V.	3.90	4.15
Mr. Sokolov D.V.	3.90	4.15
Mr. Dobrinov N.I.	2.24	12.03
Mr. Petropavlovsky A.F.	0.15	0.16
Mr. Korbachka R.	-	18.87
Mr. Terzian N.	-	1.71
Other	11.49	-
Total	**100.00**	**100.00**

(*) GDRs are not included in the calculation of stake in the total voting shares since the information the holders of GDRs is undisclosed and as such GDRs are recognized as not-voting. Holders of GDRs have the option to disclose their information at any time. On disclosure of their information the holders of GDRs have the right to participate in voting.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

As at 31 December 2011 and 2010 the following company owned the outstanding preference shares of the Bank:

Shareholder of outstanding preference shares	31 December 2011, %	31 December 2010, %
Shareholder of outstanding preference shares the Bank (Shareholder of the first level):		
"Lobston Enterprises limited" (Cyprus)	-	100.00
Total	**-**	**100.00**

Shareholder of outstanding preference shares	31 December 2011, %	31 December 2010, %
Ultimate shareholder of outstanding preference shares of the Bank:		
Mr. Korbachka R.	-	100.00
Total	**-**	**100.00**

The Group's subsidiary company LLC "KN-Estate" has repurchased 100% of the Group's preference shares (12,100 million shares). The deal was performed for the purpose of optimization of the Group's capital structure. The Group has no intention to sell back these shares in the foreseeable future.

These consolidated financial statements were authorized for issue by the Supervisory Board of the Bank on 27 March 2012.

2. BASIS OF PRESENTATION

Accounting basis

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

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, land, buildings and investment property which have all been measured at fair value.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards ("RAS"), foreign consolidated companies of the Bank maintain their accounting records in accordance with the laws and regulations of the countries, in which they operate. Necessary translation adjustments are applied in consolidation process to ensure convergence to IFRS.

Nomos Capital Plc. and BKM Finance Limited maintain the accounting records in US dollars and in accordance with IFRS.

Functional currency

The functional currency of a majority of the entities within the Group is Russian Roubles ("RUB"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The presentational currency of the consolidated financial statements of the Group is RUB. All values are rounded to the nearest million Roubles, except when otherwise indicated.

Offsetting

Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of the Bank and/or the proportion of voting power of the Bank in the significant subsidiaries as at 31 December 2011 and 2010 are presented in Note 1.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. From 1 January 2010, acquisition-related costs are recognised in profit or loss as incurred.

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

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

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

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the Group are consolidated until the date that control ceases.

From 1 January 2010, the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

If the Group revises its estimates of payments or receipts, the Group adjusts the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as interest income or interest expense for loans originated by the Group (the gain/loss related to loans acquired in business combinations are separately reported in the consolidated income statement within "Gain on remeasurement of cash flows on interest bearing assets acquired in business combination"). If a financial asset is reclassified and the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

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

Interest earned and paid on assets and liabilities at fair value is classified within interest income and interest expense, respectively.

Recognition of fee and commission income and expense

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

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the consolidated income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Financial instruments

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

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

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets are classified as assets at fair value through profit or loss when the asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired or incurred principally for the purpose of repurchasing or selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset (other than a financial asset held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset or interest paid on the financial liability, which are included in the interest income or interest expense in the consolidated income statement.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Investments held to maturity

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has positive intent and ability to hold to maturity are classified as held to maturity investments. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Investments available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Debt and equity investments held by the Group that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets because the management of the Group considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recorded in other comprehensive income and accumulated in the revaluation of the investments available-for-sale reserve, with the exception of the impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation of the investments available-for-sale reserve is reclassified to the profit or loss.

With the exception of equity investments available-for-sale, if, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed though profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of equity investments available-for-sale, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in consolidated other comprehensive income.

Dividends on available-for-sale equity instruments are recognized in profit or loss in other income when the Group's right to receive the dividends is established.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions are initially recognized at fair value, plus incremental direct transactions costs. Loans and advances to banks and other financial institutions are subsequently measured at amortized cost using the effective interest method. Amounts of loans and advances to banks and other financial institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and repurchase agreements ("repos") and financial asset purchase and sellback agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within loans and advances to banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

The Group enters into securities repurchase agreements and securities reverse repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation and other Commonwealth of Independent States ("CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. The Group accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For available-for-sale securities, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation. The impairment of available-for-sale financial assets represents a difference between the carrying value of the asset and its current fair value.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the consolidated income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

For the financial instruments recorded at amortized cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

For financial assets carried at amortized cost, the impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The allowances for impairment are created as a result of either an individual evaluation of assets subject to risks for the financial assets being individually material or on the basis of an individual or joint evaluation of financial assets not being material individually. Collectively assessed corporate financial assets, including those that have been determined as unimpaired on individual basis, are grouped on industry basis and retail financial assets are grouped by type of products.

The change in the impairment is included into consolidated income statement using the provision account (financial assets measured at amortized cost) or by a direct write-off (financial assets measured at cost). Assets recognized in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets. Cash recoveries of loans previously written off are recorded as “other income”.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and correspondent accounts with banks.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation (CBR) represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation which are subject to restrictions on its availability. Therefore the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent.

Precious metals

Assets and liabilities denominated in precious metals are translated into Roubles at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the consolidated income statement.

Other financial liabilities

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Derivative financial instruments

The Group enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forwards, swaps and options on foreign currency, precious metals and securities. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments or other host contracts are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid financial instrument that includes both the embedded derivative and the underlying host.

Finance leases

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

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

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to finance lease is recognized in the consolidated financial statements as property, plant and equipment purchased to transfer to finance lease at cost.

The Group as a lessee

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

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment and intangible assets

Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss. Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

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

Buildings and constructions	2%-2.63%
Furniture and equipment	20%
Other property, plant and equipment	20%-25%
Intangible assets	16%-25%

Leasehold improvements are amortized over the life of the related leased asset or the lease period whichever is shorter.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

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

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

Market value of property is assessed using three methods:

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The amortization period for intangible assets vary from 5 to 6 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated [statement of comprehensive income/income statement] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

The Russian Federation and Ireland also have various other taxes not based on income, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Non-current assets held for sale

Non-current assets held for sale represent repossessed collateral for overdue loans to customers.

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

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

Investment property

Investment property, comprising office and commercial buildings, is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transactions costs. Subsequent to initial recognition, investment property is measured at the fair value amount, determined from market-based evidence by appraisal undertaken by professional independent appraisers. Gains and losses arising from changes in the fair value of investment property are included in income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

In order to determine the value of provisions for guarantees and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information on collective basis. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

Contingencies

Contingent liabilities, which include certain guarantees, letters of credit and commitments loans and unused credit lines, are possible obligations that arise from past events 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; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the probability of settlement is remote.

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

Share capital and share premium

Share capital and share premium amounts received before 1 January 2003 are recognized at the amount received restated for inflation and after 1 January 2003 are recognized at the amount received. Share premium represents the excess of the amount received over the nominal value of the shares issued.

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

Holders of preference shares with non-fixed rate dividend income are entitled to participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Goodwill

The goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill on acquisitions of subsidiaries is disclosed on face of the consolidated statement of financial position.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

As at 31 December 2011 and 2010 the carrying amount of goodwill at the end of the reporting period was RUB 809 million and RUB 598 million, respectively.

As the goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount when there are indicators that the investment is impaired. An impairment loss recognized is not allocated to any asset, including goodwill. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Group.

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Retirement and other benefit obligations

In accordance with the requirements of the Russian Federation legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation, which transfers them to pension funds selected by employees. The Group does not have obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The contributions to the defined contribution plan are included in staff costs on accrual basis. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies, including any related valuation allowances, are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency and precious metals transactions are accounted for at the foreign exchange rates prevailing at the date of the transaction. Profits and losses arising from the translations are included in net gains on foreign exchange transactions and net gains on transactions with precious metals.

Rates of exchange

The exchange rates used by the Group to translate foreign currency balances and balances denominated in precious metals are as follows:

	31 December 2011	31 December 2010
RUB/1 US Dollar	32.1961	30.4769
RUB/1 Euro	41.6714	40.3331
RUB/Gold bullion (1 ounce)	50,692.76	42,980.05

Fiduciary activities

The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about operating segments in accordance with IFRS.

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Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following estimates and judgments are considered key significant judgments and estimation uncertainty in relation to the financial position and performance of the Group:

	31 December 2011	31 December 2010
Allowance for impairment losses on loans to customers	20,382	15,558
Allowance for impairment losses for investments held to maturity	-	1,129
Allowance for impairment losses for other assets	588	399
Land, buildings and constructions at revalued amount	8,877	8,901
Investment property	3,759	922
Provision for financial guarantees and other off-balance sheet commitments	381	324

Fair value estimates were considered as critical accounting policies of the Group's consolidated financial statements.

Allowance for impairment of loans

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The estimation of allowances for impairments involves the exercise of significant judgment. The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Group's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

Loans, above the minimum level determined by the Group's Management are individually assessed for impairment. Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any collateral held. These estimates take into account the strength of the client's financial solvency and liquidity as well as their historic loan servicing, general business risks and national and local economic tendencies and conditions, all of which may be affected by future economic conditions.

The Group estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans. The significant assumptions used in determining the impairment allowance for loans to individuals are as follows:

- Management assumes that loss migration rates can be estimated based on historic loss migration pattern using historical data;
- Management adjusts its past historical loss experience taking into account the current economic situation and the impact of the economic crisis on the quality of the loan portfolio.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future consolidated income statement and its consolidated statement of financial position. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Allowance for impairment losses for investments held to maturity

The Group accounts for impairment of investments held to maturity when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition.

For the financial instruments recorded at amortized cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument.

Allowance for impairment losses for other assets

The impairment for other assets is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding other assets being material individually and on the basis of an individual or joint evaluation of other assets not being material individually.

Valuation of land, buildings and investment property

The Group uses the valuation performed by its external appraisers as the fair value of its land, buildings and investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The investment property valuation contains a number of assumptions upon which the external appraisers has based its valuation of the Group's properties. Those assumptions include, but are not limited to, matters such as ground conditions at the properties, structural condition of the properties, prevailing market yields and comparable market transactions, inflation rate, tenure and tenancy details for the properties. These assumptions are market standard: however, if any assumptions made by the property appraiser prove to be false, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial condition.

Provision for guarantees and other off-balance sheet commitments

The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Group's results of operations.

During the reporting period the Bank changed the methodology of estimation of provisions for guarantees and other off-balance sheet commitments. Currently to determine the value of provision for guarantee and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

Fair value estimates

Certain of the Group's financial instruments are carried at fair value with changes in fair value recognized in consolidated income statement.

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

In reaching estimates of fair value management judgment needs to be exercised. The areas requiring significant management judgment are identified, documented and reported to senior management as part of the valuation control framework and the standard monthly reporting cycle.

The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialized and sophisticated models and those where some or all of the parameter inputs are not observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. In particular, where data are obtained from infrequent market transactions extrapolation and interpolation techniques must be applied. In addition, where no market data are available parameter inputs are determined by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Where different valuation techniques indicate a range of possible fair values for an instrument, management has to establish what point within the range of estimates best represents fair value.

Adoption of new and revised standards

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2011:

- IFRS 3(2008) "Business Combinations" / IAS 27 "Consolidated and Separate Financial Statements" — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24 "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.
- Amendment to IAS 32 "Classification of Rights Issues" — Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity. There was no effect on the Group's consolidated financial statements related to this amendment as there are no such instruments
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" — The Interpretation provides guidance on the accounting for 'debt for equity swaps' from the perspective of the borrower. There was no effect on the Group's consolidated financial statements related to this IFRIC as there are no such transactions.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Group, and all have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

Amendments to IAS 24 — The disclosure exemptions introduced in IAS 24 (as revised in 2010) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements were affected because some parties that did not previously meet the definition of a related party came within the scope of the Standard.

New and revised IFRSs in issue but not yet effective

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- IFRS 7 "Financial Instruments: Disclosures" — amendments enhancing disclosures about transfers of financial assets [1];
- IFRS 9 "Financial Instruments" [6];
- IFRS 10 "Consolidated Financial Statements" [3];
- IFRS 11 "Joint Arrangements" [3];
- IFRS 12 "Disclosure of Interest in Other Entities" [3];
- IFRS 13 "Fair Value Measurement" [2];
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented [4];
- IAS 12 "Income Taxes" — Limited scope amendment (recovery of underlying assets) [5];
- IAS 27 — reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011) [3];
- IAS 28 — reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011) [3];
- IAS 32 — amendments which provide clarifications on the application of the offsetting rules and disclosure requirements[7].

[1] Effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

[3] Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).

[4] Effective for annual periods beginning on or after 1 July 2012, with early adoption permitted.

[5] Effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.

[6] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

[7] Effective for annual periods beginning on or after 1 January 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 — The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before 1 July 2011. The Group does not expect this amendment to have a material effect on its financial position or results of operations.

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

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipates that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 13 Fair Value Measurement — aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- Defines fair value;
- Sets out in a single IFRS a framework for measuring fair value;
- Requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements — revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The Group does not expect this amendment to have a material effect on its financial position or results of operations.

Amendment to IAS 12 Income Taxes — provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

Retrospective application is required in accordance with IAS 8. The Group is considering the impact of the amendment on the consolidated financial statements and the timing of its application.

Amendments to IAS 32 Financial Instruments: Presentation — provide clarifications on the application of the offsetting rules, and focus on four main areas:

- The meaning of 'currently has a legally enforceable right of set-off'
- The application of simultaneous realisation and settlement
- The offsetting of collateral amounts
- The unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statements users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Group's financial position.

The Group is considering the impact of these amendments on the consolidated financial statements and the timing of their application.

The Group management does not expect that the adoption of the standards listed below will have a material impact on the consolidated financial statements of the Group in future periods:

IFRS 10 Consolidated Financial Statements – replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements – replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the ‘jointly controlled assets’ classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a ‘joint operation’ recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 “Investments in Associates”. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a ‘joint venture’ recognises an investment.

IFRS 12 Disclosure of Interests in Other Entities – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IAS 27 (2011) Separate Financial Statements – includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Change in accounting policy

Starting from 1 January 2011 the Group has elected to change its policy with respect to classification of the impacts of foreign exchange gains and losses on the allowance for loan losses of foreign currency denominated loans. In the current period the Group reflected such impacts in the Net (loss)/gain on foreign currency operations. The Group previously included such impacts in the Allowance for Impairment Losses on Interest Bearing Assets. The change in the policy enhances comparability and uniformity of the treatment of the impacts of foreign exchange gains and losses on loans and allowance for loan losses in the consolidated statement of financial position and the consolidated income statement (see Note 18). The management estimated the impact of this classification on the comparative data as immaterial, so the classification was not performed retrospectively.

During the period the Group has also elected to change its presentation of the consolidated statement of cash flows from indirect method of cash flow to direct cash flow method as defined under IAS 7 *Statement of Cash Flows.* The change in the presentation enhances the ability of the user to analyze and understand the sources and uses of funds by the Group and align the presentation with the way the Group internally manages and monitors its operations. The Group cash flows have been restated for the year ended 31 December 2010 to conform to the current policy. Although IAS 1 requires the representation of the balance sheet for January 1, 2010 as a result of the changes in accounting policies described herein, management has concluded that the presentation of this information is not material as there were no changes to the balance sheet line items.

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4. ACQUISITIONS AND DISPOSALS

Acquisitions and disposal during the year ended 31 December 2011

In August 2011 the Group has founded a new subsidiary company LLC “Invest-Trading”. The company is 100% controlled by the Group.

In June 2011 the Group has founded a new subsidiary company LLC “Nedvizhimost Primorya”. The company is 100% controlled by the Group.

In March 2011 the Group has purchased 51% shares of LLC “Attenium” with its wholly-owned subsidiaries – LLC “PS Rapida”, LLC “PC Rapida”, LLC “Gikor”.

The fair value of assets and liabilities acquired are based on discounted cash flow models and other valuation techniques and were determined by an independent appraiser. The cash outflow relating to the acquisition of shares amounted to RUB 380 million. The goodwill as at acquisition date amounted to RUB 211 million.

The amount of estimated revenue and net profit is immaterial to disclose had this business combination been effected as at 1 January 2011.

The fair value of the net assets of the company as at the acquisition date is presented below.

	LLC “Attenium”
Assets	
Cash and balances with the Central Bank of the Russian Federation	57
Loans and advances to banks and other financial institutions	468
Investments available-for-sale	3
Property, plant and equipment	12
Intangible assets	291
Other assets	24
Total assets	**855**
Due to banks and the Central Bank of the Russian Federation	100
Customer accounts	99
Deferred income tax liability	58
Other liabilities	266
Total liabilities	**523**
Net assets	**332**
Parent company’s ownership interest (%)	51%
Parent company’s ownership interest	169
Consideration paid	**380**
Goodwill	**211**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

Acquisitions and disposal during the year ended 31 December 2010

In November 2010 the Group acquired 100% share in LLC "IST-Capital" which owns 19.98% of OJSC "Khanty-Mansiysk Bank".

As at 16 December 2010 the Group completed an acquisition of the controlling 51.29% stake in Khanty-Mansiysk Bank Group (further – "BKM Group") by buying additional 31.33 % of BKM Group of RUB 12,122 million. The consideration was paid in cash.

The estimated revenue amount and net profit since the date of acquisition is immaterial to disclose.

The BKM Group comprises the Khanty-Mansiysk Bank, Open Joint Stock Company, and its subsidiaries – BKM Finance Limited, LLC "Yugra-Leasing", LLC "GPF", OJSC "Novosibirsk Municipal Bank". The Khanty-Mansiysk Bank, Open Joint Stock Company (Khanty-Mansiysk Bank OAO) is an open joint-stock company, which was incorporated in the Russian Federation in 1992. The Bank's primary business consists of corporate, small business and retail banking primarily in the Khanty-Mansiysk Autonomous District and Tyumen region. As at 31 December 2010 the Bank had 17 branches in the Russian Federation, 1 representative office in the Russian Federation and 1 representative office abroad, and 150 additional offices, operating offices and operating cash desks.

The format of this transaction does not mean a merger of its participants. OJSC "Nomos-Bank" and OJSC "Khanty-Mansiysk Bank" will continue to operate as separate legal entities and will operate under their original brands.

The fair value of the net assets of the companies as of the acquisition date is presented below:

	LLC "IST-Capital" and BKM Group
Assets	
Cash and balances with the Central Bank of the Russian Federation	8,519
Minimum reserve deposits with the Central Bank of the Russian Federation	951
Precious metals	16
Financial assets at fair value through profit or loss	2,733
Loans and advances to banks	22,233
Loans to customers	100,753
Investments available-for-sale	24,461
Property, plant and equipment	4,880
Intangible assets	2,506
Other assets	3,348
Total assets	**170,400**
Financial liabilities at fair value through profit or loss	530
Deposits from banks	14,956
Customer accounts	102,570
Bonds and Eurobonds	6,132
Promissory notes	17,522
Deferred income tax liabilities	390
Other liabilities	841
Subordinated debt	4,991
Total liabilities	**147,932**
Net assets	**22,468**
Parent company's ownership interest (%)	51.29%
Consideration paid	12,122
Plus: non-controlling interest	10,944
Less: Net assets	22,468
Goodwill	**598**

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The goodwill is primarily attributable to the profitability of the acquired business of BKM Group, the synergies from revenues and from cost savings expected to arise from the integration of the BKM Group into Nomos Bank.

The management of the Group assessed the amount of the revaluation of the equity interest previously held immediately before the acquisition date and considers this amount to be immaterial.

The fair values of assets and liabilities acquired are based on discounted cash flow models and other valuation techniques and were determined by an independent appraiser. Non-controlling interest was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The following table presented the cash flow from this acquisition:

Consideration paid	12,122
Less: cash and cash equivalents acquired	(14,676)
Total	**(2,554)**

Had these business combinations been effected as at 1 January 2010, the revenue of the Group from continuing operations would have been RUB 30,845 thousand, and the profit for the year from continuing operations would have been RUB 10,445 thousand, the financial result relating to comprehensive loss would have amounted to RUB 76 thousand. The management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

The following table represents the fair value and the uncollectable amount of acquired receivables as well as the gross contractual amount of receivables:

	Fair value	**Gross contractual amounts receivable**	**Amount not expected to be received**
ASSETS:			
Correspondent accounts with the Central Bank of the Russian Federation	2,966	2,966	-
Loans and advances to banks and other financial institutions	22,233	22,222	-
Loans to customers	100,753	107,045	6,212
Other assets	3,349	3,547	235
	129,301	**135,780**	**6,447**

Gain/loss on remeasurement of cash flows and prepayments on interest bearing assets acquired in business combination included in the consolidated income statement for the period ended 31 December 2011 represents (a) RUB 2,139 million related to the re-assessment of the expected cash flows from outstanding interest bearing assets which are mainly arising from changes in assessment of the credit quality of the underlying assets acquired and (b) RUB 2,404 million related to repayment on maturity and/or prepayment of loans to customers of Khanty-Mansiysk Bank Group, a banking group acquired by Nomos in December 2010.

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5. NON-CONTROLLING INTEREST

Non-controlling interest comprises:

	OJSC "NOMOS-REGIOBANK"	OJSC "NOMOS Siberia"	LLC "Inbank"	OJSC "KHANTY-MANSIYSK BANK"	LLC "Attenium"	Total
31 December 2009	**41**	**-**	-	**-**	**-**	**41**
Effect of (increase)/decrease in share of subsidiaries (purchased from)/sold to non-controlling interest	(63)	(19)	108	-	-	26
Acquisition of subsidiary	-	-	-	10,944	-	10,944
Profit attributable to non-controlling interest	22	19	-	-	-	41
31 December 2010	**-**	**-**	**108**	**10,944**	**-**	**11,052**
Effect of (increase)/decrease in share of subsidiaries (purchased from)/sold to non-controlling interest	-	-	-	(18)	163	145
Property, plant and equipment revaluation reserve to non-controlling interest	-	-	-	99	-	99
Revaluation of investments available-for-sale attributable to non-controlling interest	-	-	-	(14)	-	(14)
(Loss) / profit attributable to non-controlling interest	-	-	(1)	2,111	21	2,131
31 December 2011	**-**	**-**	**107**	**13,122**	**184**	**13,413**

6. NET INTEREST INCOME BEFORE GAIN ON REMEASUREMENT OF CASH FLOW AND PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS.

Net interest income comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income comprises:		
Interest income on assets recorded at amortized cost	46,943	24,702
Interest income on investments available-for-sale	1,502	122
Interest income on assets at fair value through profit or loss	3,913	4,526
Total interest income	**52,358**	**29,350**
Interest income on assets recorded at amortized cost:		
Interest income on loans to customers	41,989	22,069
Interest income on reverse repurchase transactions	3,275	2,101
Interest income on loans and advances to banks and other financial institutions	1,611	425
Interest on investments held to maturity	68	107
Total interest income on assets recorded at amortized cost	46,943	24,702
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	24,302	14,989
Total interest expense	**24,302**	**14,989**
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expense on customer accounts	14,167	8,604
Interest expense on Bonds and Eurobonds issued	2,703	1,949
Interest expense on due to banks and the Central Bank of the Russian Federation	2,587	1,271
Interest expense on subordinated debt	2,347	2,213
Interest expense on promissory notes issued	1,868	825
Interest expense on repurchase transactions	630	127
Total interest expense on financial liabilities recorded at amortized cost	24,302	14,989
Net interest income before provision for impairment losses on interest bearing assets	**28,056**	**14,361**

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7. TRADING INCOME

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

	Year ended 31 December 2011	Year ended 31 December 2010
First to default credit-linked notes recognized at fair value through profit or loss	73	-
Financial assets at fair value through profit or loss	(1,039)	1,703
Securities	**(966)**	**1,703**
Derivatives on foreign currency contracts	(530)	276
Net gain on foreign currency operations	2,779	625
Foreign currency	**2,249**	**901**
Derivatives on precious metals contracts	1,606	245
Net (loss)/gain on precious metals	(846)	80
Precious metals	**760**	**325**
Other derivatives contracts	20	(71)
Other derivatives	**20**	**(71)**
Total trading income	**2,063**	**2,858**

The analysis of trading income is based on how the business is organised and the underlying risks managed. Trading income comprises gains and losses on financial instruments at fair value through profit and loss, both realized and unrealized.

The types of instruments include:

- Securities: operations with trading securities, trading security forward contracts and futures contracts;
- Foreign currency: foreign currency operations, foreign exchange forward contracts and currency options, impacts of the foreign exchange gains and losses on the allowance on loan losses on foreign currency denominated loans;
- Precious metals: precious metals operations and precious metals forward contracts;
- Other derivatives: interest rate swap contracts.

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8. NET FEE AND COMMISSION INCOME

Net fee and commission income comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Fee and commission income:		
Settlements	3,206	908
Cash operations	2,313	496
Documentary operations	1,727	820
Foreign currency conversion operations	216	-
Brokerage operations	118	23
Operations with precious metals	99	120
Operations related to underwriting	23	12
Depositary services	6	6
Other	352	99
Total fee and commission income	**8,060**	**2,484**
Fee and commission expense:		
Settlements	1,531	185
Cash operations	139	65
Documentary operations	58	45
Securities operations	44	19
Depositary services	17	15
Other	182	39
Total fee and commission expense	**1,971**	**368**
Net fee and commission income	**6,089**	**2,116**

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Penalties received	195	109
Rental income	119	48
Gain on disposal of property, plant and equipment	67	29
Gain from remeasurement of other assets	51	-
Gain from trust operations	48	-
Insurance broker income	40	-
Dividends received	33	35
Income on early deposits withdrawal	25	109
Gain from sale of transport cards on leasehold equipment	17	-
Gain on debt securities extinguishment	7	21
Other	96	75
Total other income	**698**	**426**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Payroll and bonuses	8,917	4,440
Unified social tax	1,470	514
Amortization of intangible assets	784	83
Depreciation of property, plant and equipment	763	435
Taxes other than income tax	749	325
Stationery and other office expenses	667	116
Rent expenses	604	341
Property, plant and equipment maintenance	548	301
Payments to the Deposit Insurance Fund	462	210
Advertising expenses	455	144
Professional services	369	318
Telecommunications	307	162
Security expenses	302	204
Charity expense	176	-
Representation expenses	169	74
Insurance expenses	132	24
Other expenses	521	326
Total operating expenses	**17,395**	**8,017**

The majority of employees have fixed and variable compensation components, which, together with other benefits, represent their total compensation. The goal is to achieve a sound balance between the variable and the fixed components. Variable compensation is tied to the employee's performance and the Group's total result. This is a way to harmonise the interests of employees and shareholders and motivate long-term value creation in the Group.

In April 2011 the Group has performed the initial public offering (IPO) of its shares, followed by issuance of new shares via closed subscription by the existing shareholders. The Group has recognized transaction costs related to the issuance of new shares which are accounted for as a deduction from share premium (see Note 31) and were transaction costs related to the listing of the existing shares (RUB 215 million) were recorded within operating expenses in the consolidated income statement. Transaction costs specifically affected the following operating expenses: payroll, professional services, stationery and office expenses and other expenses.

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11. INCOME TAX

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the statutory tax regulations, which may differ from International Financial Reporting Standards.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits (as defined) under tax law in that jurisdiction.

Deferred taxes on temporary differences as at 31 December 2011 and 2010 comprise:

	Allowances	Revaluation of financial assets and liabilities	Amor-tisation of commis-sions	Revaluation of fixed assets, investment property and assets available-for-sale	Revaluation of accounts in precious metals and foreign currencies	Other	Tax losses carried forward	Total
As at 31 December 2009	**(736)**	**(72)**	**101**	**(338)**	**7**	**(57)**	**203**	**(892)**
(Charge)/credit to profit or loss	60	302	(294)	(105)	(2)	391	(131)	221
(Charge)/credit to other comprehensive income	-	-	-	(20)	-	-	-	(20)
Acquisition of subsidiary	277	(191)	(89)	-	286	(659)	-	(376)
Deferred tax asset not recognized	(67)	(34)	-	-	-	-	-	(101)
As at 31 December 2010	**(466)**	**5**	**(282)**	**(463)**	**291**	**(325)**	**72**	**(1,168)**
(Charge)/credit to profit or loss	(1,425)	283	119	127	(738)	183	(60)	(1,511)
(Charge)/credit to other comprehensive income	-	14	-	(114)	-	-	-	(100)
Acquisition of subsidiary	-	-	-	-	-	(58)	-	(58)
Deferred tax asset not recognized	(2)	18	-	(47)	-	-	-	(31)
As at 31 December 2011	**(1,893)**	**320**	**(163)**	**(497)**	**(447)**	**(200)**	**12**	**(2,868)**

The effective tax rate reconciliation for the years ended 31 December 2011 and 2010 is explained as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Profit before income tax	15,533	9,211
Statutory tax rate	20%	20%
Tax at the statutory tax rate	3,107	1,842
Tax effect due to different tax rates	(42)	(32)
Change in unrecognized deferred tax assets	31	101
Tax paid in foreign countries and compensated in RF in future	55	-
Additional tax reimbursement related to prior year	(71)	-
Tax loss carried-forward	(65)	(203)
Permanent tax differences	384	77
Income tax expense	**3,399**	**1,785**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

The permanent tax differences for the years ended 31 December 2011 and 2011 comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Non-deductable expenses		
Interest expense on deposits	86	-
Sale of securities at price less than minimal	82	-
Administrative expenses	76	39
Investment funds loss	60	23
Charity expenses	37	2
Property expenses	38	5
Employee payments	11	11
Cession of loans	6	-
Other	9	4
Total non-deductable expenses	**405**	**84**
Non-taxable income		
Income on transaction of property	(15)	-
Dividends	(6)	(7)
Total non-taxable income	**(21)**	**(7)**
Total permanent differences	**384**	**77**

The corporate income tax expense for the years ended 31 December 2011 and 2010 comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax expense	1,928	1,905
Deferred tax expense/(income)	1,542	(120)
Additional tax (reimbursement) related to prior years	(71)	-
Income tax expense	**3,399**	**1,785**

Movement in deferred tax assets for the years ended 31 December 2011 and 2010 comprises:

Deferred income tax assets	Year ended 31 December 2011	Year ended 31 December 2010
At the beginning of the period	14	19
Deferred income tax assets of acquired subsidiaries at the date of acquisition	-	14
Increase/(decrease) in deferred income tax asset for the period	3	(19)
At the end of the period	**17**	**14**

Movement in the tax loss carried-forward for the years ended 31 December 2011 and 2010 comprises

Tax loss carried-forward	Year ended 31 December 2011	Year ended 31 December 2010
Tax loss at the beginning of the period	361	1,015
Increase of tax loss for the period	28	-
Tax loss used in the current period	(326)	(654)
Tax loss at the end of the period	**63**	**361**

There were no losses expiring in the current year. The tax loss expires in 2019.

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Movement in deferred tax asset not recognized for the years ended 31 December 2011 and 2010 comprises:

Deferred tax asset not recognized	**Year ended 31 December 2011**	**Year ended 31 December 2010**
At the beginning of the period	158	57
(Decrease) / increase in deferred tax asset not recognized for the period	31	101
At the end of the period	**189**	**158**

12. EARNINGS PER SHARE AND EARNINGS PER GDR

Earnings per share are presented as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Earnings per share related to continuing operations:		
Profit:		
Net profit for the year	12,134	7,426
Less:		
Loss on redemption of preference shares	(40)	(148)
Non-controlling interest	(2,131)	(41)
Net earnings attributable to ordinary equity holders.	9,963	7,237
Weighted average number of ordinary shares for basic and diluted earnings per share	89,779,311	82,677,403
Earnings per share from continuing operations – basic and diluted	**110.97**	**87.53**
Weighted average number of GDR's for basic and diluted earnings per GDR[1]	179,558,662	-
Earnings per GDR from continuing operations – basic and diluted	**55.49**	**-**

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central Bank of the Russian Federation are presented as follows:

	31 December 2011	**31 December 2010**
Cash on hand	11,628	11,079
Balances with the Central Bank of the Russian Federation	22,331	29,410
Total cash and balances with the Central Bank of the Russian Federation	**33,959**	**40,489**

For the purpose of consolidated cash flow statement preparation cash and cash equivalents comprise of the following components:

	31 December 2011	**31 December 2010**
Cash and balances with the Central Bank of the Russian Federation	33,959	40,489
Correspondent accounts with banks (Note 17)	21,347	14,771
Total cash and cash equivalents	**55,306**	**55,260**

[1] The number of GDRs was calculated assuming that two GDRs represent an interest in one ordinary share.

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14. PRECIOUS METALS

Precious metals are presented as follows:

	31 December 2011	31 December 2010
Gold in vault	8,173	3,565
Gold in transit	686	624
Silver in transit	344	146
Silver in vault	104	193
Other precious metals in vault	91	149
Total precious metals	**9,398**	**4,677**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are presented as follows:

	31 December 2011	31 December 2010
Financial assets at fair value through profit or loss:		
Debt securities	69,859	50,335
Equity securities	1,799	1,973
	71,658	**52,308**
First to default credit-linked notes recognized at fair value through profit or loss	**311**	**1,817**
Derivative financial instruments (Note 16)	**6,000**	**1,397**
Total financial assets at fair value through profit or loss	**77,969**	**55,522**

As at 31 December 2011 financial assets at fair value through profit or loss comprise:

	31 December 2011	Interest rate to nominal	Maturity date
Bonds and Eurobonds issued by banks	27,506	4.2-12.7%	May 2012-June 2035
Corporate bonds and Eurobonds	21,033	5.2-13.5%	January 2012-December 2036
OFZ bonds	17,182	6.5-12.0%	February 2013-January 2036
Promissory notes of credit institutions	2,877	-	January 2012-March 2014
RF Government Eurobonds	1,110	7.5%	March 2030
Municipal bonds	151	8.0%	April 2014
Corporate shares	1,799	-	-
Total financial assets at fair value through profit or loss	**71,658**		

	31 December 2011	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Bonds and Eurobonds issued by banks	27,506	5,466	4,931	-	10,397
Corporate bonds and Eurobonds	21,033	397	5,239	-	5,636
OFZ bonds	17,182	-	5,839	-	5,839
Promissory notes of credit institutions	2,877	-	-	-	-
RF Government Eurobonds	1,110	-	1,110	-	1,110
Municipal bonds	151	-	-	-	-
Corporate shares	1,799	1,816	2,690	232	4,738
Total financial assets at fair value through profit or loss	**71,658**	**7,679**	**19,809**	**232**	**27,720**

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Included in the table above is the information with regards to assets pledged under repurchase agreements. Included in the amounts are the assets obtained as a result of reverse repurchase agreements with banks and Central Bank of Russian Federation in the amount of RUB 3,801 million discussed in Note 25 and assets pledged under reverse repurchase agreements with customers in the amount of RUB 232 million as discussed in Note 26.

As at 31 December 2010 financial assets at fair value through profit or loss comprise:

	31 December 2010	Interest rate to nominal	Maturity date
Bonds and Eurobonds issued by banks	21,455	4.2-12.0%	January 2011-June 2035
Corporate bonds and Eurobonds	13,596	5.1-18.5%	March 2011-June 2035
Promissory notes of credit institutions	7,038	-	April 2011-October 2011
RF Government Eurobonds	5,300	7.5%	March 2030
Municipal bonds	2,894	8.0-19.1%	April 2011-October 2015
OFZ bonds	52	6.90-7.0%	October 2018-February 2036
Corporate shares	1,973	-	
Total financial assets at fair value through profit or loss	**52,308**		

	31 December 2010	Pledged as collateral with CBR	Pledged under repurchase agreements with banks	Pledged under repurchase agreements with customers	Total collateral
Bonds and Eurobonds issued by banks	21,455	4,005	-	-	4,005
Corporate bonds and Eurobonds	13,596	914	-	-	914
Promissory notes of credit institutions	7,038	-	-	-	-
RF Government Eurobonds	5,300	-	927	-	927
Municipal bonds	2,894	-	-	-	-
OFZ bonds	52	-	-	-	-
Corporate shares	1,973	-	2,201	1,786	3,987
Total financial assets at fair value through profit or loss	**52,308**	**4,919**	**3,128**	**1,786**	**9,833**

Included in the table above is the information with regards to assets pledged under repurchase agreements. Included in the amounts are the assets obtained as a result of reverse repurchase agreements with banks and Central Bank of Russian Federation in the amount of RUB 2,135 million discussed in Note 25 and assets pledged under reverse repurchase agreements with customers in the amount of RUB 1,786 million as discussed in Note 26.

As at 31 December 2011 and 2010 bonds and Eurobonds issued by banks are represented by bonds issued by Russian banks.

Corporate bonds and Eurobonds are represented by bonds of Russian companies.

Promissory notes are represented by promissory notes issued by Russian banks.

Russian State Bonds (OFZ bonds) are Rouble-denominated government securities guaranteed by the Ministry of Finance of the Russian Federation.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally.

Municipal bonds are bonds issued by local authorities of the Russian Federation.

Corporate shares are actively traded shares in the open market issued by Russian companies.

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First to default credit-linked notes are USD denominated floating coupon notes issued by major international financial institutions, repayment of which is dependent on certain Russian corporate bonds being repaid by their issuers in full (the "reference bonds"). In case of default of any of the reference bonds, the major international financial institutions have the right to transfer to the Group defaulted bonds with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group for these notes.

As at 31 December 2011 first to default credit-linked notes were as follows:

Nominal amount and margin calls					31 December 2011
Nominal currency	**Rouble equivalent**	**Maturity date**	**Coupon rate**	**Reference bonds**	**Carrying amount**
USD 10 million	322	20 November 2012	LIBOR+ 12.5% per annum	AK Alrosa OAO TNK-BP OAO Evrazholding OAO Mobile Telecommunication Systems OAO Rosneft	311
					311

As at 31 December 2010 first to default credit-linked notes were as follows:

Nominal amount and margin calls					31 December 2010
Nominal currency	**Rouble equivalent**	**Maturity date**	**Coupon rate**	**Reference bonds**	**Carrying amount**
USD 20 million	610	20 March 2011	LIBOR+ 12.75% per annum	OAO Bank VTB OAO Vympelkom OAO Severstal	677
USD 20 million	610	20 December 2011	6 month LIBOR+ 6.6% per annum	OAO Gazprom OAO Severstal OAO Evrazholding OAO Mobile Telecommunication Systems OAO Vympelkom	575
USD 10 million	305	20 November 2012	LIBOR+ 12.5% per annum	AK Alrosa OAO TNK-BP OAO Evrazholding OAO Mobile Telecommunication Systems OAO Rosneft	279
USD 10 million	305	20 December 2011	6 month LIBOR+ 9.25% per annum	AK Alrosa OAO TNK-BP OAO Severstal OAO Alfa-Bank OAO Vympelkom	286
					1,817

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16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented as follows:

The following table provides information on derivative financial instruments as at 31 December 2011:

	31 December 2011		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(283,185)	5,823	(3,027)
Futures contracts	(8,768)	-	(1,103)
Options	-	49	(49)
Precious metals contracts			
Forwards	(17,389)	47	(184)
Dealing security contracts			
Forwards	(2,488)	12	-
Futures contracts	-	-	(2)
Other derivative instruments			
Swaps	-	69	(157)
Total derivative financial instruments		**6,000**	**(4,522)**

As at 31 December 2011 financial liabilities at fair value through profit or loss comprise derivative financial instruments in the amount of RUB 4,522 million and other financial liabilities at fair value through profit or loss in the amount of RUB 3 million.

The following table provides information on derivative financial instruments as at 31 December 2010:

	31 December 2010		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(182,152)	1,173	(750)
Options	-	35	(35)
Precious metals contracts			
Forwards	(6,616)	58	(13)
Dealing security contracts			
Forwards	(155)	1	-
Futures contracts	-	10	-
Other derivative instruments			
Swaps	-	120	(207)
Total derivative financial instruments		**1,397**	**(1,005)**

The primary purpose of the derivatives used by the Group is to reduce currency risk and the interest rate risks. Such derivatives have the same term to maturity as the underlying assets.

Forwards and futures

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts also result in market risk exposure.

Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in RUB, EUR and USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

Interest rate swaps are subject to price risk associated with a change in the price of an underlying asset and credit risk, related to the possibility of violating the terms of the transaction by the counterparty of the deal.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions comprise:

	31 December 2011	31 December 2010
Loans to banks	25,399	24,546
Correspondent accounts with banks	21,347	14,771
Loans under reverse repurchase agreements	6,945	2,260
Total loans and advances to banks and other financial institutions	**53,691**	**41,577**

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2011 and 2010 are presented as follows:

	31 December 2011		31 December 2010	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate bonds and Eurobonds	3,741	5,043	333	409
Municipal bonds	2,821	3,527	100	117
Bonds and Eurobonds issued by banks	283	366	345	421
OFZ bonds	100	111	1,176	1,275
Corporate shares	-	-	306	492
Total	**6,945**	**9,047**	**2,260**	**2,714**

As at 31 December 2011 and 2010 included in loans and advances to banks and other financial institutions are guarantee deposits placed by the Group for its operations with plastic cards in the amount of RUB 719 million and RUB 551 million, respectively.

18. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2011	31 December 2010
Loans to legal entities		
Corporate loans	327,817	251,461
Loans under reverse repurchase agreements	46,346	43,471
Small business loans to corporates	31,297	19,973
Net investments in finance lease	2,707	2,145
Lease contracts to individual entrepreneurs	448	139
Total loans to legal entities	**408,615**	**317,189**
Loans to individuals		
Mortgage loans	28,829	21,979
Consumer loans	27,335	13,194
Car loans	2,998	2,202
Loans to individual entrepreneurs	501	266
Other	9	30
Total loans to individuals	**59,672**	**37,671**
Gross loans to customers	**468,287**	**354,860**
Less – Allowance for impairment losses	(20,382)	(15,558)
Total loans to customers	**447,905**	**339,302**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

The credit quality of loans to customers can be defined based on the Group internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group.

As at 31 December 2011 and 2010 interest income on impaired loans to customers, including loans impaired collectively, amounted to RUB 30,199 million and RUB 15,179 million, respectively.

As at 31 December 2011 and 2010 interest income on collectively impaired loans to customers, amounted to RUB 16,893 million and RUB 9,712 million, respectively.

The Group has an internal classification of the loans without the individual indicators of impairment. The loans are classified as:

- Standard loans, representing loans without any indicators of impairment and thus representing the best level of credit quality;
- Watch list loans, representing loans with some minor indicators of deterioration in credit quality not yet resulting in the impairment of the loan. Such indicators may include minor breaches of loan covenants, some factors of deterioration of financial position of the borrower etc., not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools.

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Loans without individual indicators of impairment:				
- standard loans not overdue	353,415	6,534	346,881	1.85%
- watch list loans	10,660	835	9,825	7.83%
Total loans without individual indicators of impairment	364,075	7,369	356,706	2.02%
Loans with individual indicators of impairment:				
- not past due	2,946	2,242	704	76.10%
- overdue less than 90 days	2,342	1,712	630	73.10%
- overdue more than 90 days and less than 1 year	1,725	1,541	184	89.33%
- overdue more than 1 year	5,782	4,185	1,597	72.38%
Total loans with individual indicators of impairment	12,795	9,680	3,115	75.65%
Total corporate loans	**376,870**	**17,049**	**359,821**	**4.52%**
Small business loans to corporates				
Loans without individual indicators of impairment:				
- standard loans not overdue	28,859	562	28,297	1.95%
- watch list loans	1,008	12	996	1.19%
Total loans without individual indicators of impairment	29,867	574	29,293	1.92%
Loans with individual indicators of impairment:				
- not past due	685	663	22	96.79%
- overdue less than 90 days	152	108	44	71.05%
- overdue more than 90 days and less than 1 year	354	252	102	71.19%
- overdue more than 1 year	687	672	15	97.82%
Total loans with individual indicators of impairment	1,878	1,695	183	90.26%
Total small business loans to corporates	**31,745**	**2,269**	**29,476**	**7.15%**
Total loans to legal entities	**408,615**	**19,318**	**389,297**	**4.73%**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Loans without individual indicators of impairment:				
- standard loans not overdue	269,455	5,115	264,340	1.90%
- watch list loans	13,723	479	13,244	3.49%
Total loans without individual indicators of impairment	283,178	5,594	277,584	1.98%
Loans with individual indicators of impairment:				
- not past due	4,427	1,550	2,877	35.01%
- overdue less than 90 days	2,565	889	1,676	34.66%
- overdue more than 90 days and less than 1 year	1,769	1,410	359	79.71%
- overdue more than 1 year	5,138	3,994	1,144	77.73%
Total loans with individual indicators of impairment	13,899	7,843	6,056	56.43%
Total corporate loans	**297,077**	**13,437**	**283,640**	**4.52%**
Small business loans to corporates				
Loans without individual indicators of impairment:				
- standard loans not overdue	18,161	230	17,931	1.27%
- watch list loans	760	19	741	2.50%
Total loans without individual indicators of impairment	18,921	249	18,672	1.32%
Loans with individual indicators of impairment:				
- not past due	329	167	162	50.76%
- overdue less than 90 days	69	52	17	75.36%
- overdue more than 90 days and less than 1 year	107	103	4	96.26%
- overdue more than 1 year	686	677	9	98.69%
Total loans with individual indicators of impairment	1,191	999	192	83.88%
Total small business loans to corporates	**20,112**	**1,248**	**18,864**	**6.21%**
Total loans to legal entities	**317,189**	**14,685**	**302,504**	**4.62%**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

The following table provides information on loans to individuals as at 31 December 2011:

	Gross Loans	Impairment allowance	Net Loans	Impairment allowance to gross loans, %
Mortgage Loans				
- Not past due	27,725	12	27,713	0.04%
- Overdue less than 30 days	292	8	284	2.74%
- Overdue 30-90 days	64	9	55	14.06%
- Overdue 91-180 days	68	32	36	47.06%
- Overdue 181-365 days	125	124	1	99.20%
- Overdue more than 365 days	555	551	4	99.28%
Total mortgage loans	**28,829**	**736**	**28,093**	**2.55%**
Consumer Loans				
- Not past due	26,608	24	26,584	0.09%
- Overdue less than 30 days	290	20	270	6.90%
- Overdue 30-90 days	169	40	129	23.67%
- Overdue 91-180 days	118	69	49	58.47%
- Overdue 181-365 days	61	61	-	100.00%
- Overdue more than 365 days	89	89	-	100.00%
Total consumer loans	**27,335**	**303**	**27,032**	**1.11%**
Car Loans				
- Not past due	2,924	1	2,923	0.03%
- Overdue less than 30 days	32	1	31	3.13%
- Overdue 30-90 days	22	1	21	4.55%
- Overdue 91-180 days	6	2	4	33.33%
- Overdue 181-365 days	8	8	-	100.00%
- Overdue more than 365 days	6	6	-	100.00%
Total car loans	**2,998**	**19**	**2,979**	**0.63%**
Loans to individual entrepreneurs				
- Not past due	499	6	493	1.20%
- Overdue less than 30 days	2	-	2	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total loans to individual entrepreneurs	**501**	**6**	**495**	**1.20%**
Other				
- Not past due	9	-	9	0.00%
- Overdue less than 30 days	-	-	-	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total other loans to individuals	**9**	**-**	**9**	**0.00%**
Total loans to individuals	**59,672**	**1,064**	**58,608**	**1.78%**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Gross Loans	Impairment allowance	Net Loans	Impairment allowance to gross loans, %
Mortgage loans				
- Not past due	20,968	45	20,923	0.21%
- Overdue less than 30 days	95	-	95	0.00%
- Overdue 30-90 days	147	29	118	19.73%
- Overdue 91-180 days	83	38	45	45.78%
- Overdue 181-365 days	192	191	1	99.48%
- Overdue more than 365 days	494	494	-	100.00%
Total mortgage loans	**21,979**	**797**	**21,182**	**3.63%**
Consumer loans				
- Not past due	12,988	25	12,963	0.19%
- Overdue less than 30 days	104	1	103	0.96%
- Overdue 30-90 days	50	2	48	4.00%
- Overdue 91-180 days	49	33	16	67.35%
- Overdue 181-365 days	3	-	3	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total consumer loans	**13,194**	**61**	**13,133**	**0.46%**
Car loans				
- Not past due	2,125	3	2,122	0.14%
- Overdue less than 30 days	34	1	33	2.94%
- Overdue 30-90 days	29	3	26	10.34%
- Overdue 91-180 days	14	7	7	50.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total car loans	**2,202**	**14**	**2,188**	**0.64%**
Loans to individual entrepreneurs				
- Not past due	266	1	265	0.38%
- Overdue less than 30 days	-	-	-	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total loans to individual entrepreneurs	**266**	**1**	**265**	**0.38%**
Other				
- Not past due	30	-	30	0.00%
- Overdue less than 30 days	-	-	-	0.00%
- Overdue 30-90 days	-	-	-	0.00%
- Overdue 91-180 days	-	-	-	0.00%
- Overdue 181-365 days	-	-	-	0.00%
- Overdue more than 365 days	-	-	-	0.00%
Total other loans to individuals	**30**	**-**	**30**	**0.00%**
Total loans to individuals	**37,671**	**873**	**36,798**	**2.32%**

Movements in allowances for impairment losses for the years ended 31 December 2011 and 2010 were as follows.

	For the years ended 31 December	
	2011	2010
As of 1 January	**15,558**	**17,027**
Provision charge/release	8,383	3,308
Recovery of bad debt written-off	275	395
Foreign currency revaluation effect	174	-
Disposal of loans	(1,410)	(3,287)
Bad debt written-off	(2,598)	(1,885)
As of 31 December	**20,382**	**15,558**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

To assess the overall effect of the provision charge on Profit before taxation it should be aggregated with the line "Gain on remeasurement of cash flows on interest bearing assets acquired in business combination". At acquisition date the Group stated loans acquired in business combination at fair value. If after the acquisition date the loans are redeemed at amount excess their fair value the gain from re-measurement of cash flows related to such loans recognized at amounts exceeding of received cash over the fair value of loans at acquisition date in consolidated income statement.

The Group re-characterized loans to certain borrowers from investing sector to sectors: industrial manufacturing, operations with real estate, services and mining, in order to align them with borrowers' primary business activities, the change was made retrospectively.

Loans are made principally within Russia in the following industry sectors:

	31 December 2011	31 December 2010
Analysis by industry sector:		
Industrial manufacturing	67,799	60,936
Individuals	59,672	37,671
Wholesale trade	49,160	41,054
Brokerage and dealing in securities	46,346	42,789
Operations with real estate	43,962	16,259
Construction of industrial real estate	27,173	15,182
Services	23,955	20,520
Leasing	22,819	17,891
Mining	22,115	22,182
Housing construction	21,149	17,014
Retail trade	19,711	12,528
Transport and communication	17,723	10,059
Construction of commercial real estate	13,029	12,159
Agriculture	4,020	3,230
Energy	2,453	8,539
Government finance	1,392	1,987
Precious metals extraction	1,150	1,011
Other	24,659	13,849
Gross loans to customers	**468,287**	**354,860**
Less – Allowance for impairment losses	(20,382)	(15,558)
Total loans to customers	**447,905**	**339,302**

The table below summarizes the amount of loans to corporate customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2011	31 December 2010
Loans collateralized by guarantees of enterprises and banks	100,272	95,022
Loans collateralized by pledge of real estate	84,946	50,660
Loans collateralized by pledge of securities	83,141	66,212
Loans collateralized by pledge of contract proceeds	32,778	30,327
Loans collateralized by pledge of property	26,538	21,121
Loans collateralized by pledge of the Bank's own securities	82	102
Unsecured loans	80,858	53,745
Gross loans to corporate customers	**408,615**	**317,189**
Less – Allowance for impairment losses	(19,318)	(14,685)
Total loans to corporate customers	**389,297**	**302,504**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

The table below summarizes the amount of loans to individuals secured by collateral, rather than the fair value of the collateral itself:

	31 December 2011	31 December 2010
Loans collateralized by pledge of real estate	22,760	18,382
Loans collateralized by guarantees of enterprises	10,078	10,270
Loans collateralized by pledge of vehicles and other property	3,296	2,075
Loans collateralized by pledge of contract proceeds	1,432	471
Loans collateralized by pledge of securities	83	1,587
Loans collateralized by pledge of the Bank's own securities	3	5
Unsecured loans	22,020	4,881
Gross loans to individuals	**59,672**	**37,671**
Less – Allowance for impairment losses	(1,064)	(873)
Total loans to individuals	**58,608**	**36,798**

As at 31 December 2011 and 2010 the Group granted loans to five and seven borrowers totalling RUB 54,894 million and RUB 59,011 million, respectively, which individually exceeded 10% of the Group's equity. Borrowers individually exceeding 10% of the Group equity have good credit history and the loans provided to them are performing within standard loans.

As at 31 December 2011 and 2010 renegotiated loans amounted to RUB 6,739 million and RUB 5,512 million respectively, which would be past due or impaired if not renegotiated. Renegotiated loans mainly involve extending of the payment arrangements of the loan agreements, rather than interest rate modification or other enhancements in favour of the borrower.

As at 31 December 2011 and 2010 the loans under reverse repurchase agreements to customers have contractual maturities from January 2012 to March 2012 and January 2011 to December 2011, respectively.

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2011 and 2010 are presented as follows:

	31 December 2011		31 December 2010	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate shares	39,248	46,244	33,787	42,381
Corporate bonds and Eurobonds	7,098	7,483	1,635	1,832
Bonds and Eurobonds issued by banks	-	-	7,217	7,792
Promissory notes issued by companies	-	-	832	840
Total	**46,346**	**53,727**	**43,471**	**52,845**

The components of net investment in finance lease as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Less than one year	1,917	1,181
From one year to five years	2,058	1,915
More than five years	68	22
Minimum lease payments	4,043	3,118
Less: unearned finance income	(888)	(834)
Net investment in finance lease	**3,155**	**2,284**
Current portion	1,446	804
Long-term portion	1,709	1,480
Net investment in finance lease	**3,155**	**2,284**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

As at 31 December 2011 and 2010 the Group provided loans to customers in the amount of RUB 6,703 million and of RUB 6,451 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,263 million and RUB 6,363 million, respectively (see Note 26).

During the years ended 31 December 2011 and 2010 the Bank sold certain loans to third parties at a discount to nominal value with no recourse and without any service obligations associated with the loans.

Net gain on disposal of loans is represented by:

	Year ended 31 December 2011	Year ended 31 December 2010
Fair value of the consideration received	7,320	8,922
Carrying amount net of provisions	(7,139)	(7,727)
Net gain on disposal of loans	**181**	**1,195**

19. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2011	Interest rate to nominal	Maturity date
Units of investment funds	5,676	-	-
Bonds issued by CIS	1,977	8.7-8.9%	August 2015-January 2018
Corporate bonds and Eurobonds	942	5.9-20.0%	March 2012-December 2016
Bonds and Eurobonds issued by banks	507	7.7-9.2%	May 2012-December 2017
Corporate shares	421	-	-
OFZ bonds	161	8.0%	November 2021
Promissory notes of credit institutions	5	-	January 2012
Share participation in limited liability companies	1	-	-
Total investments available-for-sale	**9,690**		

	31 December 2011	Pledged under repurchase agreements with banks
Units of investment funds	5,676	-
Bonds issued by CIS	1,977	-
Corporate bonds and Eurobonds	942	826
Bonds and Eurobonds issued by banks	507	-
Corporate shares	421	-
OFZ bonds	161	-
Promissory notes of credit institutions	5	-
Share participation in limited liability companies	1	-
Total investments available-for-sale	**9,690**	**826**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

As at 31 December 2010 investments available-for-sale comprise:

	31 December 2010	Interest rate to nominal	Maturity date
Promissory notes of credit institutions	10,903	11.3-12.0%	January 2011-December 2011
Units of investment funds	5,235	-	-
Corporate bonds and Eurobonds	4,725	5.9-13.5%	August 2015-January 2018
RF Government Eurobonds	1,215	7.5%	March 2030
Promissory notes of companies	1,171	8.0%	June 2011-May 2015
Bonds and Eurobonds issued by banks	859	7.5-14.9%	October 2011-October 2016
Bonds issued by CIS	856	8.8%	August 215
Corporate shares	417	-	-
OFZ bonds	209	6.9-8.0%	November 2021-February 2036
Municipal bonds	151	8.0%	April 2014
Municipal Eurobonds	21	6.5%	October 2011
Share participation in limited liability companies	1	-	-
Total investments available-for-sale	**25,763**		

	31 December 2010	Pledged under repurchase agreements with banks
Promissory notes of credit institutions	10,903	-
Units of investment funds	5,235	-
Corporate bonds and Eurobonds	4,725	3,659
RF Government Eurobonds	1,215	1,215
Promissory notes of companies	1,171	-
Bonds and Eurobonds issued by banks	859	217
Bonds issued by CIS	856	646
Corporate shares	417	-
OFZ bonds	209	-
Municipal bonds	151	-
Municipal Eurobonds	21	-
Share participation in limited liability companies	1	-
Total investments available-for-sale	**25,763**	**5,737**

Units of investment funds included in financial assets available-for-sale as at 31 December 2011 and 2010 are presented below:

	31 December 2011	31 December 2010
ZPIF Rusnedra	5,651	5,226
OPIF “NOMOS – Fund of shares”	8	-
OPIF “NOMOS – Fund of bonds”	10	-
OPIF of shares “Troika-Dialog – Dobrynya Nikitich”	7	9
Total units of investment funds	**5,676**	**5,235**

Closed unit investment fund of private equity investments ZPIF Rusnedra is managed by OOO Managing Company Fleming Family & Partners and created with the purpose of investing into shares (units) of companies engaged in the production and exploration and holding oil and gas production licenses.

As at 31 December 2011 and 2010 corporate bonds and Eurobonds include bonds of Russian companies.

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

As at 31 December 2011 and 2010 bonds and Eurobonds issued by banks represented mainly by bonds issued by Russian banks.

As at 31 December 2011 and 2010 corporate shares include quoted shares of Russian companies and other investments in unquoted equity instruments.

As at 31 December 2011 and 2010 Russian State Bonds (OFZ bonds) are Rouble-denominated government securities guaranteed by the Ministry of Finance of the Russian Federation.

As at 31 December 2011 and 2010 promissory notes of credit institutions include interest-bearing securities of large Russian banks.

As at 31 December 2010 RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally.

As at 31 December 2010 municipal bonds of the Russian Federation include bonds of the Moscow Region Government.

As at 31 December 2010 municipal Eurobonds include bonds of the Moscow Region Government nominated in foreign currency.

As at 31 December 2010 promissory notes of companies include interest-bearing securities of large Russian companies.

20. INVESTMENTS HELD TO MATURITY

Investments held to maturity are presented as follows:

	Interest rate to nominal	31 December 2011	Pledged as collateral with CBR	Interest rate to nominal	31 December 2010
Municipal bonds	9.0%	523	522	9.0%	645
OFZ bonds	6.9%	25	-	6.9%	25
Corporate bonds	-	-	-	7.75-17.0%	1,311
Total investments held to maturity before allowance for impairment losses		**548**	**522**		**1,981**
Less – Allowance for impairment losses		-	-		(1,129)
Total investments held to maturity		**548**	**522**		**852**

Movements in allowances for impairment losses for the years ended 31 December 2011 and 2010 were as follows.

	For the years ended 31 December 2011	2010
As of 1 January	**1,129**	**684**
Provision (release)/charge	(9)	445
Disposal of investments	(1,120)	-
As of 31 December	**-**	**1,129**

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21. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Land	Buildings and constructions	Furniture and equipment	Other	Total
At initial/indexed/revalued cost	**223**	**4,574**	**1,468**	**663**	**6,928**
31 December 2009					
Acquisition of subsidiaries	172	3,933	580	444	5,129
Revaluation recorded in equity	18	84	-	-	102
Impairment losses recorded in income statement	(58)	(58)	-	-	(116)
Movement in cost related to revaluation	-	(105)	-	-	(105)
Additions	10	131	160	149	450
Disposals	-	(23)	(54)	(75)	(152)
31 December 2010	**365**	**8,536**	**2,154**	**1,181**	**12,236**
Acquisition of subsidiaries	-	-	12	-	12
Revaluation recorded in equity	97	472	-	-	569
Revaluation recorded in income statement	16	29	-	-	45
Movement in cost related to revaluation	-	(194)	-	-	(194)
Additions	6	487	577	160	1,230
Disposals	(22)	(911)	(39)	(160)	(1,132)
31 December 2011	**462**	**8,419**	**2,704**	**1,181**	**12,766**
Accumulated depreciation					
31 December 2009	**-**	**-**	**726**	**266**	**992**
Movement in cost related to revaluation	-	(105)	-	-	(105)
Charge for the period	-	105	238	92	435
Write-off on disposal	-	-	(51)	(11)	(62)
31 December 2010	**-**	**-**	**913**	**347**	**1,260**
Movement in cost related to revaluation	-	(194)	-	-	(194)
Charge for the period	-	199	438	126	763
Write-off on disposal	-	(1)	(25)	(27)	(53)
31 December 2011	**-**	**4**	**1,326**	**446**	**1,776**
Net book value					
31 December 2010	**365**	**8,536**	**1,241**	**834**	**10,976**
31 December 2011	**462**	**8,415**	**1,378**	**735**	**10,990**

As at 31 December 2011 and 2010 land, buildings and constructions owned by the Group were revalued to market prices according to the report of an independent appraiser as described below. As a result, carrying value of these land, buildings and constructions amounted to RUB 8,877 million and RUB 8,901 million, respectively. If buildings and constructions were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would have been RUB 7,804 million and RUB 8,564 million, respectively.

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Land, buildings and constructions owned by the Group were revalued by independent appraisers as at 31 December 2011 and 2010. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

During the years ended 31 December 2011 and 2010 the Group carried out a review of the recoverable amount of its land, buildings and constructions. The review led to the recognition of an revaluation gain of RUB 45 million for the year ended 31 December 2011 due to increase in the average level of market prices and the level of business activity as well, and revaluation loss of RUB 116 million for the year ended 31 December 2010 due to decline in market prices, which has been recognised in consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their fair value. The impairment losses have been presented in the separate line in the consolidated income statement.

As at 31 December 2011 and 2010 included in property, plant and equipment were fully depreciated assets amounted to RUB 971 million and RUB 452 million, respectively.

22. INTANGIBLE ASSETS

Intangible assets are presented as follows:

	31 December 2011	31 December 2010
Customer-related intangible assets	963	1,130
Software	962	801
Licences	378	323
Trademark	323	347
Other	1	1
Total intangible assets	**2,627**	**2,602**

As at 31 December 2011 customer related intangible assets include core deposit intangible in the amount of RUB 293 million and client relationship in the amount of RUB 670 million.

As at 31 December 2010 customer related intangible assets include core deposit intangible in the amount of RUB 456 million and client relationship in the amount of RUB 674 million.

Movement in intangible assets is presented in the table below:

	Intangible assets
Net book value as at 31 December 2009	**85**
Aquisitions of subsidiaries	2,506
Additions	94
Amortization for the year	(83)
Net book value as at 31 December 2010	**2,602**
Aquisitions of subsidiaries	291
Additions	518
Amortization for the year	(784)
Net book value as at 31 December 2011	**2,627**

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23. INVESTMENT PROPERTY

Investment property comprises:

	31December 2011	31December 2010
As at January 1	**922**	**-**
Acquisitions	2,538	1,016
Disposals	(85)	-
Transferred from property and equipment	893	-
Loss on property revaluation	(509)	(94)
As at December 31	**3,759**	**922**

Included into operating income is investment property rental income for the years ended 31 December 2011 and 2010 totaled RUR 87 million and RUR 15 thousand, respectively.

Operating expenses arising from the investment property during the years ended 31 December 2011 and 2010 totaled RUR 22 thousand and RUR 9 thousand, respectively.

The fair value of the Group's investment property as at 31 December 2011 and 2010 has been arrived at on the basis of a valuation carried out at that date by independent appraisers that are not related to the Group. The Group has determined the fair value of the investment property at on the basis of a valuation carried out at that date by independent appraisers on the basis of market data at the price of transactions with similar real estate objects.

As at 31 December 2011 and 2010 the Group made an assessment of carrying value of investment property. This assessment resulted in recognition of impairment loss in the consolidated income statement amounting to RUB 509 million and RUB 94 million due to decline in market prices. Decrease of the carrying value of buildings and other real estate is recognized in the consolidated income statement.

24. OTHER ASSETS

Other assets are presented as follows:

	31 December 2011	31 December 2010
Other financial assets:		
Accounts receivable	761	735
Debtors on operations with securities	413	1,168
Settlements on transfer of financial assets	387	1
Debtors on spot deals with currency and precious metals	42	5
Receivables on operations with coins	36	26
Prepayments on operations with precious metals	21	5
Total other financial assets before allowance for impairment losses	**1,660**	**1,940**
Less – Allowance for impairment losses	(389)	(235)
	1,271	**1,705**
Other non-financial assets:		
Current income tax assets	1,195	72
Non-current assets held for sale	681	328
Rights on claims against property	454	757
Taxes other than income tax recoverable	358	128
Prepayments of capital investments under shared construction agreements	222	466
Stationery and inventory	176	137
Deferred tax assets (Note 11)	17	14
Property for finance lease	5	42
Other	495	635
Total other non-financial assets, before allowance for impairment losses	**3,603**	**2,579**
Less – Allowance for impairment losses	(199)	(164)
	3,404	**2,415**
Total other assets	**4,675**	**4,120**

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The reclassifications regarding presentation of other financial liabilities and other non-financial liabilities have been made to the consolidated financial statements as at 31 December 2010 to conform to the presentation as at 31 December 2011 as current year presentation provides a clearer view of the financial position of the Group.

Movements in allowances for impairment losses of other assets for the years ended 31 December 2011 and 2010 were as follows.

	For the years ended 31 December	
	2011	2010
As of 1 January	**399**	**284**
Provision charge	199	324
Recovery of bad debt written-off	10	-
Bad debt written-off	(20)	(209)
As of 31 December	**588**	**399**

25. DUE TO BANKS AND THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to banks and the Central Bank of the Russian Federation comprises:

	31 December 2011	31 December 2010
Deposits from banks	72,290	41,167
Loans under repurchase agreements	17,406	6,856
Correspondent accounts of other banks	10,644	8,802
Syndicated loans	6,307	3,014
Total due to banks and the Central Bank of the Russian Federation	**106,647**	**59,839**

As at 31 December 2011 carrying value of syndicated loans received by the Group comprised RUB 6,307 million from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loan is October 2012, and the interest rate is tied to six-month LIBOR plus 1.9% margin.

As at 31 December 2010 carrying value of syndicated loans received by the Group comprised RUB 3,014 million from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loan is August 2011, and the interest rate is tied to six-month LIBOR plus 2.5% margin.

As at 31 December 2011 and 31 December 2010 the Group had deposits from three and two banks amounting to RUB 40,583 million and RUB 13,202 million, respectively, which individually and in aggregate exceeded 10% of the Group's equity.

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2011 and 2010 are presented as follows:

	31 December 2011		31 December 2010	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
OFZ bonds	5,712	5,839	-	-
Corporate bonds and Eurobonds	4,969	6,065	3,018	3,659
Bonds and Eurobonds issued by banks	4,203	4,931	190	217
Corporate shares	1,697	2,690	1,479	2,201
RF Government Eurobonds	825	1,110	1,684	2,142
Bonds of issued by CIS	-	-	485	646
Total	**17,406**	**20,635**	**6,856**	**8,865**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

26. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2011	31 December 2010
Term deposits	273,261	222,144
Current accounts	102,764	83,753
Term deposits from Deposit Insurance Agency	6,263	6,363
Loans under repurchase agreements	157	1,116
Total customer accounts	**382,445**	**313,376**

As at 31 December 2011 and 31 December 2010 the Group received funds from four and three customers amounting to RUB 40,258 million and RUB 27,160 million, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2011 and 2010 demand deposits denominated in units of precious metal which have the alternative to be settled in cash or in precious metals were included in customer accounts. The breakdown is presented below:

	31 December 2011	31 December 2010
Gold	5,636	3,338
Silver	921	406
Palladium	93	39
Platinum	51	6
Total customer accounts denominated in precious metals	**6,701**	**3,789**

As at 31 December 2011 and 2010 customer accounts amounting to RUB 2,670 million and RUB 1,222 million, respectively, were held as security against other financial transactions by the Group (see Note 32).

As at 31 December 2011 and 2010 the Group provided loans to customers in the amount of RUB 6,703 million and of RUB 6,451 million which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,263 million and RUB 6,363 million, respectively (see Note 18).

Analysis of customer accounts by economic sector is presented below:

	31 December 2011	31 December 2010
Individuals	130,375	118,629
Investment and asset management companies	59,297	38,351
Services	35,445	16,633
Industrial manufacturing	28,506	19,922
Wholesale trade	24,703	13,314
Construction of industrial real estate	21,330	14,285
Regional and local budgets funds	20,747	27,320
Insurance	12,669	9,249
Operations with real estate	8,451	4,540
Transport and communication	6,190	12,577
Precious metals extraction	5,697	5,767
Science	5,659	6,459
Energy	4,951	9,141
Retail trade	3,861	3,887
Leasing	3,189	2,903
Construction of commercial real estate	2,117	3,183
Agriculture	610	384
Brokerage and dealing in securities	157	1,116
Housing construction	145	108
Other	8,346	5,608
Total customer accounts	**382,445**	**313,376**

(MILLION OF RUSSIAN ROUBLES) FOR THE YEAR ENDED 31 DECEMBER 2011

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2011 and 31 December 2010 are presented as follows:

	31 December 2011		31 December 2010	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate shares	157	232	1,116	1,786
Total	**157**	**232**	**1,116**	**1,786**

27. BONDS AND EUROBONDS

Bonds and Eurobonds comprise:

	30 December 2011	31 December 2010
Bonds issued in local market	22,592	16,678
Eurobonds due in 2013	11,865	12,167
Eurobonds due in 2012	5,809	5,567
Total Bonds and Eurobonds issued	**40,266**	**34,412**

Bonds and Eurobonds as at 31 December 2011 comprise:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2011
Bonds issued					
NOMOS, 12th issue	Roubles	2010	2017	8.50%	5,149
NOMOS, BO-01	Roubles	2011	2014	7.00%	4,971
NOMOS, 11th issue	Roubles	2009	2014	7.40%	4,895
NOMOS, 9th issue	Roubles	2008	2013	6.25%	4,614
NOMOS, BO-02	Roubles	2011	2014	8.00%	2,610
2nd issue	Roubles	2010	2013	6.25%	353
Total bonds issued					**22,592**
Eurobonds					
NOMOS Eurobonds due in 2013	US Dollars	2010	2013	6.50%	11,865
NOMOS Eurobonds due in 2012	US Dollars	2009	2012	9.25%	5,809
Total Eurobonds issued					**17,674**
Total bonds and Eurobonds issued					**40,266**

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Bonds and Eurobonds as at 31 December 2010 comprise:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2010
Bonds issued					
NOMOS, 12th issue	Roubles	2010	2017	8.50%	4,854
NOMOS, 9th issue	Roubles	2008	2013	7.00%	3,770
2nd issue	Roubles	2010	2013	7.85%	2,379
NOMOS, 11th issue	Roubles	2009	2014	7.40%	2,315
NOMOS, 8th issue	Roubles	2008	2011	9.50%	1,693
1st issue	Roubles	2008	2011	7.00%	1,667
Total bonds issued					**16,678**
Eurobonds					
NOMOS Eurobonds due in 2013	US Dollars	2010	2013	6.50%	12,167
NOMOS Eurobonds due in 2012	US Dollars	2009	2012	9.25%	5,567
Total Eurobonds issued					**17,734**
Total bonds and Eurobonds issued					**34,412**

The Group is obliged to comply with financial covenants in relation to Eurobonds due in 2012 and 2013.

In accordance with the terms of the covenants the Group should not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices (as at the date hereof) to fall below 10%. These recommendations were provided in Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and together with any further amendments, guidelines or clarifications up to the date hereof. This calculation should be made by reference to the latest annual consolidated audited accounts of the Group prepared in accordance with IFRS. The Group should also comply with the minimum capital adequacy ratio established by the Central Bank of Russian Federation. The Group has not breached any of these covenants at the end of each quarter in the years ended 31 December 2011 and 2010.

28. PROMISSORY NOTES ISSUED

Promissory notes issued comprise:

	Interest rate to nominal	31 December 2011	Interest rate to nominal	31 December 2010
Discount bearing promissory notes	-	15,489	-	28,465
Interest bearing promissory notes	0.8-11.5%	2,599	0.7%-12.0%	2,153
Certificates of deposit	6.6-9.4%	417	5.7%-7.8%	71
Settlement promissory notes	-	402	-	2,479
Total debt securities issued		**18,907**		**33,168**

Settlement promissory notes are promissory notes sold at face value.

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29. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2011	31 December 2010
Other financial liabilities:		
Payable to employees and accrued bonuses	1,147	968
Payables on settlement operations	621	-
Financial guarantees	352	456
Accrued expenses	324	229
Creditors on sale of precious metals	284	47
Creditors on operations with foreign currency	69	-
Creditors on operations with securities	30	-
Payables on spot operations with currency, precious metals and securities	2	8
Total other financial liabilities	**2,829**	**1,708**
Other non-financial liabilities:		
Taxes payable, other than income tax	282	187
Current income tax liabilities	58	104
Provisions for other off-balance sheet commitments	29	-
Other liabilities	196	210
Total other non-financial liabilities	**565**	**501**
Total other liabilities	**3,394**	**2,209**

Movements in financial guarantees and provisions for other off-balance sheet commitments for the years ended 31 December 2011 and 2010 were as follows.

	For the years ended 31 December	
	2011	2010
As of 1 January	**456**	**591**
Provision release	(23)	**(567)**
Amortisation of accrued commissions on guarantees	(52)	**-**
Acquisition of subsidiaries	-	**432**
As of 31 December	**381**	**456**

30. SUBORDINATED DEBT

Subordinated debt is presented as follows:

The following table provides information on subordinated debt as at 31 December 2011:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2011
Subordinated bonds	US Dollars	2010	2015	8.75%	11,374
Subordinated loan	Roubles	2011	2021	12.00%	6,000
Subordinated loan	Roubles	2009	2019	6.50%	4,901
Subordinated bonds	US Dollars	2007	2018	11.00%	3,407
Subordinated loan	Roubles	2009	2019	6.50%	1,549
Subordinated loan	Roubles	2010	2016	6.00%	60
Subordinated loan	Roubles	2010	2016	8.00%	39
Subordinated loan	Roubles	2009	2016	11.30%	35
					27,365

The following table provides information on subordinated debt as at 31 December 2010:

	Currency	Start date (year)	Maturity date (year)	Nominal interest rate %	31 December 2010
Subordinated bonds	US Dollars	2010	2015	8.75%	10,750
Subordinated loan	Roubles	2009	2019	8.00%	4,900
Subordinated bonds	US Dollars	2006	2016	9.75%	3,863
Subordinated bonds	US Dollars	2007	2018	11.00%	3,263
Subordinated loan	Roubles	2009	2019	6.50%	1,493
Subordinated loan	Roubles	2010	2021	9.25%	1,500
Subordinated loan	Roubles	2007	2015	7.85%	650
Subordinated loan	Roubles	2008	2015	7.75%	436
Subordinated loan	Roubles	2010	2016	6.00%	61
Subordinated loan	Roubles	2006	2013	10.00%	45
Subordinated loan	Roubles	2006	2013	10.00%	39
Subordinated loan	Roubles	2010	2016	8.00%	38
Subordinated loan	Roubles	2009	2016	11.30%	34
Subordinated loan	Roubles	2007	2014	10.00%	19
					27,091

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

31. SHARE CAPITAL AND SHARE PREMIUM

The table below provides a breakdown of the Bank's issued and fully paid ordinary and preference shares:

Issued and fully paid	Ordinary shares (Number)	Nominal amount (RUB million)	Preference shares (Number)	Nominal amount (RUB million)
31 December 2009	**81,984,861**	**4,099**	**12,100,000**	**605**
Reacquired	**-**	**-**	**(9,680,000)**	**(484)**
Issued	**4,861,112**	**243**	**-**	**-**
31 December 2010	**86,845,973**	**4,342**	**2,420,000**	**121**
Reacquired	-	-	(2,420,000)	(121)
Issued	5,576,397	279	-	-
31 December 2011	**92,422,370**	**4,621**	**-**	**-**

There are no issued ordinary and preference shares that have not been fully paid. Par value per ordinary and preference share is RUB 50 each.

Each ordinary share entitles the holder to cast one vote on all matters within its competence stipulated by the Charter of the Group, to receive non-fixed rate dividend income and to receive property belonging to the Group in the event of liquidation. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares.

In the event of the dissolution and liquidation of the Bank, the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

The table below provides a breakdown of the Bank's authorized ordinary and preference shares:

Authorized	Ordinary shares (Number)	Nominal amount (RUB million)	Preference shares (Number)	Nominal amount (RUB million)
31 December 2009	**177,815,139**	**8,891**	**48,100,000**	**2,405**
Issued	**(4,861,112)**	**(243)**	**-**	**-**
31 December 2010	**172,954,027**	**8,648**	**48,100,000**	**2,405**
Issued	(5,576,397)	(279)	-	-
31 December 2011	**167,377,630**	**8,369**	**48,100,000**	**2,405**

The Group's subsidiary company LLC "KN-Estate" has repurchased 12,100 million items of the Group's preference shares. The financial result from the deal is recognized in consolidated statement of changes in equity. The deal was performed in terms of the Group's organization structure optimization. The Group has no intention to sell back these shares in foreseeable future.

The total amount of share premium as at 31 December 2011 was RUB 20,898 million and RUB 15,859 million during the year ended 31 December 2010.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

In April 2011 the Group has performed the initial public offering (IPO) of its shares, followed by issuance of the new shares. As a result, the Group has received proceeds of RUB 5,500 million in the new share issue. The Group has recognized transaction costs related to the issuance of new shares in the amount of RUB 182 million, which are accounted for as a deduction from share premium. Net share capital issued comprised RUB 5,318 million. The amount of transaction costs related to the listing of the existing shares comprised RUB 215 million and was recorded within operating expenses in the consolidated income statement (see Note 10).

32. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2011 and 2010 allowances for guarantees and other off-balance sheet commitments were RUB 381 million and RUB 456 million, respectively. The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision (Basel I).

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As at 31 December 2011 and 31 December 2010 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2011		31 December 2010	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount
Contingent liabilities and credit commitments				
Commitments on loans and unused credit lines	87,202	1,366	74,330	18,405
Guarantees issued and similar commitments	100,356	65,078	73,609	73,284
Letters of credit and other contingent commitments related to settlement operations	9,972	3,651	7,626	3,202
Total contingent liabilities and credit commitments	**197,530**	**70,095**	**155,565**	**94,891**

As at 31 December 2011 and 2010 letters of credit of RUB 2,670 million and RUB 1,222 million, respectively, were secured by cash deposited in customer accounts (see Note 26).

Operating leases – The Group's future minimum rental payments under non-cancellable operating leases of office premises in effect as at 31 December 2011 and 2010 are presented in the table below.

	31 December 2011	31 December 2010
Not later than 1 year	834	405
Later than 1 year and not later than 5 years	1,019	817
Later than 5 years	3	205
Total operating lease	**1,856**	**1,427**

Fiduciary activities – The Group provides depositary services to its customers. As at 31 December 2011 and 2010 the Group had customers' securities of 14,999,522,154 items, and 2,413,913,716,332 items, respectively, in its nominal holder's accounts.

As at 31 December 2011 and 2010 the Group kept in its vault 5,006 kg of gold bullion, 3,236 kg of silver bullion, 82 kg of palladium bullion, 26 kg of platinum bullion, and 2,580 kg of gold bullion, 6,413 kg of silver bullion, 29 kg of palladium bullion, 75 kg of platinum bullion respectively, owned by the Group's customers.

As at 31 December 2011 and 2010 the Group has obligation to provide funding for operations on precious metals extraction in the amount of RUB 35,029 million and RUB 32,905 million, respectively, which are not recognized in the consolidated statement of financial position as the conditions of extraction and customer delivery have not yet occurred.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the RF and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Pensions and retirement plans – Employees receive pension benefits according to the laws and regulations of the Russian Federation. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The Group makes monthly payments to a non-government pension fund for its employees, who in turn will receive a future benefit from the fund. The contributions to the defined contribution plan are included in staff costs on an accrual basis. During the year ended 31 December 2011 and 2010 the Group made payments to the non-government pension fund of RUB 4 million and RUB 2 million, respectively. Once the payments to the pension fund are made the Group has no further obligations.

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

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russian Federation produces and exports large volumes of oil and gas, Russian economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

During the period starting from the 1 January 2011 to 31 December 2011 the Central Bank of the Russian Federation has established new regulatory requirement applied to the minimum reserve deposits with the CBR. New ratios for minimum reserve deposits with the CBR increased from 2.5%, which was effective as at 31 December 2010, to 4.0%-5.5% during the year ended 31 December 2011.

33. SEGMENT REPORTING

The reportable segments comprise of:

- Corporate banking – full range of banking services provided to large and medium-sized corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- Small business – banking services provided to small businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- Investment banking – representing trading of fixed income and equity products, foreign exchange, precious metals and derivatives on such products, money market operations, repo, brokerage services and asset management and other investment banking services.
- Retail banking (including private banking) – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Treasury and asset-liability unit – treasury, which lends and borrows funds of money market, undertakes the Group's funding through issue of debt securities and attraction of subordinated facilities and conducts foreign exchange operations for internal hedging purposes. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.
- Unallocated – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities

The President of the Bank is the chief operating decision maker. Operating results are reviewed regularly by the entity's chief operating decision maker to consider the way resources to be allocated to the segment and assess its performance.

Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

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Segment information about these businesses is presented below:

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2011
External interest income	32,946	3,334	6,723	9,144	211	-	**52,358**
External interest expense	(8,060)	(425)	(6,221)	(4,809)	(4,787)	-	**(24,302)**
Internal funding costs/revenues from Central treasury	(9,404)	(332)	4,581	(311)	5,458	8	-
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	**15,482**	**2,577**	**5,083**	**4,024**	**882**	**8**	**28,056**
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(3,409)	(436)	(23)	37	-	-	**(3,831)**
Net interest income	**12,073**	**2,141**	**5,060**	**4,061**	**882**	**8**	**24,225**
Fee and commission income	2,745	1,246	3,609	440	19	1	**8,060**
Fee and commission expense	(137)	(28)	(1,449)	(203)	(154)	-	**(1,971)**
Trading and foreign exchange results	940	88	332	701	352	-	**2,413**
Other operating income	252	135	221	49	11	211	**879**
Net result from other segments*	**(166)**	**(17)**	**41**	**213**	**(71)**	**-**	**-**
Total operating income before impairment losses and provision	**15,707**	**3,565**	**7,814**	**5,261**	**1,039**	**220**	**33,606**
Impairment losses of investments available-for-sale and investment property and provisions on other transactions	(320)	4	(87)	(195)	1	(126)	**(723)**
Operating expense	**(4,104)**	**(2,359)**	**(6,177)**	**(1,242)**	**(306)**	**(3,162)**	**(17,350)**
Profit before taxation	**11,283**	**1,210**	**1,550**	**3,824**	**734**	**(3,068)**	**15,533**
Income tax	-	-	-	-	-	(3,399)	**(3,399)**
Profit for the period	**11,283**	**1,210**	**1,550**	**3,824**	**734**	**(6,467)**	**12,134**
Depreciation and amortization expense	(359)	(211)	(690)	(67)	(19)	(202)	**(1,548)**
Capital expenditures	424	250	747	84	25	248	**1,778**

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

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	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	-	-	12,939	5,013	15,998	9	**33,959**
Minimum reserve deposits with CBR	-	-	-	-	6,124	-	**6,124**
Precious metals	9,373	-	25	-	-	-	**9,398**
Financial assets at fair value through profit or loss	47	-	-	77,922	-	-	**77,969**
Loans and advances to banks and other financial institutions	435	-	2,110	35,778	15,368	-	**53,691**
Loans to customers	320,870	29,930	58,114	38,952	9	30	**447,905**
Investments available-for-sale	5,651	-	-	4,016	23	-	**9,690**
Investments held to maturity	-	-	-	548	-	-	**548**
Property, plant and equipment	2,475	1,456	4,560	477	599	1,423	**10,990**
Intangible assets	434	246	1,414	58	21	454	**2,627**
Goodwill	-	-	-	-	-	809	**809**
Investment property	2,218	-	-	728	-	813	**3,759**
Other assets	685	306	565	237	57	2,825	**4,675**
TOTAL ASSETS	**342,188**	**31,938**	**79,727**	**163,729**	**38,199**	**6,363**	**662,144**
LIABILITIES							
Financial liabilities at fair value through profit or loss	104	-	-	4,421	-	-	**4,525**
Due to banks and the Central Bank of the Russian Federation	10,979	3,713	6,440	79,208	6,307	-	**106,647**
Customer accounts	213,096	24,250	130,636	2,895	11,568	-	**382,445**
Bonds and Eurobonds	-	-	-	22,592	17,674	-	**40,266**
Promissory notes issued	6,481	239	84	12,103	-	-	**18,907**
Deferred income tax liabilities	-	-	-	-	-	2,885	**2,885**
Other liabilities	700	41	777	183	51	1,642	**3,394**
Subordinated debt	**-**	**-**	**-**	**-**	27,365	**-**	**27,365**
TOTAL LIABILITIES	**231,360**	**28,243**	**137,937**	**121,402**	**62,965**	**4,527**	**586,434**

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	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2010
External interest income	19,804	1,478	1,642	5,323	1,103	-	**29,350**
External interest expense	(3,692)	(116)	(4,693)	(2,563)	(3,925)	-	**(14,989)**
Internal funding costs/revenues from Central treasury	(8,752)	(160)	5,418	180	3,302	12	**-**
Net interest income before gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	**7,360**	**1,202**	**2,367**	**2,940**	**480**	**12**	**14,361**
Gain on remeasurement of cash flows and provision for impairment losses on interest bearing assets	(1,934)	17	(1,350)	(468)	(5)	(13)	**(3,753)**
Net interest income	**5,426**	**1,219**	**1,017**	**2,472**	**475**	**(1)**	**10,608**
Fee and commission income	1,313	585	477	94	8	7	**2,484**
Fee and commission expense	(98)	(25)	(136)	(50)	(59)	-	**(368)**
Trading and foreign exchange results	625	34	73	2,329	(212)	-	**2,849**
Other operating income	1,301	34	88	77	43	78	**1,621**
Net result from other segments *	(124)	4	2	241	(123)	-	**-**
Total operating income before impairment losses and provision	**8,443**	**1,851**	**1,521**	**5,163**	**132**	**84**	**17,194**
Impairment loses of investments available-for-sale and investment property and provisions on other transactions	524	(25)	(11)	(368)	-	30	**150**
Operating expenses and Impairment of buildings and constructions	(2,377)	(1,451)	(2,241)	(524)	(85)	(1,455)	**(8,133)**
Profit before taxation	**6,590**	**375**	**(731)**	**4,271**	**47**	**(1,341)**	**9,211**
Income tax	-	-	-	-	-	(1,785)	**(1,785)**
Profit for the period	**6,590**	**375**	**(731)**	**4,271**	**47**	**(3,126)**	**7,426**
Depreciation and amortization expense	(173)	(118)	(174)	(39)	(14)	(2)	**(518)**
Capital expenditures	165	100	142	31	11	-	**449**

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

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	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2010 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	-	-	10,076	12,898	17,512	3	40,489
Minimum reserve deposits with CBR	342	71	385	255	1,764		2,817
Precious metals	4,661	-	16	-	-	-	4,677
Financial assets at fair value through profit or loss	54	-	-	55,468	-	-	55,522
Loans and advances to banks and other financial institutions	110	-	1,078	34,151	5,891	347	41,577
Loans to customers	248,580	19,129	36,533	35,051	-	9	339,302
Investments available-for-sale	5,226	-	-	20,007	3	527	25,763
Investments held to maturity	-	-	-	852	-	-	852
Property, plant and equipment	3,296	1,644	3,802	1,187	169	878	10,976
Goodwill	-	-	-	-	-	598	598
Intangible assets	549	147	962	390	106	448	2,602
Investment property	216	-		623		83	922
Other assets	1,457	134	121	973	-	1,435	4,120
TOTAL ASSETS	264,491	21,125	52,973	161,855	25,445	4,328	530,217
LIABILITIES							
Financial liabilities at fair value through profit or loss	9	-	-	996	-	-	1,005
Due to banks and the Central Bank of the Russian Federation	9,821	2,500	579	43,926	3,013	-	59,839
Customer accounts	146,653	21,989	120,088	2,684	21,949	13	313,376
Bonds and Eurobonds	-	-	-	16,678	17,734	-	34,412
Promissory notes issued	12,971	77	41	20,079	-	-	33,168
Deferred income tax liabilities	-	-	-	-	-	1,182 [2]	1,182
Other liabilities	764	64	169	23	2	1,187 *	2,209
Subordinated debt	-	-	-	-	27,091	-	27,091
TOTAL LIABILITIES	170,218	24,630	120,877	84,386	69,789	2,382	472,282

[2] Includes tax liabilities

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques

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

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Bond prices – quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Interest rates – these are principally benchmark interest rates or internal Bank rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates – there are observable markets both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Commodity prices – many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

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

Financial assets and liabilities

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

- Cash and balances with the CBR and minimum reserve deposit with the CBR, due to the shot-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date.
- The fair value of loans and advanced to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts
- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices. Investments in equity instruments, which do not have quoted market prices in an active market are measured at cost, as their fair value can not be measured reliably.
- The fair value of units of investment funds, which have quoted prices on the active market, is determined based on the quoted market prices. For shares in investment funds, which have no quoted prices on the active market the Group uses an independent appraiser's valuation for determining the fair value of such shares in the investment funds. The fair value of the assets of the investment funds is determined by the use of different approaches (income approach, comparative approach and cost approach) and methods (income capitalization method, company-analogue method, discounted cash flows method, liquidation value method).

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- Investments held to maturity is determined based on quoted active market prices at the reporting date.
- Other financial assets and liabilities is mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of term deposits (included in customer accounts and deposits from banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates when the deposits were placed with the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of issued bonds, Eurobonds, promissory notes and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.

The valuation techniques have been consistently applied by the Group across the years.

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

	31 December 2011		31 December 2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and balances with the Central Bank of the Russian Federation	33,959	33,959	40,489	40,489
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	6,124	2,817	2,817
Financial assets at fair value through profit or loss	77,969	77,969	55,522	55,522
Loans and advances to banks and other financial institutions	53,691	55,823	41,577	41,507
Loans to customers	447,905	454,798	339,302	335,305
Investments available-for-sale	9,690	9,690	25,763	25,763
Investments held to maturity	548	545	852	1,259
Other financial assets	1,271	1,271	1,705	1,705
Financial liabilities				
Financial liabilities at fair value through profit or loss	4,525	4,525	1,005	1,005
Due to banks and the Central Bank of the Russian Federation	106,647	109,560	59,839	59,852
Customer accounts	382,445	384,506	313,376	312,644
Bonds and Eurobonds	40,266	40,988	34,412	35,085
Promissory notes issued	18,907	18,830	33,168	33,608
Other financial liabilities	2,829	2,829	1,252	1,252
Subordinated debt	27,365	27,685	27,091	27,455

Valuation hierarchy

The tables below show the financial instruments carried at fair value by hierarchy – level 1, level 2 and level 3. The valuation techniques, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions for level 3 financial instruments are set out below.

Quoted prices in an active market (Level 1): Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.

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Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

There were no significant transfers to or from Level 1, Level 2 or Level 3 of the fair value hierarchy during the period.

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

	31 December 2011			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Bonds and Eurobonds issued by banks	27,506	-	-	27,506
Corporate bonds and Eurobonds	21,033	-	-	21,033
OFZ bonds	17,182	-	-	17,182
Promissory notes of credit institutions	-	2,877	-	2,877
RF Government Eurobonds	1,110	-	-	1,110
Municipal bonds	151	-	-	151
Corporate shares	1,799	-	-	1,799
Financial assets at fair value through profit or loss:	**68,781**	**2,877**	**-**	**71,658**
First to default credit-linked notes recognized at fair value through profit or loss	**-**	**311**	**-**	**311**
Foreign currency forwards	5,823	-	-	5,823
Foreign currency option	-	49	-	49
Precious metals forwards	47	-	-	47
Dealing security forwards	12	-	-	12
Swap	-	69	-	69
Derivative financial instruments:	**5,882**	**118**	**-**	**6,000**
Units of investment funds	25	-	5,651	5,676
Bonds issued by CIS	1,977	-	-	1,977
Corporate bonds and Eurobonds	914	28	-	942
Bonds and Eurobonds issued by banks	507	-	-	507
OFZ bonds	161	-	-	161
Corporate shares	8	-	-	8
Promissory notes of credit institutions	-	5	-	5
Investments available-for-sale	**3,592**	**33**	**5,651**	**9,276**
Foreign currency forwards	(3,027)	-	-	(3,027)
Foreign currency futures contracts	(1,103)	-	-	(1,103)
Foreign currency option	-	(49)	-	(49)
Precious metals forwards	(184)	-	-	(184)
Dealing security futures contracts	(2)	-	-	(2)
Swap	-	(157)	-	(157)
Other financial liabilities at fair value through profit and loss	(3)	-	-	(3)
Financial liabilities at fair value through profit or loss	**(4,319)**	**(206)**	**-**	**(4,525)**

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	31 December 2010			
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Bonds and Eurobonds issued by banks	21,354	101	-	21,455
Corporate bonds and Eurobonds	13,581	15	-	13,596
Promissory notes of credit institutions	-	7,038	-	7,038
RF Government Eurobonds	4,373	927	-	5,300
Municipal bonds	2,894	-	-	2,894
OFZ bonds	52	-	-	52
Corporate shares	1,973	-	-	1,973
Financial assets at fair value through profit or loss:	**44,227**	**8,081**	**-**	**52,308**
First to default credit-linked notes recognized at fair value through profit or loss	**-**	**1,817**	**-**	**1,817**
Foreign currency forwards	382	791	-	1,173
Foreign currency option	-	35	-	35
Precious metals forwards	54	4	-	58
Dealing security forwards	-	1	-	1
Dealing security futures	-	10	-	10
Swap	-	120	-	120
Derivative financial instruments:	**436**	**961**	**-**	**1,397**
Promissory notes of credit institutions	-	10,903	-	10,903
Units of investment funds	9	-	5,226	5,235
Corporate bonds and Eurobonds	4,725	-	-	4,725
RF Government Eurobonds	1,215	-	-	1,215
Promissory notes of companies	-	1,171	-	1,171
Bonds and Eurobonds issued by banks	859	-	-	859
Bonds issued by CIS	856	-	-	856
OFZ bonds	209	-	-	209
Municipal bonds	151	-	-	151
Municipal Eurobonds	21	-	-	21
Investments available-for-sale	**8,045**	**12,074**	**5,226**	**25,345**
Foreign currency forwards	(334)	(416)	-	(750)
Foreign currency option	-	(35)	-	(35)
Precious metals forwards	(9)	(4)	-	(13)
Swap	-	(207)	-	(207)
Financial liabilities at fair value through profit or loss	**(343)**	**(662)**	**-**	**(1,005)**

Excluded from the table above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at 31 December 2011 and 2010 the value of such investments amounted RUB 414 million and RUB 418 million, respectively.

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The Group invests in certain investment funds where as a result of general market conditions and illiquidity of the bond markets the valuation is based upon inputs other than those readily observable in the market place (Level 3). The following table provides a detail of the activity with respect to the fair value measurement during the period ending 31 December 2011 and 31 December 2010.

	31 December 2011	31 December 2010
As at January	**5,226**	-
Purchases through acquisition of subsidiary	-	5,018
Gains recognized in other comprehensive income	425	208
As at 31 December	**5,651**	**5,226**

35. CAPITAL MANAGEMENT

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The table below presents the composition of capital complying with Basel and discloses the capital - adequacy ratio for the reporting periods ended 31 December 2011 and 2010:

	31 December 2011	31 December 2010
Tier 1 capital	73,864	56,614
Tier 2 capital	25,384	26,660
	-	
Total regulatory capital	99,248	**83,274**
Risk-weighted assets:		
Credit risks	550,142	478,827
Market risks	64,381	54,500
Total risk-weighted assets	**614,523**	**533,327**
Basel ratio	16.15%	15.61%
Tier 1	12.02%	10.62%

During the year ended 31 December 2011 the Group changed the credit conversion factors applied to customer guarantees in the calculation of risk-weighted assets from 100% to 50% as such guarantees bear lower credit risk compared to direct credit substitutes. The management estimated the impact of this change on the comparative data as immaterial, so the change was not performed retrospectively.

As at 31 December 2011 and 31 December 2010 the Group included the subordinated debt received in the computation of total capital, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group’s liabilities to all other creditors.

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the 1988 Basel Capital Accord 1988. As at 31 December 2011 and 31 December 2010, the Group complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders’ vision and strategy of long-term Bank development.

36. RISK MANAGEMENT POLICY

Risk management system

Management of risks is fundamental to the Group's business. The risk management functions include:

- Organizational structure of risk management – a structure of the Group's bodies and departments involved in risk management activities;
- Structure of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure.

In the Group the Supervisory Board, Management Board, Financial Committee, credit committee, Risk management department, Treasury department and Operating risk department of the Group are responsible for managing the risks.

The Supervisory Board is responsible for general control over the risk management system and determines the strategy of its development. The Management Board is responsible for development of risk management policy including tactical issues. The Financial Committee performs current monitoring of liquidity and market risks. Operating monitoring of credit risk level is performed by a system of credit committees. Direct risk management including assessment and reporting, is performed by:

- Risk management department – in relation to credit risks;
- Treasury department – in relation to the liquidity, interest rate, currency and price risks;
- Operating risk department – in relation to operational risks.

The Group's priority is to reduce the exposure to risks by collegial decision making. Strict segregation of duties between departments and officials of the Group, accurately specified instructions and procedures, and determination of competences and authorities of the bodies and their leaders are also essential areas for risk limitation. Appropriate methodologies are used to assess the risk level. Instructions, procedures and methodologies are revised by the Group on a regular basis and updated reflecting the changed market conditions, influence of new products and services proposed by the Group, and improvement of risk managements methods used in banking practice.

Risk monitoring structure includes:

- Setting the limits for risk acceptance on the basis of assessment of acceptance of the respective risk level;
- Control over the Group's exposure to the risks by:
  - Following the limits;
  - Assessment of the Group's exposure to risks on a regular basis;
  - Compliance control;
  - Meeting the requirements of the Central Bank of the Russian Federation in regard of covering the risks with sufficient equity;
  - Internal audit of risk management systems.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;

There have been no significant changes to the Group's risk management policies from those disclosed in the consolidated financial statements for the year ended 31 December 2010. The Group presents the following information in relation to its risk management policies as at 31 December 2010.

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Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Credit Committee approves new loans and changes and amendments to loan agreements. The Credit Department performs current monitoring.

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

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	31 December 2011			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	22,331	-	22,331	-
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	-	6,124	-
Financial assets at fair value through profit or loss, excluding equity securities	76,170	-	76,170	-
Loans and advances to banks and other financial institutions	53,691	-	53,691	6,945
Loans to customers	447,905	85	447,820	365,324
Investments available-for-sale, excluding equity securities and units in investment funds	3,592	-	3,592	-
Investments held to maturity	548	-	548	-
Other financial assets	1,271	-	1,271	-
Commitments on loans and unused credit lines	87,202	-	87,202	-
Guarantees issued and similar commitments	100,004	-	100,004	-
Letters of credit and other contingent commitments related to settlement operations	9,972	-	9,972	2,670

	31 December 2010			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	29,410	-	29,410	-
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817	-	2,817	-
Financial assets at fair value through profit or loss, excluding equity securities	53,549	-	53,549	-
Loans and advances to banks and other financial institutions	41,577	-	41,577	2,260
Loans to customers	339,302	107	339,195	296,127
Investments available-for-sale, excluding equity securities	20,110	-	20,110	-
Investments held to maturity	852	-	852	-
Other financial assets	1,705	-	1,705	-
Commitments on loans and unused credit lines	74,330	-	74,330	-
Guarantees issued and similar commitments	73,153	-	73,153	-
Letters of credit and other contingent commitments related to settlement operations	7,626	-	7,626	1,222

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Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of unimpaired financial assets(*), excluding loans to customers, held by the Group. Credit ratings for loans to customers are presented in Note 18.

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2011 Total**
Balances with the Central Bank of the Russian Federation	-	-	-	22,331	-	-	22,331
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	6,124	-	-	6,124
Financial assets at fair value through profit or loss	-	700	1,428	49,531	19,366	6,944	77,969
Loans and advances to banks and other financial institutions	143	388	13,814	9,079	17,625	12,642	53,691
Investments available-for-sale	-	-	-	237	2,868	6,576	9,681
Investments held to maturity	-	-	-	25	523	-	548
Other financial assets	-	66	1	32	37	1,132	1,268

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2010 Total**
Balances with the Central Bank of the Russian Federation	-	-	-	29,410	-	-	29,410
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	2,817	-	-	2,817
Financial assets at fair value through profit or loss	103	1,043	970	28,135	16,358	6,940	53,549
Loans and advances to banks and other financial institutions	2,528	1,628	1,445	3,091	20,328	12,557	41, 577
Investments available-for-sale	-	-	-	4,203	15,304	6,168	25,675
Investments held to maturity	-	-	-	25	645	-	670
Other financial assets	-	1	64	-	1	1,655	1,721

(*)The above unimpaired financial assets are classified based on the information provided by the international credit rating agencies – “Moody's”, “Fitch”, “Standard & Poor's”.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group’s risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower’s rating and rating of collateral for a loan. The system is based on a rating model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the rating model provides for overall assessment of the borrower and the loan.

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Currently the rating model is applied only for initial credit application assessment. For credit monitoring purposes the bank classifies performing loans into “standard” and “watch-list” categories, based on the range of financial and other quantitative and qualitative indicators of borrowers’ performance.

A model of the borrower’s scoring assessment has been developed in the Group to assess and decide on loans to small and medium-size businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The loan maximum limit is calculated with the use of the borrower’s debt load ratio.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated balance sheet. As such, more detailed information is not being presented.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Non-OECD countries	OECD countries	31 December 2011 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	33,959	-	-	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	-	-	6,124
Financial assets at fair value through profit or loss	68,866	3,967	5,136	77,969
Loans and advances to banks and other financial institutions	23,240	12,637	17,814	53,691
Loans to customers	371,930	75,891	84	447,905
Investments available-for-sale	7,243	1,977	470	9,690
Investments held to maturity	548	-	-	548
Other financial assets	1,150	13	108	1,271
TOTAL FINANCIAL ASSETS	513,060	94,485	23,612	631,157
Precious metals	9,398	-	-	9,398
Property, plant and equipment	10,990	-	-	10,990
Goodwill	809	-	-	809
Intangible assets	2,627	-	-	2,627
Investment property	3,759	-	-	3,759
Other non-financial assets	3,399	4	1	3,404
TOTAL NON-FINANCIAL ASSETS	30,982	4	1	30,987
TOTAL ASSETS	544,042	94,489	23,613	662,144

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	Russia	Non-OECD countries	OECD countries	31 December 2011 Total
LIABILITIES				
Financial liabilities at fair value through profit or loss	901	270	3,354	4,525
Due to banks and the Central Bank of the Russian Federation	55,565	14,546	36,536	106,647
Customer accounts	373,669	7,382	1,394	382,445
Bonds and Eurobonds	22,592	-	17,674	40,266
Promissory notes issued	18,803	-	104	18,907
Other financial liabilities	2,829	-	-	2,829
Subordinated debt	6,583	-	20,782	27,365
TOTAL FINANCIAL LIABILITIES	480,942	22,198	79,844	582,984
Deferred income tax liabilities	2,885	-	-	2,885
Other non-financial liabilities	548	1	16	565
TOTAL NON-FINANCIAL LIABILITIES	3,433	1	16	3,450
TOTAL LIABILITIES	484,375	22,199	79,860	586,434
OPEN POSITION	59,667	72,290	(56,247)	

	Russia	Non-OECD countries	OECD countries	31 December 2010 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	40,489	-	-	40,489
Minimum reserve deposits the Central Bank of the Russian Federation	2,817	-	-	2,817
Financial assets at fair value through profit or loss	52,355	922	2,245	55,522
Loans and advances to banks and other financial institutions	18,004	17,303	6,270	41,577
Loans to customers	266,403	72,893	6	339,302
Investments available-for-sale	24,378	1,383	2	25,763
Investments held to maturity	852	-	-	852
Other financial assets	1,594	-	111	1,705
TOTAL FINANCIAL ASSETS	406,892	92,501	8,634	508,027
Precious metals	4,677	-	-	4,677
Property, plant and equipment	10,976	-	-	10,976
Goodwill	598	-	-	598
Intangible assets	2,602	-	-	2,602
Investment property	922	-	-	922
Other non-financial assets	2,410	4	1	2,415
TOTAL NON-FINANCIAL ASSETS	22,185	4	1	22,190
TOTAL ASSETS	429,077	92,505	8,635	530,217

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	Russia	Non-OECD countries	OECD countries	31 December 2010 Total
LIABILITIES				
Financial liabilities at fair value through profit or loss	164	355	486	1,005
Due to banks and the Central Bank of the Russian Federation	30,665	3,714	25,460	59,839
Customer accounts	302,489	9,687	1,200	313,376
Bonds and Eurobonds	16,678	-	17,734	34,412
Promissory notes issued	32,719	-	449	33,168
Other financial liabilities	1,688	8	12	1,708
Subordinated debt	9,215	-	17,876	27,091
TOTAL FINANCIAL LIABILITIES	393,618	13,764	63,218	470,599
Deferred income tax liabilities	1,182	-	-	1,182
Other non-financial liabilities	500	-	1	501
TOTAL NON-FINANCIAL LIABILITIES	1,682	-	1	1,683
TOTAL LIABILITIES	395,300	13,764	63,218	472,282
OPEN POSITION	33,777	78,741	(54,583)	

Market risk

Market risk is the risk that the fluctuations in market value of securities, foreign exchange rates, value of precious metals or interest rates may cause the changes in transaction returns or value of assets.

Therefore, the market risks include currency, interest and price risks. The Group is exposed to the market risks as a result of open positions on stock-exchange securities, currencies, precious metals and interest rates.

Market risks are managed by the Financial market department, Precious metals department, Treasury department and Financial and Market risk department. The Treasury and Market risk department assesses the Group's exposure to currency and price risks, including in terms of the internal limits. Treasury department assesses interest rate sensitivity and sets guidelines for the interest rate risks. Financial market department manages the open positions within the set limits on a daily basis to increase the Group's profit.

Value-at-risk methodology adopted by the Group for risk measurement purposes

The Group applies Value-at-Risk (VaR) methodology to assess its exposure to currency and price risk. VaR is the maximum volume of loss for the concerned position of financial instrument/ portfolio/ transaction that may arise during a given period of time with a given probability. The loss value is estimated based on statistical and probabilistic analysis.

The Group assumes the accuracy of assessing the maximum value at risk (confidence level) at 99% with the time horizon of 10 days.

To exercise control over the adequacy of measuring the above exposures the Group uses backtesting procedure that allows determining the extent to which risk assessment model corresponds to the real market situation.

As part of works to prepare this consolidated financial statements the Market and Operational Risks Department estimated VaR with regard to the Group's currency position in terms of key currencies and gold and the Group's market (price) risk inherent in the securities portfolio (shares, fixed-income securities except for promissory notes and financial securities derivatives) as of 31 December 2011.

During the period ended 31 December 2011 the Group applied several changes to the methodology of calculation of the estimated value of VaR:

- The Group has changed the method of assessment of price and currency risk from predefined one to the set of methods.
- The loss value is estimated using analytical (based on variance-covariance approach with constant variance or the one based on Generalized Autoregressive Conditional Heterescedasticity-model) and historical simulations approach.

The sampling period used by Group for simulation purposes depends on the instrument type: 259 days – for currencies and gold, 69-259 days – for financial instruments.

The results of VaR measurement with regard to currency and price risk are provided in the attached table.

Total data on the VaR assessment in respect for currency and price risks accepted by the Group as of 31 December 2011 and 2010 are the following:

	Year ended 31 December 2011			
RUB million	**Minimum**	**Average**	**Maximum**	**Year end**
Currency risk	22	104	479	68
Fixed income securities price risk	377	876	2,460	2,460
Equity securities price risk	201	343	692	369

	Year ended 31 December 2010			
RUB million	**Minimum**	**Average**	**Maximum**	**Year end**
Currency risk	15	191	348	56
Fixed income securities price risk	278	694	1,559	896
Equity securities price risk	49	145	422	94

Although VaR is rather efficient as a risk measurement method this efficiency may be limited, especially in the conditions of low liquidity markets:

- Use of historical data to assess future events fails to take into account all the scenarios possible, especially extraordinary ones;
- Use of 99% confidence level disregards losses that may occur outside of this confidence range;
- VaR calculated based on business day results disregards fluctuations that could have taken place throughout the day.

In view of the above, the Group applies other risk measurement methods as well: gap analysis for interest rate risk, and net interest income sensitivity analysis.

Interest rate risk

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Cash flow interest rate risk arises from the possibility that future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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The Group manages interest risk by balancing interest bearing assets and liabilities, balancing the structure of assets and liabilities, implementing controls over risks of fund withdrawals and loan prepayments prior to maturity and controls over interest rate changes. The tools used by Financial Committee include stress-testing and setting maximum and minimum rates.

The following table presents a breakdown of weighted average effective interest rates in force as at 31 December 2011 and 2010 and thus the potential of the Group for gain or loss. Effective average interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2011		
	RUB	**USD**	**Other currencies**
ASSETS:			
Financial assets at fair value through profit or loss	7.54%	7.01%	4.25%
Loans and advances to banks and other financial institutions	7.11%	1.20%	8.03%
Loans to customers	12.58%	9.18%	9.63%
Investments available-for-sale	7.25%	9.86%	6.07%
Investments held to maturity	8.90%	-	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	5.62%	3.14%	2.26%
Customer accounts	7.27%	3.67%	4.23%
Bonds and Eurobonds	7.35%	7.41%	-
Promissory notes issued	7.56%	4.85%	4.37%
Subordinated debt	9.37%	9.14%	-

	31 December 2010		
	RUB	**USD**	**Other currencies**
ASSETS:			
Financial assets at fair value through profit or loss	8.63%	7.25%	4.25%
Loans and advances to banks and other financial institutions	3.70%	5.84%	5.53%
Loans to customers	11.85%	10.28%	9.99%
Investments available-for-sale	7.92%	6.67%	9.20%
Investments held to maturity	12.86%	-	-
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	4.02%	2.34%	2.67%
Customer accounts	6.09%	6.30%	6.68%
Bonds and Eurobonds	8.11%	6.12%	4.69%
Promissory notes issued	7.35%	6.85%	5.67%
Subordinated debt	7.17%	9.37%	-

Interest rate risk is the risk that the interest income of the Group will decrease or it will incur losses in a result of adverse changes in market interest rates.

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The following table presents financial assets/liabilities maturity based on projected repricing dates for floating rate instruments and expected maturity for fixed rate instruments. These repricing dates are determined by management and are contained within the risk reports provided to key management personnel.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	23,869	-	-	-	-	10,090	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,124	6,124
Precious metals	9,398	-	-	-	-	-	9,398
Financial assets at fair value through profit or loss	2,469	2,893	12,830	40,562	11,497	7,718	77,969
Loans and advances to banks and other financial institutions	41,391	914	3,849	3,222	-	4,315	53,691
Loans to customers	52,355	48,469	168,229	153,318	25,534	-	447,905
Investments available-for-sale	64	662	271	627	1,967	6,099	9,690
Investments held to maturity	-	-	-	523	25	-	548
Property, plant and equipment	-	-	-	-	-	10,990	10,990
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,627	2,627
Investment property	-	-	-	-	-	3,759	3,759
Other assets	-	-	-	-	-	4,675	4,675
TOTAL ASSETS	**129,546**	**52,938**	**185,179**	**198,252**	**39,023**	**57,206**	**662,144**
LIABILITIES							
Financial liabilities at fair value through profit or loss	97	1	2	57	-	4,368	4,525
Due to banks and the Central Bank of the Russian Federation	45,034	22,668	24,944	12,843	139	1,019	106,647
Customer accounts	110,280	82,413	99,587	27,412	28	62,725	382,445
Bonds and Eurobonds	170	5,121	15,760	19,215	-	-	40,266
Promissory notes issued	4,537	5,770	7,196	1,404	-	-	18,907
Deferred income tax liabilities	-	-	-	-	-	2,885	2,885
Other liabilities	-	-	-	-	-	3,394	3,394
Subordinated debt	1	-	228	14,510	12,626	-	27,365
TOTAL LIABILITIES	**160,119**	**115,973**	**147,717**	**75,441**	**12,793**	**74,391**	**586,434**
Interest gap based on projected repricing dates	**(30,573)**	**(63,035)**	**37,462**	**122,811**	**26,230**		
Interest based derivative financial instruments based on projected repricing dates	**2,102**	**-**	**-**	**(2,102)**	**-**		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	**(28,471)**	**(63,035)**	**37,462**	**120,709**	**26,230**		

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	31 December 2010 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	30,892	-	-	-	-	9,597	40,489
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	2,817	2,817
Precious metals	4,677	-	-	-	-	-	4,677
Financial assets at fair value through profit or loss	415	1,876	18,047	20,334	11,601	3,249	55,522
Loans and advances to banks and other financial institutions	24,311	3,969	6,748	2,091	-	4,458	41,577
Loans to customers	54,572	28,594	106,998	123,463	25,675	-	339,302
Investments available-for-sale	1,845	7,164	4,965	4,569	1,567	5,653	25,763
Investments held to maturity	-	-	-	827	25	-	852
Property, plant and equipment	-	-	-	-	-	10,976	10,976
Goodwill	-	-	-	-	-	598	598
Intangible assets	-	-	-	-	-	2,602	2,602
Investment property	-	-	-	-	-	922	922
Other assets	-	-	-	-	-	4,120	4,120
TOTAL ASSETS	**116,712**	**41,603**	**136,758**	**151,284**	**38,868**	**44,992**	**530,217**
LIABILITIES							
Financial liabilities at fair value through profit or loss	91	6	-	110	-	798	1,005
Due to banks and the Central Bank of the Russian Federation	32,612	12,895	10,386	3,447	-	499	59,839
Customer accounts	84,923	46,614	107,835	23,480	8	50,516	313,376
Bonds and Eurobonds	80	1,835	8,003	24,494	-	-	34,412
Promissory notes issued	2,681	4,327	24,395	1,761	4	-	33,168
Deferred income tax liabilities	-	-	-	-	-	1,182	1,182
Other liabilities	-	-	-	-	-	2,209	2,209
Subordinated debt	-	-	4,064	15,002	8,025	-	27,091
TOTAL LIABILITIES	**120,387**	**65,677**	**154,683**	**68,294**	**8,037**	**55,204**	**472,282**
Interest gap based on projected repricing dates	**(3,675)**	**(24,074)**	**(17,925)**	**82,990**	**30,831**		
Interest based derivative financial instruments based on projected repricing dates	**2,616**	**406**	**(202)**	**(2,820)**	**-**		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	**(1,059)**	**(23,668)**	**(18,127)**	**80,170**	**30,831**		

Sensitivity analysis

The first portion of this calculation is based on the assumption that market interest rates will rise (fall) by two percentage points. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates as described below is for twelve months ended 31 December 2011 and 2010.

The calculation refers to the immediate effect on consolidated income statement of each scenario for the Group’s interest rate positions on floating rate instruments.

The second portion is entitled “changes in value” and calculates the equivalent effect for debt securities in the assets at fair value through profit or loss and available-for-sale category.

		31 December 2011		31 December 2010	
		Equity	Net profit	Equity	Net profit
Net interest income for the reporting period					
Increased interest rates	+ 2%	(64)	(64)	(136)	(136)
Decreased interest rates	-2%	64	64	136	136
Change in value					
Market interest rate	+ 2%	(2,807)	(2,788)	(1,916)	(1,622)
Market interest rate	-2%	3,264	3,241	2,177	1,843

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Foreign currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2011 and 2010 presented in the table below:

	RUB	USD 1 USD = RUB 32.1961	Euro 1 EUR = RUB 41.6714	Gold 1 ounce = RUB 50,692.76	Other	31 December 2011 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	32,373	801	773	-	12	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	6,124	-	-	-	-	6,124
Financial assets at fair value through profit or loss	50,660	26,979	317	-	13	77,969
Loans and advances to banks and other financial institutions	17,847	27,878	6,390	836	740	53,691
Loans to customers	307,301	123,998	16,490	-	116	447,905
Investments available-for-sale	6,350	3,273	67	-	-	9,690
Investments held to maturity	548	-	-	-	-	548
Other financial assets	1,108	36	127	-	-	1,271
TOTAL FINANCIAL ASSETS	**422,311**	**182,965**	**24,164**	**836**	**881**	**631,157**
Precious metals	-	-	-	8,859	539	9,398
Property, plant and equipment	10,990	-	-	-	-	10,990
Goodwill	809	-	-	-	-	809
Intangible assets	2,627	-	-	-	-	2,627
Investment property	3,759	-	-	-	-	3,759
Other non-financial assets	3,285	15	10	22	72	3,404
TOTAL NON-FINANCIAL ASSETS	**21,470**	**15**	**10**	**8,881**	**611**	**30,987**
TOTAL ASSETS	**443,781**	**182,980**	**24,174**	**9,717**	**1,492**	**662,144**
LIABILITIES						
Financial liabilities at fair value through profit or loss	299	3,943	169	93	21	4,525
Due to banks and the Central Bank of the Russian Federation	43,465	32,106	19,495	10,942	639	106,647
Customer accounts	308,448	49,723	17,003	5,636	1,635	382,445
Bonds and Eurobonds	22,592	17,674	-	-	-	40,266
Promissory notes issued	17,316	296	1,284	-	11	18,907
Other financial liabilities	2,790	16	23	-	-	2,829
Subordinated debt	12,584	14,781	-	-	-	27,365
TOTAL FINANCIAL LIABILITIES	**407,494**	**118,539**	**37,974**	**16,671**	**2,306**	**582,984**
Deferred income tax liabilities	2,885	-	-	-	-	2,885
Other non-financial liabilities	545	3	17	-	-	565
TOTAL NON-FINANCIAL LIABILITIES	**3,430**	**3**	**17**	**-**	**-**	**3,450**
TOTAL LIABILITIES	**410,924**	**118,542**	**37,991**	**16,671**	**2,306**	**586,434**
OPEN BALANCE SHEET POSITION	**32,857**	**64,438**	**(13,817)**	**(6,954)**	**(814)**	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(115,409)	(161,959)	(20,001)	(4,351)	(1,342)	(303,062)
Receivables under forward deals	144,732	111,163	33,141	11,699	2,327	303,062
Payables under spot deals	(2,259)	(14,831)	(7,174)	-	(10)	(24,274)
Receivables under spot deals	6,567	9,373	8,324	-	10	24,274
Payables under futures contracts	-	(8,768)	-	-	-	(8,768)
Receivables under futures contracts	8,768	-	-	-	-	8,768
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	**42,399**	**(65,022)**	**14,290**	**7,348**	**985**	
TOTAL OPEN POSITION	**75,256**	**(584)**	**473**	**394**	**171**	
CREDIT CONTINGENT LIABILITIES	**168,411**	**20,957**	**8,100**	**-**	**62**	

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	RUB	USD 1 USD = RUB 30.4769	Euro 1 EUR = RUB 40.3331	Gold 1 ounce = RUB 42,980.05	Other	31 December 2010 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	39,007	791	682	-	9	40,489
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817	-	-	-	-	2,817
Financial assets at fair value through profit or loss	32,339	22,844	281	54	4	55,522
Loans and advances to banks and other financial institutions	14,174	16,497	10,526	4	376	41,577
Loans to customers	219,304	103,573	16,285	-	140	339,302
Investments available-for-sale	21,096	4,559	108	-	-	25,763
Investments held to maturity	852	-	-	-	-	852
Other financial assets	1,578	15	111	-	1	1,705
TOTAL FINANCIAL ASSETS	331,167	148,279	27,993	58	530	508,027
Precious metals	-	-	-	4,189	488	4,677
Property, plant and equipment	10,976	-	-	-	-	10,976
Goodwill	598	-	-	-	-	598
Intangible assets	2,602	-	-	-	-	2,602
Investment property	922	-	-	-	-	922
Other non-financial assets	2,228	67	22	39	59	2,415
TOTAL NON-FINANCIAL ASSETS	17,326	67	22	4,228	547	22,190
TOTAL ASSETS	**348,493**	**148,346**	**28,015**	**4,286**	**1,077**	**530,217**
LIABILITIES						
Financial liabilities at fair value through profit or loss	592	271	126	12	4	1,005
Due to banks and the Central Bank of the Russian Federation	17,820	20,892	20,485	583	59	59,839
Customer accounts	266,837	27,959	14,577	3,338	665	313,376
Bonds and Eurobonds	16,678	17,734	-	-	-	34,412
Promissory notes issued	31,164	621	1,383	-	-	33,168
Other financial liabilities	1,687	14	7	-	-	1,708
Subordinated debt	9,215	17,876	-	-	-	27,091
TOTAL FINANCIAL LIABILITIES	**343,993**	**85,367**	**36,578**	**3,933**	**728**	**470,599**
Deferred income tax liabilities	1,182	-	-	-	-	1,182
Other non-financial liabilities	501	-	-	-	-	501
TOTAL NON-FINANCIAL LIABILITIES	**1,683**	**-**	**-**	**-**	**-**	**1,683**
TOTAL LIABILITIES	**345,676**	**85,367**	**36,578**	**3,933**	**728**	**472,282**
OPEN BALANCE SHEET POSITION	**2,817**	**62,979**	**(8,563)**	**353**	**349**	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(49,985)	(119,585)	(14,341)	(3,326)	(1,685)	(188,922)
Receivables under forward deals	105,201	56,570	22,477	3,100	1,574	188,922
Payables under spot deals	(3,830)	(5,023)	(244)	-	(14)	(9,111)
Receivables under spot deals	4,943	3,910	244	-	14	9,111
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	**56,329**	**(64,128)**	**8,136**	**(226)**	**(111)**	
TOTAL OPEN POSITION	**59,146**	**(1,149)**	**(427)**	**127**	**238**	
CONTINGENT LIABILITIES AND CREDIT COMMITMENTS	**126,025**	**18,772**	**10,532**	**-**	**236**	

The Group's principal cash flows (revenues, operating expenses) are largely generated in Russian Roubles. As a result, future movements in the exchange rate between the Russian Rouble and US dollar/Euro will affect the carrying value of the Group's monetary assets and liabilities. Such changes may also affect the Group's ability to invest in non-monetary assets as measured in US dollars in these consolidated financial statements.

Operational risk

Operational risk is defined as the risk of losses resulting from inappropriate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

The Management Board also generally oversees the implementation of risk management processes, including relevant internal policies, adopts internal regulations on risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

The Operational Risk Department monitors and controls operational risks and reports to the Supervisory Board. Regular monitoring activities allow to detect in time and to correct deficiencies in the policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. In order to minimise operational risk, the Group strives to continuous improvement of its business processes and organisation structure as well as incentivise the staff.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The liquidity and cash flow risks arise in the case of maturity gap.

The liquidity risk is defined as a mismatch of asset and liability maturity periods. The liquidity risk is managed by the Financial Committee of the Group.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched due to the variety of Group's lending and funding operations. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that these deposits are a relatively stable and long-term source of finance for the Group.

The data presented below on term deposits of individuals are based on the terms of contracts. However, individuals may withdraw deposits at any time.

Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

While financial assets at fair value through profit or loss are shown as less than one month, realizing such assets upon demand is dependent upon financial market conditions.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Finance Committee of the Bank sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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The following table presents an analysis of liquidity risk as managed by the Group based on contractual maturities and carrying value of assets and liabilities.

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2011 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	33,959	-	-	-	-	-	33,959
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	6,124	6,124
Precious metals	9,398	-	-	-	-	-	9,398
Financial assets at fair value through profit or loss	72,382	1,370	1,764	2,453	-	-	77,969
Loans and advances to banks and other financial institutions	45,707	914	3,849	3,221	-	-	53,691
Loans to customers	44,397	46,874	169,974	156,934	29,726	-	447,905
Investments available-for-sale	64	662	247	6,748	1,969	-	9,690
Investments held to maturity	-	-	-	523	25	-	548
Property, plant and equipment	-	-	-	-	-	10,990	10,990
Goodwill	-	-	-	-	-	809	809
Intangible assets	-	-	-	-	-	2,627	2,627
Investment property	-	-	-	3,759	-	-	3,759
Other assets	1,421	1,414	1,667	154	19	-	4,675
TOTAL ASSETS	**207,328**	**51,234**	**177,501**	**173,792**	**31,739**	**20,550**	**662,144**
LIABILITIES							
Financial liabilities at fair value through profit or loss	1,024	770	1,450	1,281	-	-	4,525
Due to banks and the Central Bank of the Russian Federation	46,401	17,920	21,034	19,111	2,181	-	106,647
Customer accounts	172,969	82,414	99,622	27,412	28	-	382,445
Bonds and Eurobonds	171	274	6,081	28,741	4,999	-	40,266
Promissory notes issued	4,537	5,770	7,196	1,404	-	-	18,907
Deferred income tax liabilities	-	-	-	-	-	2,885	2,885
Other liabilities	1,978	398	1,008	8	2	-	3,394
Subordinated debt	1	-	228	11,290	15,846	-	27,365
TOTAL LIABILITIES	**227,081**	**107,546**	**136,619**	**89,247**	**23,056**	**2,885**	**586,434**
Liquidity gap	(19,753)	(56,312)	40,882	84,545	8,683		
Stable sources of funding (1)	77,605	15,368	45,591	(138,564)	-		
Adjusted liquidity gap (1)	57,852	(40, 944)	86,473	(54,019)	8,683		

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	40,489	-	-	-	-	-	40,489
Minimum reserve deposits with the Central Bank of the Russian Federation	-	-	-	-	-	2,817	2,817
Precious metals	4,677	-	-	-	-	-	4,677
Financial assets at fair value through profit or loss	53,166	837	1,125	394	-	-	55,522
Loans and advances to banks and other financial institutions	28,737	3,968	6,781	2,091	-	-	41,577
Loans to customers	48,120	28,774	107,830	126,899	27,679	-	339,302
Investments available-for-sale	1,845	6,959	3,938	9,734	3,287	-	25,763
Investments held to maturity	-	-	-	827	25	-	852
Property, plant and equipment	-	-	-	-	-	10,976	10,976
Goodwill	-	-	-	-	-	598	598
Intangible assets	-	-	-	-	-	2,602	2,602
Investment property	-	-	922	-	-	-	922
Other assets	1,792	303	1,792	121	98	14	4,120
TOTAL ASSETS	**178,826**	**40,841**	**122,388**	**140,066**	**31,089**	**17,007**	**530,217**
LIABILITIES							
Financial liabilities at fair value through profit or loss	289	120	422	174	-	-	1,005
Due to banks and the Central Bank of the Russian Federation	25,613	7,233	15,237	8,428	3,328	-	59,839
Customer accounts	135,438	46,614	109,545	21,771	8	-	313,376
Bonds and Eurobonds	80	1,835	1,874	25,911	4,712	-	34,412
Promissory notes issued	2,682	4,327	24,395	1,761	3	-	33,168
Deferred income tax liabilities	-	-	-	-	-	1,182	1,182
Other liabilities	787	258	888	273	3	-	2,209
Subordinated debt	-	-	272	11,749	15,070	-	27,091
TOTAL LIABILITIES	**164,889**	**60,387**	**152,633**	**70,067**	**23,124**	**1,182**	**472,282**
Liquidity gap	13,937	(19,546)	(30,245)	69,999	7,965		
Stable sources of funding (1)	56,669	13,046	45,883	(115,598)	-		
Adjusted liquidity gap (1)	70,606	(6,500)	15,638	(45,599)	7,965		

(1) For liability risk management purposes, the Group monitors the mismatch between asset and liability contractual maturities. In addition, the Group identifies certain financial instruments which represent a relatively stable source of funds, despite its contractually short maturities. These instruments are correspondent accounts of banks included within Due to banks and the Central Bank of the Russian Federation and customer accounts.

These financial instruments are split into homogeneous groups with similar statistical characteristics so that management can estimate the portion of these balances which are not subject to significant risk of reduction in outstanding balances. Large customers with the highest volatility are separated from the groups and pooled together so that management can use a stochastic model that better describes these large customers behaviour on a pool basis. The stable portion is estimated with a preset level of reliability and revised regularly, at least once a quarter.

Although management believes that these components of the correspondent and customer accounts are a stable source of funding, the Group considers that customer accounts related to small, homogeneous deposits will mature in three years while all other stable sources of funding will mature in one year from the balance sheet dates.

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

The gross undiscounted cash flows of the Group as at 31 December 2011 and 2010 were as follows:

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2011 Total**
LIABILITIES							
Financial liabilities at fair value through profit or loss	5	17	47	120	-	-	189
Due to banks and the Central Bank of the Russian Federation	36,306	17,563	11,017	8,607	142	-	73,635
Customer accounts	71,237	83,999	102,857	29,125	39	-	287,257
Bonds and Eurobonds	184	287	9,304	34,561	5,426	-	49,762
Promissory notes issued	4,454	5,829	7,440	1,369	-	-	19,092
Subordinated debt	-	294	2,229	20,565	21,408	-	44,496
Total interest bearing liabilities at fixed rates	**112,186**	**107,989**	**132,894**	**94,347**	**27,015**	**-**	**474,431**
Due to banks and the Central Bank of the Russian Federation	517	1,275	11,052	12,419	2,102	-	27,365
Total interest bearing liabilities at variable rates	517	1,275	11,052	12,419	2,102	-	27,365
Total interest bearing liabilities	**112,703**	**109,264**	**143,946**	**106,766**	**29,117**	-	**501,796**
Financial liabilities at fair value through profit or loss	1,207	838	1,527	1,224	-	-	4,796
Due to banks and the Central Bank of the Russian Federation	10,644	-	-	-	-	-	10,644
Customer accounts	102,764	-	-	-	-	-	102,764
Promissory notes issued	106	2	-	294	-	-	402
Other liabilities	1,614	282	925	9	2	-	2,832
TOTAL FINANCIAL LIABILITIES	**229,038**	**110,386**	**146,398**	**108,293**	**29,119**	**-**	**623,234**
Contingent liabilities and other commitments	**197,530**	**-**	**-**	**-**	**-**	**-**	**197,530**

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2010 Total**
LIABILITIES							
Financial liabilities at fair value through profit or loss	33	3	34	392	-	-	462
Due to banks and the Central Bank of the Russian Federation	14,441	7,083	5,376	4,211	-	-	31,111
Customer accounts	52,031	47,601	113,043	23,278	12	-	235,965
Bonds and Eurobonds	83	1,913	6,535	48,164	9,697	-	66,392
Promissory notes issued	2,657	4,349	25,405	1,962	5	-	34,378
Subordinated debt	16	770	2,191	21,033	19,369	-	43,379
Total interest bearing liabilities at fixed rates	**69,261**	**61,719**	**15,2584**	**99,040**	**29,083**		**411,687**
Due to banks and the Central Bank of the Russian Federation	231	323	10,362	5,736	3,501	-	20,153
Total interest bearing liabilities at variable rates	231	323	10,362	5,736	3,501	-	20,153
Total interest bearing liabilities	**69,492**	**62,042**	**162,946**	**104,776**	**32,584**		**431,840**
Financial liabilities at fair value through profit or loss	223	120	434	-	-	-	777
Due to banks and the Central Bank of the Russian Federation	10,987	-	-	-	-	-	10,987
Customer accounts	83,753	-	-	-	-	-	83,753
Promissory notes issued	27	7	2,155	290	-	-	2,479
Other liabilities	342	146	757	2	2	-	1,249
TOTAL FINANCIAL LIABILITIES	**164,824**	**62,315**	**166,292**	**105,068**	**32,586**	**-**	**531,085**
Contingent liabilities and other commitments	**155,565**	**-**	**-**	**-**	**-**	**-**	**155,565**

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37. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Group and other related parties are disclosed below:

The Group had the following transactions outstanding as at 31 December 2011 and 2010 with related parties:

	31 December 2011			31 December 2010		
	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption	Related party transactions	Average effective interest %	Total category as per consolidated financial statements caption
Financial assets at fair value through profit or loss:	**3,860**		**77,969**	**2,902**		**55,522**
Debt securities						
- companies controlled by shareholders	2,118	5.77%		2,703	7.23%	
Equity securities and derivative financial instruments						
- companies controlled by shareholders	1,742			199		
Loans and advances to banks and other financial institutions:	**17**		**53,691**	17		**41,577**
Correspondent accounts with banks						
- companies controlled by shareholders	17			17		
Loans to customers, gross:	**25,711**		**468,287**	**27,244**		**354,860**
- entities under common control	-			9,521	*10.30%*	
- companies controlled by shareholders	25,711	8.93%		17,723	*10.06%*	
Allowance for impairment of loans to customers	**(629)**		**(20,382)**	**(83)**		**(15,558)**
- companies controlled by shareholders	(629)			(83)		
Financial liabilities at fair value through profit or loss	**2**		**4,525**	**15**		**1,005**
- companies controlled by shareholders	2			15		
Due to banks and the Central Bank of the Russian Federation:	**5,203**		**106,647**	**1,691**		**59,839**
Time deposits from banks						
- companies controlled by shareholders	5,200	4.04%		1,527	4.16%	
Correspondent accounts of other banks						
- companies controlled by shareholders	3			164		
Customer accounts:	**29,871**		**382,445**	**13,016**		**313,376**
Time deposits						
- shareholders of the Group	208	4.04%		1,227	8.21%	
- entities under common control	-			43	5.79%	
- companies controlled by shareholders	26,980	5.87%		8,022	7.45%	
Repayable on demand						
- shareholders of the Group	1			16		
- entities under common control	-			53		
- companies controlled by shareholders	2,682			3,655		
Other liabilities	**260**		**3,394**	**34**		**2,209**
- key management personnel	256			22		
- companies controlled by shareholders	4			12		
Subordinated debt	**6,000**		**27,365**	**2,586**		**27,091**
- shareholders of the Group	6,000	12.00%		1,500	6.74%	
companies controlled by shareholders	-			1,086	6.34%	
Commitments on loans and unused credit lines	**5,157**		**87,202**	**9,004**		**74,330**
- companies controlled by shareholders	5,157			9,004		
Guarantees issued and similar commitments	**342**		**100,356**	**409**		**73,609**
- companies controlled by shareholders	342			409		

	Year ended 31 December 2011 (RUB thousand)		Year ended 31 December 2010 (RUB thousand)	
	Key management personnel	**Total for the Group**	**Key management personnel**	**Total for the Group**
Key management personnel compensation:				
- salary	277		85	
- bonuses	670		127	
- representation expenses	12		1	
- contribution to non-government pension fund	1		-	
	960		**213**	
		8,917		**4,440**

	Year ended 31 December 2011 (RUB thousand)		Year ended 31 December 2010 (RUB thousand)	
	Related party transactions	**Total for the Group**	**Related party transactions**	**Total for the Group**
Interest income		**52,358**		**29,350**
- entities under common control	628		-	
- companies controlled by shareholders	2,130		1,163	
Interest expense		**(24,302)**		**(14,989)**
- shareholders of the Group	(285)		(414)	
- entities under common control	-		(6)	
- companies controlled by shareholders	(749)		(647)	
Gain on remeasurement of cash flows on interest bearing assets acquired in business combination		**4,543**		**-**
- entities under common control	197		-	
- companies controlled by shareholders	1,156		-	
Provision for impairment losses on interest bearing assets		**(8,374)**		**(3,753)**
- companies controlled by shareholders	(546)		(71)	
Trading (loss)/income:		**2,063**		**2,858**
- shareholders of the Group	1		(84)	
- companies controlled by shareholders	136		584	
Fees and commission income		**8,060**		**2,484**
- shareholders of the Group	1		-	
- companies controlled by shareholders	144		91	
Fees and commission expense		**(1,971)**		**(368)**
- entities under common control	(7)		-	
- companies controlled by shareholders	-		(16)	
Other income		**698**		**426**
- entities under common control	-		2	
- companies controlled by shareholders	37		5	
Operating expenses		**(17,395)**		**(8,017)**
- entities under common control	-		(3)	
- key management personnel	(960)		(213)	
- companies controlled by shareholders	(103)		(1)	